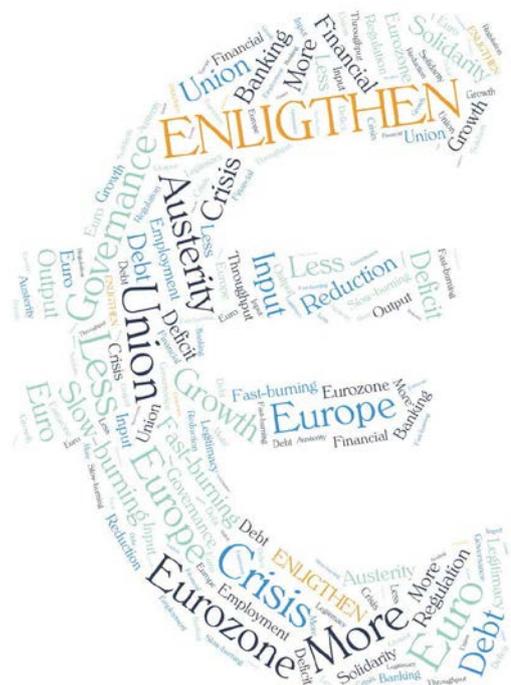




Round-Table 1 / WORK PACKAGE 3

EUROPEAN GOVERNANCE & THE TWIN NECESSITIES OF DEFICIT REDUCTION AND ENSURING THE CONTINUITY OF PUBLIC SERVICES



TECHNICAL BACKGROUND NOTE

Alice Pittini & Julien Dijol,
Housing Europe Central European University Budapest



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RT1's (WP3) **central objective** is to go beyond existing knowledge of the general trends of public services' restructuring before and during the financial crisis by exploring the emerging multilevel governance of public services within the EU and its differential impact on: (1) core and peripheral EU members; (2) countries within and outside of the Eurozone; and (3) the concrete links between public services and political legitimacy.

The **policy fields of particular concern** (before they function as important signifiers of public service restructuring) are public health and public housing.

Transversal questions to be discussed include: (1) How have public service reforms within the EU's multilevel polity responded to fast and slow burning crises? ; (2) Which agencies have been involved in public services' reforms and how have they reacted to fast and slow burning crises; and (3) How has the legitimacy of public services' reform been affected by fast and slow burning crises ?



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ART I – POLICY ENVIRONMENT

In 2011, the EU Network of Independent Experts on Social Inclusion warned that 'housing and related services emerge as one area which has been particularly adversely affected by the economic and financial crisis'. Data from Eurostat on governments' expenditure on 'housing and communities amenities' confirm that on average public support for housing in the EU 27 has decreased, from 1.1% of GDP in 2003 to 0.8% in 2012.

The crisis hasn't spared social housing. Economic models combining banking finance from the market and significant public aid have not coped well. Ireland, Italy, Spain and Portugal are experiencing breaks in the continuity of public social housing services, due to the withdrawal of banks from the sector and the suppression of public aid for investment has virtually stopped new social housing construction.

By contrast, economic models based on long term financing mechanisms that are highly regulated, such as dedicated savings accounts or real estate bonds (Denmark, Austria, France) and on diversified public aid have coped with the crisis better. In these countries, social housing plays a countercyclical role in terms of investment and jobs while ensuring continuity in the public service and the availability of an affordable supply of housing.

Funding is not the only aspect of social housing provision that is impacted by the crisis: with the general retreat of the welfare state housing providers nowadays increasingly have to go beyond 'bricks and mortar' to provide a range of services to support increasingly fragile user population and the local communities.

In this context, the EU influence is structural. Already for a long time, the Member States' choices on how to organize, finance and define the scope of intervention on the housing market, are framed by Brussels within the EU competition and internal market framework.

Furthermore, since the start of the European economic governance process, housing markets and housing policies have come under scrutiny and the European Commission has issued numerous remarks and recommendations regarding housing policies in many member states.

The EC is deepening its analysis of housing markets, and this marks an improvement in the monitoring of economic policies, since it implies a recognition that dysfunctional housing markets have been greatly fuelling – if not causing – the economic and financial downturn of the last 6 years. It also means an increased direct influence of the European Union on housing policies, an area which is typically national competence.

It is worth keeping in mind that housing is an issue coming up more and more frequently in all of the main components of the Semester process. More specifically, real house prices increase is one of the indicators included in the alert mechanism report scoreboard. Furthermore, "Housing & Private Debt" are among the assessment criteria for the challenges related to the financial sector in the framework of the country specific recommendations (CSRs). As a consequence, 2015 CSRs have seen again recommendations to a number of countries related to their housing sector. For instance:



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United Kingdom: *'Take further steps to boost supply in the housing sector, including by implementing the reforms of the national planning policy framework.'*

Sweden: *'Address the rise in household debt by adjusting fiscal incentives, in particular by gradually limiting the tax deductibility of mortgage interest payments or by increasing recurrent property taxes, and by increasing the pace of mortgage amortisation. To alleviate the structural under-supply of housing, foster competition in the construction sector, streamline the planning and appeals procedures for construction and revise the rent-setting system to allow more market-oriented rent levels.'*

Netherlands: *'Accelerate the decrease in mortgage interest tax deductibility so that tax incentives to invest in unproductive assets are reduced. Provide for a more market-oriented pricing mechanism in the rental market and further relate rents to household income in the social housing sector.'*

PART II – KEY POLICY CONCERNS

The approach to housing markets showed by the European Commission in the CSRs raises some concerns. Overall, despite rightly aiming at reducing the phenomenon of mortgage indebtedness and housing shortages, recommendations on housing show no real understanding of the stabilizing and counter-cyclical role of public, cooperative and social housing. Most importantly, they do not adequately consider the long-term positive social impact of a healthy, diverse, accessible, affordable housing market.

Issues such as the increase in homelessness and the worsening housing conditions in some countries as a consequence of the crisis are not at all tackled in the CSRs, and overall the general issue of poverty and inequality is treated quite narrowly and only for very few countries. An omission also noted by the European Parliament, that in the 'Report on the European Semester for economic policy coordination: implementation of 2014 priorities' [...] *Considers it regrettable that very few CSRs tackle the issue of in-work poverty or homelessness; points out that new forms of poverty are emerging which affect the middle and working classes, with difficulties in paying mortgages resulting in an increase in the number of evictions and foreclosures; calls on the Commission, in the 2015 AGS, to explicitly address in-work poverty and poverty among people with limited or no links to the labour market; recommends that the Commission and the Member States implement integrated policies favouring social and affordable housing, effective prevention policies aimed at reducing the number of evictions, and policies tackling energy poverty, which is also on the rise'.*

Furthermore, these housing-related recommendations should be seen within the wider framework of the CSRs. For instance, the Commission is calling on France to *'Identify savings opportunities across all sub-sectors of general government, including on social security and local government. Take steps to limit the rise in local authorities' administrative expenditure.'* Will this have an impact on housing allowances and on the way local authorities contribute to financing the HLM sector? Ireland should *'Finalise durable restructuring so lutions for a vast majority of mortgages in arrears by end-2015'*. This is a very good initiative per se, but what about the fact that lack of affordable rental housing contributes to pushing



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households towards home ownership even when they cannot afford it?

The question of the coherence between the recommendations made within the framework of the European Semester on the one hand and the objectives of a smart, sustainable and inclusive growth in the EU (EU2020 strategy) on the other hand is to be raised as well. The EU2020 strategy compels member states to put in place policies that will reduce poverty and social exclusion. At a time when, according to the latest data, homelessness is on the rise across the continent, the total outstanding residential debt to disposable household income ratio has also increased dramatically from 66.4 in 2004 to 81.8% in 2012 and the housing overburden rate has increased in many countries, there is a need to increase supply of affordable homes for an important part of the population. The recommendations of the European Commission within the European Semester, by urging Member States to limit the size of the social housing sector, could undermine the efforts of cities and member states to reach the EU2020 objectives.

PART III – PREVALENT POLICY OBSTACLES

The economic and financial crisis that started in 2008 has had many various consequences for the affordable sector: reduction of housing allowances for individuals, reduction of budget for affordable house building, new taxes on the housing organizations, restructuring of the sector (including mergers and reduction of the number of providers), increasing commercial activities to compensate the lack of public support, etc. Those effects combined differently and with a different magnitude in the EU countries. But the general outcome is that the cost efficiency of social housing models (and housing policy in general) is thoroughly monitored and put into question. Even though the European Commission in 2009 has proposed a European Recovery Plan which included the support for the refurbishment of social housing via the European Structural Funds and despite the narrative around the social investment package (2013), the setting up of the European Economic Governance (i.e; European Semester) has created a bias towards policies aiming at reducing public spending at the expense of investment policies including in the housing sector. A way to rebuild an adequate balance is to improve the nature and functioning of the European Semester process :

- The preparation of the country specific recommendations (last stage of the Semester process) is relatively opaque and needs to include discussion with national stakeholders (national or regional housing federations and national parliamentary committees responsible of housing policy)
- The sole housing related indicator in the scoreboard of the European Semester is the evolution of real house prices year to year. This indicator cannot grasp the decrease of affordability of housing options. Other indicators such as the house price/income or the housing overburden rate should be included.