

The Case for Social Housing

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Introduction

Social housing often has a very bad name. I was once warned that even using the term 'social housing' in Texas might get me shot!

Some countries have social housing, but some do not. At least, many do not have a housing tenure they call social housing. Some have 'public', 'council' or 'municipal' housing, which effectively are forms of social housing. State housing or community housing are alternative terms. In some countries, privately owned housing performs some of the functions of social housing.

What is the defining function? It is essentially to do with how the housing is allocated. ***Social housing is socially allocated.*** That is to say, social, rather than purely market, criteria determine who gets to live in the dwelling. It does not matter who owns the housing or how it has been financed, it is how it is allocated that is crucial.

In most social housing systems, allocation is a function of socially defined and administered need rather than of market demand. *It is better to speak of the need for social housing rather than the demand for social housing.* Demand depends on things like prices and the ability to pay or ability to borrow. Need is effectively a lack of demand for housing of a socially acceptable standard. Some households in all societies are unable to compete in the market place for housing of socially acceptable standards. In advanced economies, the policy response typically includes an element of social housing, even if it is not called that.

Note the importance of the idea of socially acceptable standards for housing. Without a specification of standards, anything goes and anything can be acceptable - even the poorest can afford a park bench.

Mainly, standards are about the physical adequacy of buildings but they might also be about the quality of neighbourhoods and, in the case of rented housing, the standards of management. What is acceptable on all counts varies

historically and geographically. An acceptable standard in one society might be totally unacceptable in another. What was once acceptable is acceptable no longer.

Mostly, those who are unable to access housing of an acceptable standard, lack the financial resources to demand that housing. They have a need but not a demand. They cannot afford adequate housing. There is a gap between need and demand. If society is concerned about the gap, there should be a policy response.

From an economic perspective, this gap between need and demand can be filled in one of two ways. Either households can be provided with more income or they can be provided with better housing than their financial resources allow. The first approach involves what economists call subject subsidies and the second, object subsidies. Subject subsidies go to individuals and are sometimes called demand side subsidies. Object subsidies go to suppliers. In the case of housing, supply side object subsidies go to house builders, both private and public landlords, and possibly to investors in housing. To some extent, the case for social housing is the case for object rather than subject subsidies.

Subject versus Object Subsidies

As a Master's student at UCL in the late 1960s, I was introduced to the economic case for the superiority of subject subsidies. I read mostly American literature that said that if there were to be housing subsidies, subject subsidies were inevitably better than object subsidies. There was, in short, no good economic case for direct provision of housing by the state. The argument was supported by the use of budget lines and indifference curves that showed diagrammatically that higher utility levels were always achieved by shifting the budget line through more income rather than by changing the slope of the line by reducing the comparative price of housing. State subsidised housing with sub-market prices was bad news. It led to higher budgetary costs and lower welfare outcomes for individuals and society than income supplements for households, which enhanced their ability to play the housing market.

The economic case was reinforced by an ideological case. This was about the superiority of individual decision-making over collective decision-making. Individuals were the best judge of what was best for them and not the state.

Individuals should have choice in how resources were used. If their resources were enhanced by income supplements, they could exercise choice over how the resources were used. They might choose more housing, more food or more drugs. Direct provision or relative price reductions were seen as bad because they skewed allocation according to collective, rather than individual, preferences. Individual preferences and individual choice were seen to be inevitably superior.

Fortunately, I studied welfare economics as well as housing policy and I was able to see that, both in terms of welfare maximisation and the purpose of housing policy, there were many holes in 'the down with direct housing provision' and 'up with individual choice' arguments.

But, let me start the counter argument – the argument that there is a strong case for object subsidies - and for object subsidies supporting social housing - by referring to the incidence of subsidies. A subsidy does not have all its impact in round one; some of its punch comes in rounds two, three and four, and so on. The full impact depends on the demand and supply conditions in the market to which it is applied. So, a subsidy paid to an individual may result in the individual increasing their demand for housing. Many other recipients of individual subsidies - in the form of extra income through housing benefits, housing vouchers or whatever it is called in the locality in question - will also increase their demand for housing.

What is the market response? In round one, if supply is inelastic, that is, it cannot respond fully and completely to the extra demand, without controls, rents and/or house prices will rise. In subsequent rounds, land prices may also rise as house builders increase their demand for land on which to build more houses in response to the increased market value of housing. So some of the subsidy intended to benefit the household ends up in the pockets of landlords and land owners. There is an inflationary effect and a quantity-increasing effect.

Elements of such effects may be acceptable to policy makers but if subsidies intended to help households end up, through their incidence, bringing large windfall gains to those already perceived to be well-off, the political acceptability of the policy will be in question.

What exactly is the purpose of a state provided housing subsidy? It is probably not simply to put individuals on the highest possible indifference curve and maximise personal well-being. It is more likely to be to assist those with housing needs that they are unable to meet for themselves in the housing market place. Policy makers may also appreciate that good quality housing has benefits over and above those experienced by the occupants. This is the externality argument.

Before perusing this point, let me pause and ask:

What has reinforced the case against social housing?

The case against social housing might be argued in terms of economic and philosophical principles. In fact, I engaged in such an argument with my erstwhile colleague Peter King in our jointly authored book¹, 'Housing: Who Decides?' It is really "housing who *should* decide". Peter advanced the case that individuals should, and do for the most part, decide where and how they live, and there is not much of a case at all for collective decision making and therefore for social housing. I argued that there was a strong case for some collective decision making and for some social housing. Peter went on in several subsequent texts to argue for the end of social housing. I continue to believe there is, in all societies, a case for *some* social housing.

The case against social housing is not usually argued in terms of a case against collective decision making. It is more usually argued in terms of dissatisfaction with high rise blocks, with grubby council estates, with poorly managed state owned housing, with social segregation, with the misery of putting up with anti-social neighbours, high crime rates and no hope of moving on to something better. These concerns are also translated into social isolation for some households.

The central tenets of a pro social housing case

So how are the arguments turned around to provide a strong case for the state supporting the direct provision of housing that is socially allocated?

¹ King, P and Oxley, M (2000) Housing: Who Decides? Basingstoke: Palgrave Macmillan.

I think this can be done by arguing that social housing has (at least) six categories of benefits that the 'pro-demand-side-support' lobby ignores or minimises.

These are the benefits of:

- (1) avoiding inflationary impacts of demand side support,
- (2) meeting housing need,
- (3) externalities,
- (4) social housing property rights,
- (5) social housing institutions, and
- (6) good governance.

I will expand on each in turn:

1. The benefits of avoiding the unintended inflationary impacts of demand side support

This is, as I suggested earlier, about the incidence of the subsidy. It is about a policy approach that values more output rather than housing market inflation. It is about a policy approach that sees the housing problem as more than an affordability problem but also as a production and supply problem. It targets certain types of new or refurbished housing for people in need without handing big gains to existing wealth holders.

Well planned and well provided social housing addresses explicit, locally recognised and defined shortages.

2. The benefits of meeting housing need

Income supplements, housing benefits, housing vouchers or Commonwealth Rent Assistance primarily address an income and housing cost-related affordability problem. The assumption is that the problem to be tackled is first and foremost an affordability problem, and an affordability problem only for some households. It was under this premise that demand-side subsidies began to expand disproportionately across much of western Europe from the early 1970s onwards. The supply problem had largely been solved and there was a

distribution problem to be addressed – this was the essence of the supporting argument.

Housing need is fundamentally, and importantly, a problem of income insufficiency, but it is not the entire problem. It is also a problem of incapacities of several kinds: an inability to cope, a problem, for example, of mental and physical health, of a criminal record, of not knowing how to manage life and all its complexities, or a problem of discrimination. We cannot address all these issues by simply saying ‘here are some more chips, go play the market’. Housing need is about low income, but it is, in some cases, about more than low income.

The best sorts of social housing address a range of housing needs and provide packages of assistance to those who need it.

By responding to need rather than demand, social housing systems have sometimes minimised individual choice over where a household lives, with allocation done on a ‘take it or leave it’ basis. But things have changed, and are continuing to change, in many countries. So-called ‘choice-based lettings’ in England give households an element of choice over where they will live. That is, as long as advertised vacant properties are in an appropriate need category for that household. A common housing register for all social housing providers in a locality is an essential pre-requisite for such a system to work well. Choice is, of course, in practical terms, limited by the availability of housing. For rented dwellings, this is first and foremost a function of turnover in the stock, and secondly, of new supply. But this is the same for housing provided by market forces. The idea that the market gives choice and social housing systems deny it has been grossly over-cooked. Supply shortages limit the reality of choice in both market and social allocation systems.

The allocation of social housing can incorporate a degree of household choice thus deadening the argument that social housing means zero personal choice.

3. The externality benefits of (direct provision of) more good quality housing

More good quality housing benefits not only those who live in the housing, but also a wider community. This is the economists’ externalities argument.

Nineteenth century British politicians and philanthropists supported action to do away with slums and provide something better, partly because slums bred disease, and infectious diseases spread to the wider population. Good quality housing would be good news for far more people than those who escaped the slums.

Economists have since struggled desperately to accurately quantify the relationship between better housing and better health. It surely exists and must be seen to at least partly offset the cost of capital subsidies for high quality housing and decent neighbourhoods. Similarly, the relationship between educational attainment and good quality, sufficiently spacious, appropriately heated, damp-free accommodation is clear to many but measured by few.

There is another sort of externality. This is to do with labour markets. A lack of affordable housing is having an impact on the ability of employers to recruit sufficient labour in large cities. This is the case in London, for example. How to get sufficient workers? Pay them more? Maybe, and increase costs and prices. Or possibly in the public sector, austerity prevents such an approach. Another option is cheaper housing allocated to those who will increase the supply of much needed labour.

There is a dilemma here. Subsidised housing for workers – skilled and unskilled – benefits employers. Where is the incidence of the subsidy? Does it fall largely on employers? Some employers engage in housing provision themselves. Should those who don't benefit from housing subsidies? In the absence of other labour market solutions, some social housing can be argued to support not just the occupants and employers, but also the wider economy and wider society through the way that it keeps urban economies thriving and growing.

The right kind of decent quality social housing, well designed and located, brings external benefits to a wide spectrum of society.

4. The benefits of social housing property rights – security of tenure with sub market rents

When households in need are provided with social housing, they are typically allocated more than accommodation at sub-market rents. They are most often

(but not always) able to occupy housing with strong security of tenure. They will not have a short term contract. They will have the certainty of knowing that they have long term, permanent housing. They will also have some certainty that the rent will not suddenly increase at above inflation rates and that affordability will not be radically compromised. This is, in some quarters, highly controversial. Many social rental regimes have been urged to provide only short term tenancies for the duration of the household's housing need, which it is assumed will be temporary. When the need is fulfilled, the household should, according to such thinking, move on, freeing up the accommodation for another, needier, household. Ideas for making tenants pay more as incomes increase abound: penalty rents, *sur loyer*, or "pay to stay" are, however, often only ideas, and are short-lived or even non-existent in their application. However, for the most part, social housing tenants have a different set of property rights to tenants in the private sector. Strong security of tenure is particularly important for households that include children.

The superior property rights of social housing tenants are, in many cases, an important benefit of social housing.

5. Benefits of social housing institutions – the wider role

The institutions that provide social housing are important in what they do and how they are run. They can do a lot more than simply provide housing.

I can illustrate this by sharing some of the results of an [ESRC project](#) we completed recently at the University of Cambridge. It looked at the role of housing providers in tackling poverty amongst young people. It looked especially at the role of housing associations.

Imagine traineeships for unemployed young people lacking qualifications. Imagine that the scheme includes employability skills and promotes qualifications in Maths and English, as well as a work placement. Imagine a training course which focuses on living independently and introduces young people to banking, borrowing, budgeting, debt management and welfare benefits. Consider a scheme that helps young people set goals for how they might spend and save their money. It includes basic skills that might be taken for granted, such as how to read an electricity meter, plus help with shopping on a budget and cooking.

Who might run such schemes? Well, housing associations! It is a surprise to many, but these are examples of initiatives led by social housing providers throughout the UK that are having a positive impact on employment prospects and reducing the risk of poverty amongst young people.

Our research found that schemes run by social housing providers, to help young people aged 16-25, increase independence and employment prospects have the potential to reduce youth poverty. [The Cambridge Centre for Housing & Planning Research \(CCHPR\)](#) reviewed evidence from across Europe, analysed secondary datasets on housing and youth poverty in the UK, and undertook case studies of housing providers engaged in new schemes to address UK youth poverty.

The research found that many projects run by housing providers have the potential to prevent or alleviate poverty amongst young people, by improving personal skills, employability, confidence and the ability to maintain independent living. Education, qualifications, employment, independence and mobility, in the broadest sense of the term, can all be part of the route out of poverty. The approaches by housing providers can be broadly classified as: employability schemes, pre-tenancy training schemes, and supported housing schemes. Strategies that increase earnings and improve budgeting skills in particular offer great potential to equip young people to avoid future poverty.

Social housing providers do not work alone. Housing organisations often take the lead in drawing together a consortium of agencies that variously commit funds, personnel and ideas to produce a programme of activities that enhance the probability of poverty reduction amongst young people. Effective co-ordination between housing and other services (e.g. Citizens' Advice Bureaux, local colleges, council housing services and social services) can be critical. Housing providers play a valuable role as co-ordinators. All the schemes investigated in our research faced challenges to their financial viability and sustainability. There are, in all cases, limits to what housing providers can fund.

The case studies examined show that the existence and location of these projects are not the result of a national or local strategy for poverty reduction amongst young people. Instead, the initiatives are often the result of local

leadership and the vision of individuals who have responded to a set of perceived needs. The funding of these projects is usually ad hoc and short term, with housing providers sometimes devoting their own funds to a scheme, though more often they obtain funding from a variety of sources including local authorities, charities and philanthropic support. This ad hoc nature has important implications for the sustainability of the individual schemes and the transferability of ideas to other locations.

Are these activities legitimately the remit of social housing providers? As long as they are viewed as organisations that should do more than simply help put a roof over vulnerable heads, the answer must be yes. One of the case study housing organisations argued that, 'The bottom line business case is that if young adults are in work, they become economically active and contribute to society and the economy. This impacts on the social well-being of the communities in which we operate'.

Housing providers do this typically because no one else is taking the initiative. However, for these activities to be successful in poverty reduction, they ideally need to be embedded in a strategy that responds to local needs. They also need to operate in a less risky environment where structures and resources are secure for several years.

The research was conducted from 2014 to 2016. It aimed to identify measures that work in tackling poverty amongst young people (16 to 25 year olds) who do not live in the parental home, with a focus on housing services and the role that housing providers can play. It examined new and innovative practice and sought to investigate the feasibility of implementing such measures across the UK.

The full findings from this research project, and details of the initiatives investigated, including presentations by some of the housing providers involved in the research, are published on the CCHPR website:

www.cchpr.landecon.cam.ac.uk/Projects/Start-Year/2014/role-housing-housing-providers-tackling-poverty-experienced-young-people-UK

6. The benefits of good social housing governance

It is impossible to talk about social housing in the UK now without talking about the awful events of June 14th 2017 at Grenfell Tower, a 24-storey, 220-foot high tower block of social housing flats in North Kensington, west London. A fault in a fridge-freezer led to a fire in one flat that rapidly and horrifically engulfed the whole building, officially leaving at least eighty persons dead, and probably many more. The technical reasons for the fire, and the role of retro-fitted cladding in spreading the fire upwards and downwards through the whole of the building, will be argued out at a public enquiry and through a criminal investigation.

What is important is that the role of bad governance in the disaster is also probed fully. The building (an island of low incomes in the most highly priced housing area in England) is owned by the local council and run by a tenant management organisation. This is in effect an ALMO (Arm's Length Management Organisation). Whilst many facts are argued over, it seems clear that the residents of Grenfell had, over months and years, repeatedly told the council and the management organisation of their fears regarding fire safety. Their pleas met with inaction. The council has been further criticised in the aftermath of the disaster for its slowness of response, and for the inadequacy of its response in re-housing and caring for survivors, as well as for those distressed and distraught who live, or lived in, flats overlooking the burnt out shell of the former homes to many, many families. The chief executive of Kensington and Chelsea Council has resigned after being asked to do so by the Secretary of State for Communities and Local Government. The chief executive of Kensington and Chelsea Tenant Management Organisation (KCTMO), who ran the block, has stepped aside. The elected leader of the local council has also resigned.

Good governance in social housing empowers residents and Grenfell Tower is the exact opposite of this. Where there is good governance, residents are listened to and their concerns are acted upon. As a current member of the board of management of the ALMO that runs council housing in Southend in Essex, and a previous non-executive director of another ALMO, Nottingham City Homes, I know that the ALMO model can work well. It can, with vigilant,

probing and responsive boards, give tenants the power that they would never have with a private rental landlord.

When it works well, good governance in social housing compensates for tenants' lack of market power.

Good governance can give social housing tenants a say in the running of their homes, as well as their environment. That power goes way beyond that which is manifest in the payment of their rent.

Conclusions

Ultimately, theoretical debates about the pros and cons of subject and object subsidies, and, by extension, the pros and cons of social housing, are based on a false premise – the premise that such subsidies exist in reality as well as in text books. In fact, there are in practice very few examples of pure subject or pure object subsidies. Much more common are conditional subject subsidies and conditional object subsidies. These are illustrated in the tables that follow:

Subsidy Typology			
	Who gets the help?	Conditions	Type of help
1. Pure Subject Subsidies	Households	Personal circumstances but not specifically housing costs	Income supplements; personal tax reductions
2. Conditional Subject Subsidies	Households	Household, income, size and housing costs	Housing allowance, housing voucher
3. Pure Object Subsidies	Suppliers – including house builders and landlords of many types*	Additional housing supplied	Grants, tax reductions, cheap loans, equity finance

4. Conditional Object Incentives	Suppliers – including house builders and landlords of many types*	Additional housing supplied; Rents limited; allocation constrained (usually to households below an income threshold, but employment, household type and other indicators of need may also apply)	Grants, tax reductions, cheap loans, equity finance, tradable tax credits, cheap land
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**The assistance to suppliers may come straight from the Government, or be channelled through an intermediary such as a financial institution or a special housing fund (with the financial institutional or fund having an obligation or incentive to supply preferential finance). It may also come through another developer (when, for example, a commercial developer is required to support affordable housing through planning). In each case, the assistance has its origin in a policy decision.*

Well-targeted conditional object subsidies can support high quality socially allocated housing – that is, social housing. All types of subsidy work together in practice and all governments in developed countries combine conditional subject subsidies and conditional object subsidies in some sort of proportion as part of their housing policy.

A major problem for some governments has been that conditional subject subsidies have proved to be very costly. The UK housing benefit bill has soared. This has led some to campaign, under a ‘benefits to bricks’ slogan, for resetting the balance in a way that involves less public expenditure on benefits and more on housing investment.

Social housing can be seen as a reaction to market failure and an argument that some, but not all, housing should be allocated according to need rather than market demand, just as some – or maybe all - healthcare should be allocated according to need, rather than market demand, and some educational provision – or maybe all - should be allocated according to need, rather than market demand. To take the view that all housing should be socially allocated according to need – that all housing should be social housing – is another step – and for another argument, on another day.

Not all social housing is good. That is clear. Social housing and social housing institutions have frequently failed to live up to expectations. Some of the housing provided has been inadequate, poorly managed and even dangerous. Those who wish to see an end to social housing will claim that the deficiencies are an inevitable consequence of collective provision. Supporters need to be sharp in their counter-arguments.

Supporters of social housing should not be complacent. Social housing has been under threat in many countries for several decades. If social housing is to command public support, finance and votes, it has to be good social housing. It has to be social housing that does more than house residualised minorities as a tenure of last resort. It has to be truly social, with the social benefits for communities argued, explained and demonstrated to a sceptical majority.

We need to show that social housing brings net social benefits and not net social costs.

Thank you.

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