The United Kingdom Housing Context

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Abstract

This article examines housing policy and the housing market in the U.K. in the broader social, economic, and political context. It focuses on how housing relates to the economy, the labor market, health, welfare, inequality, and the general social and economic environment.

In recent years, government has reshaped housing policy by reducing and redirecting subsidies, introducing market prices and private finance, altering the role of local authorities as direct providers, and boosting the level of homeownership. But reduced subsidies and greater reliance on the private market may have made the system more unstable and vulnerable to economic shocks. There is growing evidence of both residualized populations in the social rental sector and widespread homelessness. U.K. housing policy is also poorly integrated with other social and economic objectives. Overall, the changes may have made the housing system marginally more efficient, but the policy probably increases pressures toward economic instability and inequality.

Keywords: Housing; Policy; United Kingdom

Introduction

This article examines U.K. housing policy and practice in its broader context and seeks to avoid taking only the narrow view. It aims, therefore, to connect housing policy concerns both to government policy in other areas and to a range of social, political, and economic issues and debates that are of concern in the United Kingdom today or that are likely to arise over the short to medium term. The article thus explicitly recognizes the connectedness of housing issues and argues that solutions to housing problems often lie outside the operational framework of housing organizations and the scope of housing policy. This in turn raises major issues about the fragmentation of policy formulation and implementation and how this might be overcome. It also, of course, raises the question of how we conceive of connections. Although this article focuses on the policy arena and the form of relationships in reality, important work must be done at a conceptual level. It is through such work that it may be possible to identify the most important relationships and their relative strengths.

The scope of the article is therefore potentially very wide. Housing connects in one way or another with virtually every issue one might imagine, on a range of levels, from macro to micro, from the overall economy to the household and the individual. Moreover, because the housing product is characterized by both longevity and a fixed location, there is a complex history and geography of housing, which both is influenced by and has influence on any specific circumstance. This means that there are great regional and local differences in the shape of housing situations and the possible policy and practice solutions.

This last point is relevant not only to the U.K., but also to other countries, including Canada and the United States. The U.K. has different housing policies and practices in England, Wales, Scotland, and Northern Ireland (as well as the Isle of Man and the Channel Islands), and these policies affect their regions and localities in different ways. Finally, it must be recognized that this explicit comparative focus is now extended by the U.K.'s membership in the European Union. Perhaps more than ever before, there is an acute awareness of comparisons, divergence, and convergence between countries and populations. The article will therefore briefly discuss the key European issues, because these highlight broader conceptions of the housing question.

I begin by briefly mentioning the limitations imposed by a fragmented academic and policy debate and then consider some of the major issues connected with housing. These include the relationships of housing to the economy, the labor market, health, welfare, wealth and inequality, and, finally, the broader social and economic context. Given the scope of each of these topics, my discussions will necessarily be both selective and brief. My aim throughout is to pinpoint the issues and raise the question of how to engage these issues from a housing perspective and how a broader housing-related coalition might ensure a housing sector with better resources.

Making the connections

As indicated at the outset, the scope of the housing question is very wide in terms of the development and implementation of housing policy. In the United Kingdom, housing policy is clearly an important adjunct to economic and social policy. The annual budget statement by the chancellor of the exchequer is often the main platform where housing policy is announced, particularly if that policy has financial implications. Also, because of the links into the welfare benefits system, the secretary of state for social security often makes announcements of major significance for the housing sector.

Unsurprisingly, this is also true of the academic debates that relate to it. Mirroring the fragmented organization and delivery of policy within central and local government is an academic division of labor that splits up the substantive area of housing and divides it among a wide array of subjects, including economics, sociology, geography, history, architecture and building, political science, and planning. This fracturing has tended to result in housing being used as a case study for developing ideas and testing theories, rather than for developing substantive knowledge and understanding about housing itself. Only in recent years has housing emerged as an identifiable discipline. One consequence has been a new form of insularity (Kemeny 1992). Discovering (or, as some would argue, rediscovering) the housing focus brings a new danger that housing debates may turn inward and neglect the broader connections to social science or social policy, for example.

In some senses, how this academic study develops might be viewed as a matter of little consequence to housing policy or to housing practitioners. While this is true to a degree, it must be recognized that academic and research-based inputs are now vital to assessing and developing housing policy. Therefore, the quality and relevance of that work are significant. It is clear that the limited engagement between research and policy in the past has been to the detriment of both policy (and practice) and housing research itself. Analyzing and debating the broader context is therefore made more difficult by the divisions we experience. Equally, it must be acknowledged that the very complexity of many of the connections may make it impossible to frame and operate a fully integrated and coherent housing policy. If there is consensus on this, perhaps the questions are how nearly we can approximate the ideal and what the most important relationships to consider are. Alternatively, one might argue that all the evidence regarding the changing socioeconomic context points to the need for more flexible and adaptable policies (see, for example, Gyourko 1995; Maclennan 1995). The very gaps in policy can allow the space for such adaptation and development.

Context

Before discussing specific connections between housing and the wider context, it is useful to briefly review a number of the key changes in the overall social and economic circumstances in the U.K. These factors inform and shape policy debates and are an essential background to all that follows.

First, the population of the U.K. is aging (Ermisch 1990a; Rolfe, Mackintosh, and Leather 1993). It is forecast that the proportion of the population age 65 or over will rise from 16 percent in 1991 to 24 percent in 2041 (Central Statistical Office 1995). Older households typically have reduced incomes, their wealth is heavily reliant upon the dwellings they own, and their capacity to maintain and improve their dwellings is declining. The number of smaller households is growing rapidly, and there has been a continuing rise in single-parent families (now around 20 percent of all households).

Second, there have been important changes in the economy and the labor market (Ford and Wilcox 1995; Wadsworth 1995). Part-time and temporary contract-based work has expanded significantly. By 2000, part-time employment will account for 25 percent of all employment. At the same time, there has been a reduction in permanent full-time jobs across all sectors of the economy. This drop has been paralleled by a rise in long-term unemployment and growing regional and local diversity in economic conditions. Accompanying these changes in the labor market have been important changes in the distribution of income and wealth (Hills 1995), with increased polarization between the relatively wealthy and the poor.

Third, after the high inflation of the 1970s, the U.K. has experienced reduced inflation, although it is only since 1992 that inflation has been below 4 percent for any length of time (Morgan Grenfell 1995). Housing policy and housing market behavior in the U.K. have been strongly influenced by high inflation, particularly house price inflation. General inflation had the effect of making the real costs of house purchase very low, while rapid house price inflation meant that housing produced substantial capital gains for households. Low general inflation and low house price inflation have the opposite effect. Interest on loans is now a real cost, and without house price inflation housing debt remains a significant burden for a much longer time (Cutler 1995). Low inflation increases the risk for both borrowers and lenders. This, in combination with reduced government assistance to homeowners, means that the conditions in which that sector operates have changed fundamentally.

Fourth, the U.K. economy, like all other economies, is now much more fully integrated into the world and particularly the European economy. Although the U.K. economy is now more competitive, it is also more exposed to instabilities generated outside the U.K. (e.g., interest rates, exchange rates, and market competition). With reduced state subsidies and assistance, this instability is more quickly transmitted to regions, localities, and households. A whole range of previously state-provided or -subsidized services are now provided through the private sector and are exposed to market forces (see Walsh 1991, 1995).

Housing and the economy

The interest in the relationships of housing and housing markets to the economy in the U.K. stems from a number of different, but related issues. First, over the past 20 or more years, successive governments have wrestled with attempts to revitalize the U.K. economy and, more recently, to both redirect and reduce the pressures on the economy created by government taxation and expenditure. A central feature of the government's program of expenditure cuts has been a reduction in the housing budget, particularly the capital program for new local authority housing (Hills 1991). In real terms, public expenditure on housing has fallen by around 25 percent since 1981–82 (Wilcox 1993). The government has taken the view that, given the overall surplus of housing in the U.K., the task is less related to creating new homes and more concerned with ensuring better targeting and greater efficiency of the entire housing system. The government has also rejected outwardly the role of public expenditure as a positive instrument of macroeconomic policy. It has thus been reluctant to expand housing capital expenditure as a way of stimulating the economy.

Second, and related to the first issue, the government has also taken the view that house price inflation and general inflation are closely related. Since controlling and reducing inflation was another central plank of government policy, there has been a keen concern to prevent rapid rises in house prices. In practice, however, government policy was central to the last house price boom (1987 to 1989). The policy remains an area fraught with difficulty in terms of how control can be exercised and the possible consequences of intervention (Hoare Govett 1993). House prices have been seen as the motor of both inflation and recession, and they now have become one of the central indicators of the health of the economy (Hutton 1995).

Third, there has been a long-running debate about whether housing drains productive investment away from key areas of the economy and about the role housing might play in stimulating economic growth (see Ermisch 1990b). The conclusion on the former topic seems to have been that housing has not diverted investment in any significant way. That is not to say that it is not important and that during boom periods the housing market does not have significance for the economy as a whole. Moreover, the government has decided that it will control the housing market (and the economy) through the interest rate.

Following the deregulation of the housing finance system through the first half of the 1980s, it is generally agreed that the cuts in interest rates in 1987 and the delayed move to withdraw the tax concession of mortgage interest tax relief for single people who were cohabiting added considerably to the pressures already being experienced within the housing market.

In an attempt to stop the house price spiral—nominal house prices rose by an annual average of 19 percent between the first quarter of 1985 and the third quarter of 1989—the government raised interest rates. As a consequence, both the economy and the housing market fell into recession. The government has now signaled that any sharp increase in house prices will result in an interest rate increase. This attitude reveals a lack of understanding of the relationships between interest rates and the housing market (in particular, the expectations of interest rates and the role of uncertainty; Meen 1993). It also fails to recognize the close connections between a deregulated housing finance market and the economy as a whole.

The U.K. government has been reluctant to increase public investment in housing to restart the economy, even though doing so has a quick and demonstrable effect on employment, the building materials industry, and the demand for consumer durables (Barty and Bell 1992). Nor does the government's demand-management approach to housing do anything to stimulate greater supply or a restructuring of the housing supply system (e.g., land availability, planning controls, building industry). Thus, if housing demand does increase, the continuing lack of increase in supply ensures that the conditions for a boom are maintained.

In broad terms, the U.K. government has determined that it should concentrate on managing what it sees as the macroeconomy. For the most part, that means that the housing sector can be left alone. As long as interest rates and wages are controlled, along with continuing pressure on bringing down public spending, the housing sector will be treated as if "current arrangements are both efficient and have a neutral impact upon the economy" (Maclennan 1993, 7).

However, as Maclennan rightly argues, "there is now a growing volume of applied economic evidence that the housing sector does not merely react passively to broader economic changes. Housing markets and systems in the UK appear to have the capacity to fuel and reinforce both boom and bust phases of the cycle" (p. 7).

Housing-related factors influence the economy in many ways (see Clapham et al. 1995; Ermisch 1990b; Maclennan 1994; Maclennan, Gibb, and More 1991; Miles 1992; Wilcox 1993):

1. As an important component in household budgets, housing costs clearly influence both household expenditure and wage pressures. The availability of lower cost housing—for example, because of subsidized rents for council housing or subsidized mortgages for homeownership—affects wages (although it is recognized that taxes will be higher as a consequence).

2. Equity withdrawal from housing fuels consumer and other spending. With substantial house price inflation, many households took out additional loans in the 1980s, in effect drawing down some of the extra equity they had built up in their homes through price increases. In the 1980s, the annual average value of housing equity withdrawal was £7.5 billion (Cutler 1995).

3. The state of the housing market influences general consumer confidence and the willingness to spend on a range of goods and services. It is evident in the U.K. in 1995 that the absence of any strong recovery in the consumer sector is closely related to the continuing housing market recession.

4. New investment in the sector generates jobs and economic activity, reducing welfare benefit bills and enhancing tax revenues.

5. Mortgage interest rates affect consumer spending power. Higher rates mean less disposable income among home buyers, although there is the offsetting effect of higher rates for savers.

6. High debt burden constrains households and governments. In 1994, mortgage debt stood at 72 percent of total personal sector liabilities (Pannell and Williams 1995). Given the pressures in the personal sector, the government is constrained in its actions in relation to taxes and interest rates.

7. The U.K. housing finance system is dominated by variable-rate mortgage instruments; it is thus very sensitive to rate changes in the broader economy.

While factors such as these are recognized to be important in the U.K., it is evident that there remains considerable resistance to fully accepting such arguments, not least because accepting their validity might lead to more pressure to invest in housing, both public and private. Rightly, there is resistance to trying to tackle the fundamental problems of a weak economy through the housing system (Glass 1994), but the role housing plays and the immediate benefits such an approach would bring to the economy and to the housing situation should not be dismissed. As Riley (1995, 1) notes,

> Housing is of undoubted importance for both the macro- and micro-economy. It accounts for about a sixth of household expenditure, around a third of personal-sector wealth, and a fifth of total investment. . . .
>
> Housing also has important structural effects: on the environment; on the way labour markets function; and on socio-economic characteristics such as physical and mental health, child development and educational performance, and crime.

Housing and the labor market

Perhaps the most strident analysis of the relationship between the housing system and the labor market was that produced by Minford, Ashton, and Peel in 1987. In essence, they argued that government involvement in housing—regulation of the private rental market, promotion of homeownership, and provision of below-cost public housing—had severely limited the capacity of labor to adjust, through migration, to a changing economy. In their view, the housing system was sustaining and creating unemployment. The work of Hughes and McCormick (1987, 1990) reinforced the view that housing, and especially local authority (council) housing, constrains the economy. Some of these conclusions have been challenged (Gordon 1990; Munro 1990).

Since 1989, the homeownership market has moved into deep recession. At its peak, it was estimated, around 2 million homeowners (20 percent) had negative equity in their homes (i.e., they owed more than the home was worth), with all the consequences that had for mobility. The attractions of private renting became all too clear; an estimated 10 percent of the new rental units on the market were properties unsold by homeowners who had been forced to move to new jobs, regardless of the problems of selling (Department of the Environment 1995).

As the U.K. housing system comes to rely ever more heavily on homeownership (68 percent of households were homeowners in 1994), so the tensions between housing and labor markets more clearly focus on the operation of that sector. For example, the role of the Southeast of England as an "escalator region"—that is, one that carries people upward in their social and economic careers (Fielding 1992)—has been damaged by the deep depression in the region's housing market and the very high levels of negative equity that are trapping households. Recognition of the inevitable discontinuities between housing and labor markets has led, at least in part, to the pressure for expanding the private rental sector. An expanded private rental sector is seen as providing a sensible alternative to homeownership for young and mobile households (Best et al. 1992). The government's housing proposals, issued in June 1995, set out the intention to create authorized housing investment trusts (intermediary vehicles in which pension funds might invest, which in turn would develop and manage rental housing).

The interactions between the housing and labor markets are complex and poorly understood. While it is possible to identify a variety of barriers in both the rental and ownership markets for households that need to move, it is also true that the labor market itself has many imperfections. Wage differentials and overall wage levels, skill mismatches and differentials, and lack of information all contribute to friction in the labor market and the slowness to adjust to changing economic conditions (Allen and Hamnett 1991). At the same time, the changes in the structure, terms, and conditions of employment that have been taking place in the U.K. over the past decade or more are beginning to have a substantial impact. Part-time employment, performance-related pay, and time-limited contractual employment are all becoming significant factors in terms of access to homeownership and the demand for housing in other tenures.

The growing use of sophisticated credit-scoring techniques means that the capacity to segment would-be homeowners into different risk categories has now become a reality. That capability complements growing housing and labor market instability. These credit-scoring techniques match applicant characteristics to the lenders' own database of the characteristics of performing and nonperforming loans. This scoring has allowed for much more sensitive loan assessment that can take account of changing labor market conditions. It is thus evident that the housing finance system is now adjusting to accommodate the growing flexibility of the labor market. As another example of flexibility, the so-called lifestyle mortgages now being offered allow payment deferral. Similar products are needed for different segments of the mortgage market (Williams 1995).

Housing and health

As with housing and employment, few formal mechanisms coordinate the provision of housing and health care (although the unity of housing and health was absolute at the turn of the century, and public health authorities were responsible for dealing with poor housing because it was seen as the source of a range of major health risks; Wohl 1983). Such mechanisms have grown in recent years through the introduction of programs such as Care in the Community (in which the long-term mentally disabled are released from institutions and housed, with support, in the community). But these mechanisms must be viewed in a context of constrained resources—tighter targeting and continuing high levels of demand for both housing and health care—and fundamental and radical changes in the ways government has sought to deliver these services. In both housing and health, the U.K. government has made major advances in creating markets and redirecting resources.

The links between housing and health in terms of policy and resource allocation have thus far been quite weak. The general improvement of housing conditions during this century has been an important factor in raising overall standards of health in the U.K. (46 percent of the current U.K. housing stock was built before 1945). At the same time, important problems remain with respect to both particular groups of individuals and households and specific areas of housing. The housing-related environmental determinants of poor health include radon seepage into dwellings (associated with cancer), asbestos, noise, respiratory problems related to inadequate heating and cooling systems, overcrowding, dampness, and inadequate amenities. Typically, these problems are associated with the households that have the lowest incomes and the poorest housing (Arblaster and Hawtin 1993).

The recent round of government house condition surveys in the U.K. (England, Scotland, and Northern Ireland in 1991; Wales in 1993) provide the latest evidence. In England, just under 3 percent of dwellings (517,000) are deemed overcrowded; nearly 13 percent of dwellings have unmodernized kitchens and 22 percent have unmodernized bathrooms; 1.5 million dwellings are judged unfit for human habitation (with 715,000 of these being owner occupied); 30 percent of the private rental stock is in the worst condition (i.e., the cost of carrying out urgent repairs exceeds £26 per square meter). While the pre-1919 housing stock showed an improvement between 1986 and 1991, the interwar stock (built between 1919 and 1939) has deteriorated. Where problems remain, they are most obviously clustered in the private rental stock and in owner-occupied housing (especially housing owned by older people), though there is now some evidence that local authority housing, which in many senses ensured ever-rising housing standards in the U.K., is now showing signs of deterioration (Leather and Mackintosh 1994).

Housing affects health, and vice versa. Medical priority has been one key factor in access to public housing, and ill health can trigger support for housing costs. Most recently, we have seen the growth of housing for people with special needs, such as the elderly or people with HIV/AIDS or physical or mental disability. Health-related issues can thus trigger privileged access to or support for housing (Lowry 1991; Smith, McGuckin, and Knill-Jones 1991).

Perhaps the most obvious groups continuing to experience housing and health disadvantage are the homeless and those released into the community through the government's program of community care (through which people affected by problems of aging, mental illness or handicap, or physical or sensory disability are supported to live as independently as possible in their own homes). As Smith, McGuckin, and Knill-Jones (1991, 225) note, "[one] link between a restructured housing system and a reorganised national health service hinges on the concept of community care which mediates between where people live and the type and quality of services they receive."

It is clear that community care has posed the most severe challenges to service integration and delivery. There is evidence that the new system has resulted in some individuals receiving the services they need in their homes and being able to sustain an independent life. However, there is also substantial evidence of breakdowns in coordination and a lack of resources to ensure that all those released into the community are adequately housed and supported (Arnold and Page 1991).

Homelessness has increased significantly in the U.K. in recent decades. The health dimensions of homelessness are significant (Fisher and Collins 1993). Not only do people face health problems as a consequence of having no home, but poor health (however defined) can itself be a cause of homelessness. For example, chronic severe mental illness in general and schizophrenia in particular may contribute to homelessness. Moreover, if accepted by the local authority, the rehousing process can, through temporary accommodation of one form or another, be a major source of poor health. Temporary accommodation may mean shared cooking, washing, and toilet facilities and nighttime use of only one small room. The consequences for health and educational attainment have been amply demonstrated by research (Smith, McGuckin, and Knill-Jones 1991). Although homelessness is often associated with drug or alcohol dependence, homeless persons often have other acute medical needs that largely go untended. Having no fixed residence, homeless persons do not have easy access to primary health care.

Housing and welfare

In the U.K., the relationship between housing policy and social welfare is somewhat different from that in the United States, in both the scale and the purpose of the provision (Karn and Wolman 1992). The level of direct social policy intervention in general (e.g., the National Health Service), and through the housing system in particular (e.g., council housing), has been very high in the U.K. In housing, this intervention has taken a number of forms, but most obviously it has aimed to ensure an adequate supply of housing for people without the means to afford full market prices. In that sense, and because housing is so central to all aspects of household life, it has had a direct welfare function (since the provision of high-quality and low-cost homes has allowed households to sustain a much higher standard of living than would otherwise have been possible). However, because that level of intervention has been so significant and has covered such a wide spectrum of the population, it can hardly be seen to be welfare as understood in the United States (i.e., assistance available to only a very narrow spectrum of the population).

Indeed, Willmott and Murie (1988, 1) note the following with respect to council housing:

> It was in its time a marvelous jewel in the crown of civic enterprise. In other words, the provision of council housing was directed at the mass of working people with the consequence that in the early 1980s, well over one-third of the UK households were housed in that sector. This is a good illustration of the wider perspective on the welfare state which has operated in the UK. It has aimed to be both a safety net relieving poverty and a powerful redistributive mechanism as well as an insurance against the bad times.

Over the past decade or more, the reorientation of public services and public subsidies has meant that resources such as council housing have become more limited and more targeted. Not surprisingly, this sector now houses more and more of the most disadvantaged. Increasingly it is taking on the characteristics of what would be seen as welfare housing—that is, housing of the last resort, with all its associated problems and issues. The polarization of housing in the U.K. (between a relatively well-off population of homeowners and the increasingly impoverished tenants of council housing) and the residualization of both the local authority sector and its tenants are matters of deep concern (Hills 1993; Malpass and Baines 1993).

The provision of welfare in the U.K. has been aimed at a number of key objectives: relief of poverty and redistribution to the long-term poor (e.g., council housing in recent years); the provision of insurance against long-term illness and unemployment (e.g., income support for housing mortgage payments and housing benefit for rental payments); and redistribution toward particular groups (e.g., the provision of means-tested housing improvement grants). A smoothing out of income over the life cycle has been a key objective, along with the capacity to step in where the family fails (and in housing this has meant priority access to council housing).

The balance of welfare provision in housing has been shifting away from property-based subsidies and the provision of social housing toward people-based subsidies and the purchase of housing services in the marketplace (Cole and Furbey 1994; Glass 1994). As a consequence, housing subsidies for capital expenditure are falling, and personal housing support (e.g., housing benefit, income support) is rising. The extent to which the U.K. government has sought to retarget subsidies is perhaps most strikingly revealed in the reduction in mortgage interest tax relief, which has been a major, albeit partly regressive, subsidy to homeowners. It has been capped in terms of eligible amount and reduced in terms of the level of tax relief granted.

U.K. government policy has also shifted significantly in terms of the way the local authority housing sector is run. The management of the sector is to be subject to competitive tendering. This change has increased the visibility of the costs and resources involved in running the sector, which in turn has prompted an important debate on the welfare aspects of housing management—that is, on the non-property-based aspects of management (typically support for particular tenants or groups of tenants) and the relationship between housing and social services. Participants had hoped the debate would draw a clear boundary between housing services and welfare services, but in reality this has proved impossible (Clapham and Franklin 1994).

The relationship between housing and welfare is being debated intensely in the U.K., and housing systems elsewhere (typically the United States) are often used for comparison. Given the current direction of policy, it is hard to see how the relationship between housing and welfare will not intensify. The publication of both a housing policy review (Department of the Environment 1995) and a continuing social welfare review has affirmed the direction of government policy in the U.K. toward greater targeting, reduced subsidy, and more reliance on private means or private finance. Ironically, redirection does not necessarily mean savings. Housing benefit costs have increased rapidly as social housing rents have risen, and these increases have offset savings in budgets elsewhere (Wilcox 1993). Indeed, the government has now begun to place downward pressure on rents in the social housing sector because of these increasing costs. Equally, the actual outcomes (e.g., high levels of homelessness) suggest that this reorientation is not without continuing problems. Moreover, limited evidence suggests that the changes and reductions in housing expenditure and provision are contributing to pressures in other sectors of the economy and other areas of public expenditure (Wilcox 1994).

Housing, wealth, and inequality

Housing contributes to patterns of inequality in a variety of ways. I have already mentioned the redistributive effects of social housing and the ways this helps poorer households to get housing at below market costs. At the same time, homeownership has been an important vehicle in the U.K. for substantial increases in personal wealth through the untaxed capital gains on property and borrowing against the increased value of owner-occupied dwellings.

The use of housing as a store of wealth that might be drawn on by the present owner or passed to subsequent generations became an important feature of the U.K. economy in the 1980s. Through the growth in homeownership and the rises in prices recorded between 1980 and 1989, equity in property became a significant force and made a major contribution to patterns of equality and inequality. Average prices increased by more than 130 percent over this period (there were substantially higher increases in some areas). As a consequence, equity withdrawal from housing became a significant feature of the economy in terms of the boost it gave to consumer spending (and thus to imports and the balance of trade). It rose from less than £1 billion in 1980 to around £20 billion in 1988. By 1992, it was back down to £3.5 billion (Wilcox 1993). Unlike earlier periods of withdrawal, when money was released by trading down as well as through the sale of inherited property, equity withdrawal in this period was partly achieved by borrowing against the increased value of the dwelling. This resulted in a significant increase in outstanding mortgage debt (£337 billion in 1993, the equivalent of 57 percent of the gross domestic product) and greater exposure to the problems that followed when the housing market collapsed.

The use of the equity withdrawn is varied, but clearly it is enjoyed only directly by those who are homeowners. It thus became a potent and very visible expression of inequalities between owners and renters (and contributed strongly to the "feel good" factor—the general sense of well-being among owners—and its corollary, those in the rental sector feeling left out). The subsequent collapse of prices led to households having a mortgage debt greater than the value of their homes (expressed in current prices). This negative equity became a major malaise in the late 1980s and continues today, although the number of affected homeowners has fallen from an estimated 2 million, or one in five mortgage holders, to somewhere between 800,000 and 1.2 million in the first quarter of 1995.

Negative equity has trapped households, preventing them from moving in response to the housing or labor market. It has also triggered a substantial effort among households to reduce debt (and exposure to this risk). It has resulted in significant spillover effects into consumption and the economy in general, as people seek to recover their positions. Moreover, as with all housing market conditions, there are important regional and local variations. Negative equity is concentrated in southern England, where around 40 percent of buyers in the 1988–91 period had negative equity (Gentle, Dorling, and Cornford 1994).

Despite ongoing problems of negative equity and long-term mortgage arrears, the housing system has delivered significant gains to households through inheritance. As more and more households become homeowners, more and more households will inherit property (Hamnett, Harmer, and Williams 1991). Survey evidence from 1990 suggests that estates in that year yielded £9 billion of housing-related inheritance. Those in the higher socioeconomic groups are far more likely to inherit (25 percent of households headed by professionals and managers, compared with 8 percent overall). The frequency and significance of the property inheritance is much greater in southern England (Hamnett, Harmer, and Williams 1991).

Studying all these factors together reveals some of the ways housing adds to patterns of inequality in the U.K. The material advantages conveyed by homeownership are the most obvious factor contributing to inequality, but one should not neglect the benefits of subsidized housing in the rental sector. Overall, housing is a key factor in patterns of social and economic advantage and disadvantage, with those in the private rental sector being most disadvantaged (Hills 1991).

Building the bridges: The impact of the European Union

Despite the evident tensions regarding U.K. membership, the creation of the Single European Market and the formation of the European Union (EU) in the 1990s have been matters of much more than symbolic significance. For some years, U.K. legislation has slowly but increasingly been reflecting European influences, as required under the original Treaty of Rome (1957), which began the process of European integration and unification (and which the U.K. was not originally party to), and subsequent treaties. Housing has, to some extent, stood outside of this trend because it is not within the “competence” of the European

Commission and Parliament. Under the terms of the agreements, different policy areas and responsibilities are assigned to either the supranational European level or at the national government level. Following the principle of subsidiarity, power is devolved to the lowest level of government capable of making an effective intervention in the policy area under consideration. Thus housing is devolved to national governments, and as a consequence there is no specific EU housing legislation. However, because housing is so central to people's lives, it becomes a component of other EU interventions regarding, for example, social exclusion or economic adjustment.

This brief digression into the labyrinthine European system is important because there is now a real European dimension in U.K. policy making, and it has affected housing issues. First, housing policy now has a comparative dimension, and policy makers have a clearer sense of how it affects the competitive position of the U.K. in the European context (although this understanding needs further development).

Second, this closer focus on Europe has highlighted the oddities of the U.K. housing system and raised questions about future directions. In European terms, the U.K. has an unusually large local authority rental sector and an unusually small private rental sector. The growth of homeownership in the U.K. was very fast in the 1980s, relying on early age of entry into the tenure (in the early 20s), high loan-to-value and price-to-income ratios, and variable-rate mortgage instruments. This contrasts with the experience of other EU countries, where homeownership has grown much more slowly, where the age of entry is much later (30 years plus), and where most purchases are made with fixed-rate mortgages.

House price inflation in the U.K. has been higher than that in most other EU countries. At the same time, the U.K. has a more rigid and differentiated housing support system for individuals. Other EU countries have integrated programs, so there is less favoring of one tenure, and this affects movement between tenures. In terms of space, housing standards in the U.K. have slipped, though they remain high in terms of amenities. As in other countries across Europe, residualization in the social housing sector is common.

All these factors point at possible agendas for the U.K. housing system. The system must be viewed in the context of more mixed and varied finance regimes in Europe and the less restrictive interpretations of rules related to public expenditure that operate there (Chartered Institute of Housing 1995a). Moreover, the antagonism that characterizes the relationships between central and local government in the U.K. is much less evident elsewhere in the EU. As already indicated, the EU is developing policies and programs that seek to equalize economic activity and opportunity across the union and to integrate all its inhabitants into the mainstream of social and economic life. In so doing, the EU is beginning to develop a surrogate EU housing policy, with the expectation that this will grow slowly but steadily over the next decade (see, e.g., McCrone and Stephens 1995; Williams and Bridges 1993). This policy will pose important challenges to the U.K.

Conclusion: Looking forward, looking backward

The integration of housing policy with other aspects of social and economic policy is long overdue in the U.K., where departmentalism and disciplinarity have tended to isolate and separate activities that should clearly be fully integrated. The previous approach fragmented issues and problems that required a coordinated approach (Central Policy Review Staff 1975, 1978). This fragmentation resulted in lower levels of overall efficiency and economy and greatly reduced effectiveness. At the same time, specialization and the professionalization of those specialties through qualifications (e.g., degrees in housing management and housing development) and membership of professional bodies (e.g., the Chartered Institute of Housing) have meant that very high levels of skill and efficiency are often evident within these specialist domains.

Recently, the government introduced an urban aid budget that united individual programs located in departments such as Trade and Industry, Environment, and the Home Office. This plan is a move in the right direction, although it is probably too early to say whether it will produce results, and the current evidence suggests that housing has not retained its share of the new budget. At the same time, the U.K. still has striking examples of fragmentation. For housing, perhaps the most obvious example is that the Department of the Environment sets rents in the public sector while the Department of Social Security (DSS) pays for the consequences through a housing benefit. This arrangement has created great uncertainty and instability in planning housing programs (especially since DSS is engaged in a fundamental welfare review).

At the local government level, the current reorganization will reduce the number of functional departments at the local authority level (e.g., planning, housing, education) and may therefore aid integration. Issues such as generic working (reducing the degree of specialization of tasks) and greater flexibility have emerged as important ideas, not least because they are set within the context of authorities contracting out much of their mainstream administrative and service delivery functions. It is difficult to predict the combined impact of both reorganization and contracting out (beyond chaos, that is), but it must be hoped that it will lead to a structure that allows better focus on broader, substantive problems (Chartered Institute of Housing 1995b; Young and Mills 1993).

Contracting out public services will introduce a range of private providers into formerly public sector domains (Walsh 1995). Good contract specification and contract management will be crucial to achieving success. It is too early to judge the results in the housing sector, because compulsory competitive tendering of housing management will not begin until 1996. Since it is being imposed from above, local governments may be tempted to let it fail, although recent survey evidence suggests that many directors of the local authority housing departments favor the change (Dwelly and Blake 1995). The initial evidence on contracting out suggests that considerable savings can be achieved, but the costs of going through the contract process can be considerable (Walsh 1991). However, contracts can also separate areas of activity and impose rigid boundaries between contracted activities and geographic areas. Part of the challenge lies in developing contract specifications that overcome such weaknesses. However, it should be recognized that divided service departments might be unwilling, or indeed unable, to develop the appropriate specifications.

The U.K. housing system has undergone dramatic change in the past 15 years, as has the entire U.K. economy and society. In many senses, it is too early to fully understand the implications of those changes and to predict how they will evolve over the next decade. There will be interactions and consequences no one can anticipate.

The housing system might be judged more efficient in some ways, but it has also been exposed to greater vulnerability, instability, and risk (Whitehead 1993). The steady reshaping and withdrawal of subsidies will only exacerbate those tendencies, particularly given the vulnerability of increasing numbers of home buyers. Homeownership in the U.K. has expanded across the income and class distribution, so the sector is now much more exposed to a fluctuating and changing labor market. Equally important, while the U.K. has a better housed population overall, there are evident shortfalls in housing provision and continuing questions about long-term standards, as well as about the consequences of a predominantly owner-occupied stock, where householders have limited resources to invest in maintaining their property. In an environment of low house price inflation, the incentive to invest in property might also be reduced, not only in terms of repair and maintenance, but also with respect to attitudes to house purchase.

Tenures other than homeownership have changed dramatically. The key questions now are how much further homeownership can go and whether the U.K. can or should retain and sustain a public rental sector. There is a new consensus around building an expanded private rental sector (Best et al. 1992). Yet the arguments for growth in this sector are based on concerns about flexibility and mobility that could be addressed through homeownership and public renting. Indeed both of these sectors have proven able to respond creatively to new challenges and, given the right framework, could do so again.

Sadly, what this debate reveals is the way housing in the U.K. is politicized and how impasses are reached around existing arrangements that apparently can be resolved only by finding some entirely new solution. Housing associations were the last "final solution," and private renting now seems to have taken their place. While these debates hold the center stage, it is harder to give attention to the broader issues about housing and its relationships to family life, health, education, transport, leisure, law and order, and the economy. While policy makers and the institutions of government at the central and local level are divided, it is at the level of the individual and the household that integration is needed and arises. The British experience with community care reveals how costly and complex that integration really is. There is a clear need to refocus policy and practice on broader concerns such as community development, but the U.K. has made only tentative steps in that direction. As matters stand, the U.K. might well have the best housed poor people in Europe, but their overall life chances remain modest at best, and their opportunities for upward mobility and change quite small.

Such a situation reflects the continuing rigidities of U.K. society as compared with Canada and the United States. While this rigidity is clearly not simply a product of the fragmentation of policy and service delivery, policy has an important role in addressing these contributory factors. However, as the U.K. moves to a system where market relations and individual choice become ever more important, where minimalist safety nets operate, and where policy focuses on regulation and control rather than on direct housing provision, the U.K. will rely ever more heavily on the economy to promote opportunity and social mobility. Can the U.K. economy deliver this? Does the U.K. have a housing system that inhibits the development of an efficient and effective economy? The answer to the last would seem to be yes, and this must be a matter of concern when one reflects on the broader objective of creating better opportunities for all.

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