



A Monstrous Hybrid:

A comment on Brett Christophers' interpretation of Swedish housing policy

Hans Lind

Working Paper 2015:04

Section for Building and Real Estate Economics
Department of Real Estate and Construction Management
Centre for Banking and Finance (Cefin)
School of Architecture and the Built Environment
Royal Institute of Technology

A Monstrous Hybrid:

A comment on Brett Christophers' interpretation of Swedish housing policy.

Hans Lind

Department of Real Estate and Construction Management, Division of Real Estate Economics

KTH Royal Institute of Technology

100 44 Stockholm, Sweden

Email: hans.lind@abe.kth.se

Abstract

In this comment it is argued that Christophers' misunderstands the nature of the post war housing model in Sweden. This was actually a market friendly model where rent and price regulations were seen as something temporary and that an increase in supply was the most important policy. It is further argued that it is a mistake to describe the development in recent decades as a move towards a neo-liberal model. Even if there are no state subsidies, there still is a municipal planning monopoly that reduce the supply of land. Municipalities have become more and more restrictive towards new construction, and a combination of NIMBY-arguments and environmental demands have especially reduced the number of housing projects targeting households with lower incomes.

Introduction

In the article 'A Monstrous Hybrid: The Political Economy of Housing in the Early Twenty-first Century Sweden' Brett Christophers presents an analysis of Swedish housing policy in the post-war period. As will be clear below there are a number of points where I disagree with the analysis presented, but first I want to underline that we agree on one very important point: The failure of current housing policy in Sweden. As described more in detail in Lind (2014) the options for low income households in Sweden have worsened during the last 15 years. Today it is difficult both to enter the rental market and the owner-occupier market. The shortage of rental housing makes it possible for landlords to choose households with higher incomes. Even if interest rates and user costs of owner-occupied housing are low, the banks demand that a household should be able to pay hypothetical interest rates of 6-7% and households with incomes below average have problems fulfilling this condition. But now over to the critical points!

What was the 'original post-war Swedish model'?

Christophers tends to see systems with market prices and market rents as neo-liberal. One of his arguments (p 888) is that the move in a neo-liberal direction already started in 1968 when condominium prices were deregulated. This is however a misunderstanding of the post-war model. Regulated rents and regulated prices were introduced as a war-time measure in 1942 and during the 1950-s and 1960s they were seen by the Social Democrats only as a temporary solution. The Social Democrats in Sweden in general had a very market friendly approach and the cooperation between unions and private companies to increase

productivity is one standard example of this. In the committee report that lay the foundation of modern Swedish housing policy (SOU 1945:63 'Bostadssociala utredningen'/The Committee for a Social Housing Policy) there are three central points:

- The necessity to increase supply, and the insight that the market actors would not produce enough housing. As the private actors could act strategically in order to avoid falling rents and falling prices, they would stop producing new housing before the marginal cost was equal to price. Therefore the government had to step in to increase supply.
- The importance of municipal housing companies that, with state guarantees, should produce rental housing and manage them in a professional way. The municipal housing companies should set cost based rents that covered the cost of capital but not more. Support to organizations like HSB and Riksbyggen that produced cooperatively owned apartments were also part of this plan.
- Housing allowances that made it possible also for households with the lowest incomes to demand 'modern' apartments.

This policy package meant that it was *not necessary to regulate rents and prices*, as the high level of supply and the role of the municipal housing companies should make it impossible for private landlords to charge high rents and deliver low quality services. The high supply the were the result of the Million Homes Programme in the 1960s, and the large production of single-family houses and row-houses during the 1970s, also pushed suburban condominium prices to very low levels in the early 1970s when there also was an economic recession. As market prices were so low there was no point in having a price regulation any more.

After the supply shock of the Million Homes Programme the typical situation in Swedish cities were relatively low market rents in the new suburbs and that landlords could not be too picky as supply were larger than demand. During recessions the vacancy rate was rather high in the suburbs. With exception for a few years in the late 1980s, this situation of excess supply and relatively low condominium price continued up until the late 1990s. The 1970s and the 1980s are often seen as the Golden Age of the Swedish welfare oriented housing policy, but one should not forget that excess supply of housing was an important background condition.

The Social Democrats could not however carry out their post World War II policy in a completely consistent way, and there were two hybrid elements in the policy already in the 1970s. In my interpretations these elements were left simply because the Social Democrats could not find a way to change them without expecting to lose votes.

- *Lack of tenure neutrality*: The combination of high inflation and tax deductions for nominal interest rates were very advantageous for home owners (see Sandelin & Södersten 1978) and the housing policy were in practice never tenure neutral. Christophers (p 894) writes that tenure neutrality has been dissolved primarily through measures during the last 20 years but the lack of tenure neutrality goes back much longer.
- *Rent regulation*. The high supply led to relatively low rent levels in the suburbs and the suburban rents were in practice equal to the market rent as there were no queues. In the 1970s the central parts of the cities became more attractive and it was politically difficult to deregulate this part of the rental market, partly because of social reasons but partly because of the power of the large group of middle-class

households who lived there. Most low-income households in the period 1970-2000 lived in the suburbs and paid market rents.

Misunderstandings about privatization and value transfer

It has been common in the Swedish public debate to argue that when public rental housing has been sold to the tenants this has been done below the market value and has in practice meant that government property partly has been given away. Christophers puts forward similar arguments and talks about the transfer from the tax-payers to the new owners (p 892). This is however a misunderstanding as an older rental property in a system of rent regulation has two different market values. The first is a market value as a rental property which is rather low as the rent regulation keeps the rents low. This value can be calculated as the net present value of the expected cash flow that the property will give rise to as a rental property. The other value is the value as a number of condominiums. This can be seen as the market price of the condominiums (assuming that the cooperative has not debts). In attractive areas in central Stockholm the second value can be twice the value of the building as a rental property. Let us for the discussion assume that the value as a rental property is 100 and the value as condominiums is 200.

It is not possible for the landlord to legally evict the tenants and then transform the house into condominiums and sell the apartments for 200. The only way to transform the property into condominiums is to sell the property to a cooperative formed by the current tenants. If we look at this from a simple game theoretic framework, the landlord knows that the property is worth 200 for the tenants and the tenants knows that the property is worth 100

for the landlord if they refuse to buy. In this situation it should be expected that on average the parties will split the value increase between them and settle for a price about 150.

From the perspective of the municipal taxpayer this has actually increased their assets as the property only was worth 100 as a rental property but fetched 150 in price when sold to the cooperative of tenants. From the perspective of the tenants they could buy the apartment for 150 and sell it the day after for 200. The fact that the tenants make a nice profit does not mean that the tax payers have made a loss, instead it reflects that the value increase has been split between the parties.

What has happened since the mid-1990s?

Christophers quotes from our 2007 book (Lind & Lundström, 2007) where we say that Sweden developed into a country with the most liberal housing policy during the 1990s. Looking back, I think we should have formulated our observation in a different way, because what really happened was that the central government in Sweden no longer had any housing policy. Most countries still had some kind of support for housing construction and especially for housing production targeted to poorer household.

But calling the policy the most liberal could imply that housing production was completely left to the market, and that was not the case. The municipalities still had their planning monopoly. If the municipality said no to certain project then it was not possible for a developer to appeal against this decision. As there were no subsidies, any project had to be profitable in its own right, but even if it was profitable you still needed a plan approved by the local government. Up to around the year 2000 housing construction was low simply

because there were still excess supply and low prices on many markets. But why didn't housing construction take off when demand increased?

My interpretation is that the lack of housing construction directed towards household with lower incomes during the last 15 years can be seen as the result of an un-holy alliance of environmental groups, home-owners and also tax payers in general that want to avoid high costs for the municipality. Remember that the large metropolitan areas in Sweden are divided into several independent municipalities and that there is no binding regional planning. High levels of housing construction in a municipality would typically mean that green areas have to be used. It would also mean that local house prices would fall, or at least not continue to rise. And especially if you built rental housing for poorer groups there is a risk that social costs would increase for the municipality and that the status of an area would fall. All municipalities wanted the poor to live in some other municipality. The logical result of this alliance is a low level of housing construction and that only housing targeting households with incomes above the average was built. The result was large scale brown-fields developments in relatively central locations like Hammarby Sjöstad in Stockholm, the Norra Älvstrand area in Gothenburg and Västra Hamnen in Malmö.

In my view this is more the result of a political failure than a result of neo-liberal policies, even though I agree with the view from the 1946-committee that a 'free' market would not produce enough housing. My guess is however that reducing the influence of the local government and giving more power to the developers today would actually increase housing construction also for groups with somewhat lower incomes. An example is the company BoKlok who for years have said that they would produce more housing if just the

municipalities gave them access to more land (and reduce some of the special technical demands that some municipalities have imposed).

Christophers mentions high land prices and zoning in passing (p 904), but the municipal planning monopoly is in my view one of the most important part of the current Monstrous Hybrid.

Concluding comment

Christophers uses the term Monstrous Hybrid and it makes you think about what could be a Non-monstrous Non-Hybrid, a Monstrous Non-Hybrid or a Non-Monstrous Hybrid.

My hypothesis is that *all Non-Hybrids are Monstrous*. Leaving everything to the market normally would lead to too low levels of housing construction. Regulating everything would make households too dependent on the government and giving them too little freedom of choice.

Maybe the closest to a *Non-monstrous hybrid* would be something similar to the model that the Social Democrats in Sweden developed in the 1950s and 1960s: The government makes sure that housing construction targeting all income groups is high, that there is a moderate level of tenant protection, but leaves pricing and rent setting to the market.

References

Christophers, B. (2013), 'A monstrous hybrid: The political economy of housing in the early Twenty-first Century Sweden', *New Political Economy*, 18:6 885-901, DOI:10.1080/13563467.2012.753521.

Lind, H. (2014), 'Social housing in Sweden'. In Scanlon, K., Whitehead C and Fernandez Arrigoitia, M. (eds) *Social housing in Europe* (London: Wiley-Blackwell).

Lind, H. and Lundström, S. (2007), *Bostäder på marknadens villkor* (Stockholm: SNS Förlag).

Sandelin, B. and Södersten, B (1978), *Betalt för att bo* (Stockholm: Rabén & Sjögren).

SOU 1945:63. *Slutbetänkande avgivet av bostadssociala utredningen Del I Allmänna riktlinjer för den framtida bostadspolitiken*. (Final Report from The Social Housing Committee: Guidelines for the future housing policy).