

# Housing policy and market failure

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# Overview

- Purpose of housing and planning policies
- Housing demand, need and affordability
- How to react to market failure?
- What sort of policies?
- What sort of institutions?

# Three books

- Oxley, M (2004) *Economics, Planning and Housing*, Palgrave Macmillan
- King, P & Oxley M (2000) *Housing: who decides?* Palgrave Macmillan
- Haffner, MEA, Hoekstra, JSCM, Oxley, MJ & Heijden, HMH van der (2009) *Bridging the gap between social and market rented housing in six European countries?* Amsterdam: IOS Press  
[\*Bridging the gap between social and market rented housing in six European countries?\*](#)

# Why do we have housing policies?

1. Societies are concerned with housing need as opposed to housing demand
2. Societies are concerned about affordability
3. Economists are concerned about market failure

# Demand vs need

- Housing Demand: depends on incomes, costs, preferences, availability and cost of finance
- Housing Need: Socially determined - depends on acceptable standards of housing that are unaffordable to some
- Housing Wants: individually determined wishes

# Demand/need gaps

- The essential housing policy problem: how to respond to a lack of demand for housing of a socially acceptable standard? What to do about unmet need?

# Affordability

Is the problem:

1. The unaffordability of housing of a socially acceptable standard?
2. The unaffordability of home ownership (a) generally (b) for “middle income” households?

# Market failure

- Housing and planning policies as a reaction to market failure: the failure of markets to be efficient and to be equitable



# Efficiency and equity

- Externalities
- Public goods
- Information deficiencies
- Disequilibrium
- Income and wealth distributions

# Externalities: public goods and planning

- Housing policies must be linked to land use planning policies if externality problems are to be addressed effectively
- The link to transportation is crucial: consider housing costs and transport costs together

# Policy options: demand vs supply side policies

- Arguments and ideologies
- The case for subject subsidies
- The case for object subsidies
- The externality argument

# Subject subsidies

## Subsidy Typology

	Who gets the help?	Conditions	Type of help
<b>1. Pure subject subsidies</b>	Households	Personal circumstances but not specifically housing costs	Income supplements; personal tax reductions
<b>2. Conditional subject subsidies</b>	Households	Household, income, size and housing costs	Housing allowance, housing voucher

# Object subsidies

	Who gets the help?	Conditions	Type of help
<b>3. Pure object subsidies</b>	Suppliers – including house builders and landlords of many types*	Additional housing supplied	Grants, tax reductions, cheap loans, equity finance
<b>4. Conditional object incentives</b>	Suppliers – including house builders and landlords of many types*	Additional housing supplied; Rents limited; allocation constrained*	Grants, tax reductions, cheap loans, equity finance, tradable tax credits, cheap land

*\* usually to households below an income threshold, but employment, household type and other indicators of need may also apply*

# Low Income Housing Tax Credits

- Example of conditional object subsidy from the USA
- Federal system administered at local level
- Tradable tax credits help provide additional affordable housing
- Direct cost to government zero
- Broad political support

# Home ownership

- Why do policy makers want more home ownership?
- Driven by efficiency, ideology or political expediency?

Q: What sort of policies best increase home ownership?

A: Those that operate at the margin

# Home ownership risks

- Beware: Low income home ownership and associated lending at the centre of the GFC
- Beware: The Oswald Hypothesis: links between home ownership, labour mobility, productivity and economic growth



# Rental housing

- What role for market rental housing?
- Is there a role for privately owned rental housing performing a social function? This happens with the help of incentives in several other countries
- Where is the boundary between market and social renting?
- Housing can be socially allocated but privately owned

# What do we want social housing to do?

- Simply to meet unmet housing needs?
- To be more than a residual tenure?
- To offer more than a roof over heads?
- What does good governance for social housing look like? What are appropriate institutional arrangements?

# Social Housing Institutions

- Not necessarily public bodies
- Housing Associations: can do more than provide housing
- The role of Arms Length Management Organisations (ALMOs)

# UK Housing tenure

	1981	1991	2001	2007	2016
O/OC	56.6	65.9	69.1	67.9	62.3
PR	10.8	8.5	9.6	13.6	20.1
HAs	2.2	3.0	6.4	8.6	9.9
LAs	30.5	21.8	14.5	9.6	7.2

# The case for social housing

Six categories of benefit:

- Avoiding inflationary impacts
- Meeting housing need
- Externalities
- Social housing property rights
- Social housing institutions
- Good governance

# A property rights approach

- No such thing as a free market
- What laws/regulations /norms govern the housing market?
- Not goods and services but property rights that are exchanged in markets

# Property rights and tenure

How do these vary between tenures:

Security of tenure

Certainty of future costs

Right to capital accumulation

Risks for households?

# Market failure or institutional limitations

- Don't use the term 'government intervention in markets' - it is the type of government activity that is important
- Institutions fail, as do markets
- Appropriate institutional arrangements are needed to address market failures



# Housing policy essentials

- Separate the positive from the normative
- Specify the objectives of policy
- Use evidence rather than ideology to determine the best set of policy instruments
- Not a question of market failure or institutional limitations – good policy needs to tackle both
- Emphasise the wide economic and social benefits of efficient and equitable housing provision

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