

LIBERALISATION AND DEREGULATION IN URBAN HOUSING MARKETS*

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ABSTRACT

The paper examines the attributes of housing that makes it difficult to provide it effectively in freely operating markets as well as the attributes which make administrative allocation problematic. It then goes on to discuss why the policy emphasis in many countries has moved towards liberalisation to generate greater efficiency, while at the same time targeting assistance more directly towards lower income households. The paper discusses experience in a range of developed and developing countries, concentrating on the removal of administrative constraints on supply, particularly with respect to land, planning and the provision of infrastructure; on the provision of private finance, for both owner-occupied and rental accommodation; and with respect to pricing, notably rent controls. The paper concludes that while there have been many initiatives to reduce the extent of administrative failure, fundamental difficulties remain which tend to generate continuing government involvement.

SINTEISIS

Este trabajo examina los atributos de la vivienda que hacen difícil proporcionarla en forma eficaz en mercados que operan libremente, como asimismo los atributos que hacen que la asignación administrativa sea problemática. Luego analiza por qué el énfasis de la política en muchos países se ha desplazado hacia la liberalización para generar mayor eficiencia, mientras que al mismo tiempo la asistencia se orienta más directamente a los hogares de menores ingresos. El trabajo analiza la experiencia en un número de países desarrollados y en desarrollo, concentrándose en la eliminación de restricciones administrativas sobre la oferta, especialmente en relación al terreno, la planificación y el suministro de infraestructura; en el suministro de financiamiento privado, tanto para inmuebles ocupados por sus propietarios o arrendados; y en relación a los precios, fundamentalmente el control de cánones de arriendo. El trabajo llega a la conclusión de que si bien han habido muchas iniciativas para reducir el grado de las diferencias administrativas, subsisten dificultades fundamentales que tienden a generar una participación gubernamental continuada.

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1. INTRODUCTION

The basic attributes of housing inherently result in significant problems in providing adequate housing at a price within the means of lower income households. As a result almost all governments, even those with a strong market bias, have intervened to try to alleviate these difficulties. While individually these policies have had positive goals, to reduce costs to consumers, increase standards and ensure an equitable distribution of available resources, the outcomes have often not been either as effective or as targeted as intended. In addition, interactions with other policies, notably those involved with macro economic management, have often offset the expected benefits. The result has been that a tangled web of housing and related policies exists which is poorly directed and expensive to run, and which, most importantly, adds to the resource costs of housing provision. Moreover the usual response to the emergence of further problems has been to add to that web rather than to address the issues at a more fundamental level. As the UN Global Strategy report states: 'In many cases, public authorities have failed to understand the effects of laws and regulations on incentives and costs, with the result that they have increased the cost of housing, lowered the productivity of the sector, skewed inequitably the benefits of the housing sector and had a damaging effect on overall economic performance' (United Nations, 1990a). In this context the report stresses the problems arising from price controls, ill-defined and restricted property rights and the adverse effects of many land-use and building regulations. Most importantly it stresses the need for government intervention to introduce policies that increase the efficiency of markets, notably the finance market, that target subsidy more effectively and which reorganise the relationships between different levels of government so that national strategies can be more effectively delivered at the local level.

Over the last decade governments in many countries have attempted to move in this direction, both in terms of specific approaches to housing and in relation to

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more general policies of privatisation, deregulation and controlling public borrowing. There has been far more emphasis on efficiency, both of markets and in the incentives generated by government policies as well as on the shift from general assistance to more targeted subsidies (OECD, 1992).

This paper examines some of the main trends in policies to remove barriers to greater efficiency and to provide more effectively directed assistance. Section 2 sets out a framework for analysing the rationale for government intervention and the basic attributes of housing which tend to generate both administrative and market failures. The next five sections look at different approaches to reducing barriers in order to help provide, respectively, an effective administrative and regulatory system, a well operating land market and land use planning system, productive efficiency in supplying housing, adequate provision of finance and suitable government pricing policies. Finally, the concluding section, attempts to assess major themes in deregulation and liberalisation in the context of urban housing markets.

2. THE NATURE OF THE PROBLEM

2.1 The attributes of housing

Housing has a number of basic attributes which make it difficult for resources to be allocated efficiently and equitably either through the market or through administrative means. First, housing is a complex good made up of many different elements, some of which, such as shelter and minimal security, can be regarded as necessities, while others provide luxury elements, such as gardens or extra bedrooms, which most households may desire but which not all can or wish to afford. This means that, not only may it be difficult to match attributes supplied with those required by particular households, but also that aspirations with respect to housing quality are likely to continue to rise. There is thus likely to be continuing pressure to provide additional resources for housing. Moreover, particularly in market systems, higher income households are always likely to compete away housing resources from those lower down the income scale. The problems relating to housing affordability are thus not likely to be solved by growing affluence and will be exacerbated by inequality in the distribution of income.

In terms of efficiency of production, particularly important attributes of housing include its locational specificity and its longevity. The first means that a unit in one place may not be a full substitute for one in another, which results in important interactions and constraints, notably between residential decisions and employment decisions. The second means that decisions about location, density, type etc. are long lasting and that mistakes cannot be easily remedied. The most important

implication of these attributes is that barriers to effective investment decisions have very high costs which are borne not only by current households but by future generations. It is thus of particular importance that regulatory frameworks are based on the most accurate information possible and generate suitable incentives to ensure that investment decisions take account effectively of current and future costs to the individual, the local community and the economy as a whole.

Another closely related attribute is the fact that housing is an asset whose value is often many times the annual income of the occupying household. As a result adequate provision cannot be achieved in a market system without well operating finance markets to enable others to fund the initial costs of provision - either through the rental or the mortgage markets. This requirement thus helps to generate a range of possible tenures with different financing, ownership and management attributes to suit different types of households. Constraints which affect the development of the full range of tenure possibilities can both limit choice and increase the costs of providing acceptable housing.

The diverse and complex nature of housing also tends to make the organisation of contractual relationships between the different actors in housing market problematic - in that it is difficult to specify complete contracts, to monitor performance and to enforce contractual responsibilities. This in itself tends to generate a great deal of legislative activity aimed at improving these relationships. However these can also involve significant organisational costs and can generate rigidities in the system. These tend in turn to reduce incentives to invest and so increase prices and constrain the provision of affordable housing.

These tensions are exacerbated by the incapacity of suppliers to adjust the supply of housing rapidly in response to changes in demand. In most industrialised countries new building accounts for less than 2 percent of the total stock. Therefore sudden changes in demand, either in total or in terms of location or types, cannot be dealt with by immediate increases in supply. As a result there are pressures in terms of relative power between suppliers and consumers as well as considerable variability in house prices and rents. In developing countries the capacity to build may well be greater, but the demands also generate much more pressure, notably as an outcome of rural/urban migration as well as the more rapid growth in the adult population and the even more rapid growth in households associated with rising incomes. All of these factors generate the demand of government intervention. They also increase the costs of constraints on effective adjustment - such as those generated by unsuitable regulation as well as by government policy itself.

More fundamentally, particularly because serviced land is in limited supply and because of locational specificity, it is not possible, even in the long term, to replicate supply at constant cost. Construction costs themselves probably can remain in line with other prices in the economy - although in many countries productivity

increases in the industry are below average. However land is in limited supply so costs must rise with increases in the value of other uses. Moreover one location, especially in urban areas, is not a complete substitute for another. As a result unit costs rise for dwellings with non-replicable attributes while accessibility, standards and even value for money may fall as additional supply is brought forward, in order to ensure continuing affordability.

In this context it is particularly worth noting that the condition necessary for a long-term decline in the average housing price-income ratio (one measure of affordability) is that the income elasticity of demand for housing demand must be smaller than the sum of the total supply elasticity of housing and the price elasticity of demand (Renaud, 1990). Moreover, the speed of change (either deterioration or improvement dependent on the actual sign) will be proportional to the rate of growth of real income. As Renaud says, such a relationship underscores the importance for a country of starting with a sound regulatory land use and urban planning framework which generates a high supply elasticity of housing output.

The supply elasticity itself is made up of a number of elements (Muth, 1969): the capacity to increase floor area ratios (i.e. densities), the price elasticity of the supply of land and the share of total costs that is land. In other words if land supply is readily increasable there are few problems because construction itself is generally replicable at constant cost. Constraints on land supply whether they be regulatory, environmental, technological or speculative, necessarily make housing less affordable. Moreover, it follows that house prices will be higher in urban areas, because such land supply is inherently constrained.

Renaud then goes on to compare the USA, where there has been significant long-term improvements in the price-income ratio (from around 10 in the late 19th century to between 2 and 3 now), with Japan where it was about 1.1 in 1950 and has risen to nearly 8 in central urban areas in the 1980s. He also provides a case study of the Japanese land approval system which shows the range of organisations and stages involved and which suggests that it may take over five years to obtain a relatively straightforward permission to build. He compares this with other countries where land-use planning systems are more flexible and responsive and where price/income ratios are much lower. He argues, in particular, that the relatively low US price/income ratio arises not so much from the fact that the USA is relatively land rich but from the fact that the construction industry is able to be sensitive to changes in demand and price. Such analysis clearly points to the desirability of reducing constraints on supply - especially as the other variables, the price and income elasticities of demand are individually based and thus not readily under the control of government in market-based societies.

2.2 Market and administrative failure

These basic attributes clearly suggest that markets for housing will be imperfect. Moreover, because housing is a necessary good which takes up a significant proportion of most household incomes there is further pressure for government intervention for distributional reasons. As a result even in economies that are strongly market based, there is widespread government intervention in the provision, allocation and pricing of housing. This intervention takes four main forms:

attempts to improve the legislative and administrative framework in order to ensure that consumers and producers are adequately informed and in a position to contract effectively;

regulation of markets and standard specification, again to provide information, clarify and enforce even handed contracts, to reduce the adverse effects of negative externalities and to generate positive ones, and to define minimum quantities and quality of housing acceptable to society;

the provision of subsidies, or taxation, both to ensure these prices better reflect the true cost of resources and to achieve the distributive aim of making adequate housing available to all; and

the substitution of direct provision and allocation of housing for the market to ensure greater efficiency and a more even distribution of housing resources.

Clearly these reflect positive reasons for government intervention: to ensure productive efficiency (that housing is produced at the least possible cost, taking account of the value of these resources elsewhere in the economy, of their value now as compared to the future and the most effective distribution of risk); to obtain allocative efficiency (so that resources cannot be reallocated to increase overall welfare); and to generate a socially desirable distribution of income taking account of the fact that in most societies housing is seen as a merit good - i.e., one which society wishes to ensure is available up to at least some minimum standard to all households whether or not they can or wish to pay for it.

On the other hand administrative intervention, and at the limit the substitution of administrative for market provision and allocation, generates its own failures. Government objectives are not clearly specified and separable one from another. Incentive and constraint mechanisms are often deficient, as compared to the market, particularly with respect to generating least cost methods of production and allocation. Consumer choice is often curtailed and administrative rigidities introduced which make it difficult to respond to changing demand. Moreover, macroeconomic constraints often limit governments' capacities to provide adequate resources to meet their own aims resulting in queues, costly attempts to overcome

constraints and inefficient levels of investment. Windfall gains and losses as a result of regulation, taxation and subsidy often exacerbate inequalities in the distribution of income.

Traditionally the emphasis with respect to housing has been on the inadequacies of the market on both efficiency and distributional grounds. Over the last few years far greater emphasis has been placed on the efficiency losses arising from administrative failures and therefore the potential for providing more housing at a lower resource cost to a wider range of households. In so doing, however, it is important not to lose sight of the positive reasons for intervention.

3. REMOVING ADMINISTRATIVE BARRIERS

While the major international agencies, notably the United Nations Centre for Human Settlements (Habitat), the World Bank and OECD, have all stressed the need for a re-evaluation of the forms of government intervention in housing, the majority of initiatives relating to removing and simplifying administrative and legislative constraints in industrialised countries have come from North America.

In the USA an important initiative has involved the creation of an Advisory Commission on Regulatory Barriers to Affordable Housing set up in 1989. The starting point was that an increasingly expensive and time consuming permit-approval process, exclusionary zone and well-intentioned laws aimed at protecting the environment were driving up the cost of housing. The Commission was therefore asked to explore the maze of Federal, State and local laws, regulations, ordinances, codes and innumerable other measures that act as barriers to the development of affordable housing. The Commission reported in 1991 and found that the negative effects of these constraints were driving up costs by as much as 20-25 percent in some communities (Advisory Commission on Regulatory Barriers to Affordable Housing, 1991). This figure measured the direct cost of constraints and regulation. It did not suggest that alternative approaches would necessarily be able to reduce costs by the full amount. Nor did it discuss the extent to which such savings might be lost in higher windfall gains to owners of land and other resources in scarce supply.

The Commission made some thirty one recommendations towards a comprehensive programme directed at reducing regulatory impediments. These include, in particular, conditioning federal assistance on the existence of state and local strategies to remove barriers, cost-sharing arrangements for setting such strategies in place, amendment to acts (especially environmental acts) to reduce the costs imposed on housing, and the development of model codes. Thus the main aims are to clarify objectives and to resolve conflicts between these objectives, to simplify codes and the operation of regulatory agencies, to standardise these codes across suitable areas, to reduce the standards included in these codes where the net

benefits of such high standards are unclear and to give incentives to ensure that these changes are replicated at all levels of government.

The vast majority of the examples provided relate to describing the problem as it affects particular local areas, i.e., the complexity and costs of the regulatory framework and the problems arising from unreconciled and perhaps irreconcilable objectives, rather than to the effectiveness of initiatives in reducing these costs. It is thus basically a plea for deregulation rather than evidence of the success of such initiatives. Moreover, while a great deal of emphasis is placed on simplifying regulations and making processes more responsive, and rapid, the most obvious underlying tension is between those already living in an area and those who wish to build for in-comers, especially low-income households. There is therefore considerable tension between efficiency and distributional objectives.

This type of approach fits well with strongly market-orientated systems for the provision of housing, where the private sector has a great deal of freedom within a defined legislative framework. Even so a number of preconditions need to be satisfied if change is to be effected. First the initiative must come from central government and must apply to all relevant agencies and levels of government; second there must be an incentive system to generate positive local government and private sector response; third, there must be local commitment to building coalitions and ensuring that the local community is prepared to accept the outcomes. The underlying problems are clear: that objectives are various and often inconsistent; that the full costs and benefits of regulations and standards have rarely been evaluated and are not fully understood; and that it is far easier to add additional regulations than to reduce or rationalise them. This is well known in the developing world where the World Bank has been pressing for changes for a least a decade (Courtney in Dunkerley (ed), 1983). It is also an important part of strategies to revitalise Eastern Europe (World Bank, 1990).

A very different type of initiative to those being developed in North America is one which stresses the need for comprehensive planning, cooperation between agencies and a multi-sectoral approach to the development of well-operating neighbourhoods, including within them these planned changes adequate affordable housing provided both by the market and the social sector. Here the emphasis is on improving the quality of the administrative approach, often bringing the private sector in as partners, rather than on replacing administrative by market mechanisms.

A good example of this type of approach can be found in France (OECD, 1992a). Here an Interministerial Committee for Cities (CIV) was set up in 1989 to develop a comprehensive urban policy, emphasising all aspects of the community rather than concentrating solely on affordable housing. An important element involves setting in place mechanisms for bringing together agencies and policies and so define common goals, to mediate trade-offs between these goals, and to develop coordinated urban policies responsive to the local community. Even here there is

greater emphasis on the use of markets than in the past, particularly on developing more sophisticated contractual arrangements which generate incentives for behaviour consistent with government objectives. However the overall approach remains one of inter-agency interaction rather than defining a framework within which these agencies and the market can operate more effectively.

The most important differences between the market and administrative styles of intervention are (i) the emphasis on introducing a simplified regulatory framework on the one hand and helping all the agencies to work together to evolve a programme on the other; (ii) the emphasis on incentives in the market-orientated approach as opposed to common goals and cooperation in the more administrative approach and (iii) the emphasis on a single goal, that of affordable housing, in the market-based systems as opposed to more general community based urban policy objectives in the more administratively oriented programmes. What, unhappily, can be said about both is that, while the objectives are good, there is, as yet, little empirical evidence of significant costs savings.

4. REMOVING CONSTRAINTS ON LAND AVAILABILITY

There is, of course, an enormous range of both positive and negative mechanisms for organising land supply, attempting to ensure that land is available at the least possible cost yet still maintaining an efficient urban structure and that there is a sufficient allocation for affordable housing. Many of these policies have been reviewed in detail in the OECD project on urban land markets (OECD, 1990). Here we are interested only in discussing the main trends in the types of initiatives that are being introduced to help generate more land for affordable housing at the least possible cost. These include changes in the overall legislative framework to generate more developable land; modifying and simplifying the land use planning system to bring land forward more easily; the positive use of the planning system to provide incentives for, or sometimes even to force the inclusion of, affordable housing; the direct sale or allocation of land to housing and the use of funds arising from development gains to assist provision.

Spain provides a good example of a country where new land laws have been introduced to clarify private and social property rights and to control speculation arising from rapid economic growth and increases in land prices. The Land Valuation Act was passed in 1990 and includes specific powers to provide publicly owned land for affordable housing schemes at below market prices. The Building Land Act includes more general powers to review town plans and to reallocate land towards officially protected housing. Such policies have two elements: a more efficient land use planning system and a positive bias towards housing provision which can in principle reduce the price of that land. They also include the provision of targeted assistance, here in the form of implicit subsidies through constraints on land-use. In the Spanish context most of the emphasis is on helping lower income

households to achieve owner-occupation. In many other countries such implicit subsidies are linked to providing cheap land for social rented housing programmes (OECD, 1990).

While change of use from housing to other uses may be undesirable from the point of view of the provision of cheaper accommodation, the value of ensuring that change of use to housing can be effectively achieved is now being recognised. In particular it is argued that land use planning systems are often over-rigid with respect to change of use of existing buildings. The potential for achieving affordable housing from existing structures - originally used for commerce and warehousing in particular can be considerable. However, many land use planning systems restrict such use changes. Attempts are now being made to develop more flexible systems which will encourage transfers to higher value and socially desirable uses (Cross and Whitehead 1991; OECD The Multi-sectoral Approach, 1992a; Advisory Commission on Regulatory Barriers to Affordable Housing, 1991).

Policymakers in many countries are recognising the need to update and improve their land use planning systems and to link housing and spatial policies (Cummings and Pasquale, 1994). In Australia the Residential Land Report in 1990 stressed the need to improve the efficiency and flexibility of the land supply process. Policy documents emphasise the need to match the supply of land being made available to the projected demands and needs and to ensure the timely zoning of land (Indicative Planning Council for the Housing Industry, 1990). British planning legislation includes in it a requirement to ensure that (outside London) a five year supply of land for housing in relation to projected requirements is always available and that joint land availability studies should be conducted by local government and the housebuilding industry (Department of Environment, 1984). Such policies are attempts by national governments with relatively strong land use planning frameworks to ensure that certain housing and social priorities are met even where there may be local objections to so doing.

Over the last decade there has been emerging pressure to try to ensure not just that adequate quantities of land are made available in total and area by area, but also that at least a reasonable proportion of that land is used to provide affordable housing. Historically this has often been difficult within a land use planning system, because development plans and zoning regulations are in terms of dwelling types and densities rather than occupancy. A number of countries have developed new strategies to ensure that a suitable proportion of permitted development is affordable to lower income households.

In the United States, in particular, exclusionary zoning has been a major barrier to such provision. In this context national policy is directed towards getting state and local governments to make adequate provision for the full range of dwelling categories and to ensure that the resultant totals are in line with agreed targets (Advisory Commission on Regulatory Barriers to Affordable Housing, 1991).

Some states have specified that a given proportion of every multi-unit housing project must be affordable to those in clearly defined income groups, using income distribution deciles and generally recognised affordability criteria. This does not ensure that the actual occupants come from these groups, but relies on consumer preferences and affordability criteria which correspond to market behaviour to achieve these ends (Grigsby in MacLennan and Williams, 1990a). Even so, unless additional incentives are provided, or developers are enabled to use land which would otherwise not be made available, the outcome of such policies can simply be less housing investment overall. In other words, the market will only provide if the resultant project is profitable, taking account of these additional constraints.

In Britain there has been a continuing debate about whether it is a legitimate part of development planning to specify that land be used for affordable housing in this way (SERPLAN, 1990). Again the question is how to ensure that those who actually occupy the dwellings are in the relevant needy groups, given that occupancy requirements can only be enforced by ownership or edict - and edict is usually unacceptable in market economies. Here the government has now introduced a mechanism by which local authorities in rural areas may make additional land available to meet well-documented local needs where they can ensure, through ownership or covenant, that the resultant dwellings will remain affordable into the future (Department of Environment, 1991; Royal Institution of Chartered Surveyors, 1992; Joseph Rowntree Foundation, 1994). Such additional allocations may involve implicit cross-subsidy from the rest of the development but are generally made viable by the fact that land values even for affordable housing are higher than for agricultural use and that the initiative involves additional land being designated for housing. In other words some part of the planning gain goes to achieve the provision of affordable housing. But the process also makes financing more difficult as private lending institutions regard such developments as higher risk.

What is also clear from British studies is the high cost of land use planning and other constraints on land supply in terms of the price of housing land and the proportion of housing costs attributable to that land (Department of Environment, 1992; Monk, Pearce and Whitehead, 1992). Such studies tend to show that there are other constraints in addition to the land use planning system, notably with respect to negotiation costs and timing. Yet these constraints also address other market failures and therefore generate efficiency benefits as well as costs.

More direct mechanisms for increasing the supply of land for affordable housing generally involve transferring government or agency owned land at below market prices. This has certainly been a policy in Canada where the federal government has released surplus land for housing development (Canada Mortgage and Housing Corporation, 1990). In Britain the government has set up a land register of publicly owned land and provided incentives for local authorities and nationalised industries to sell off surplus land, often to housing associations which provide rented and shared ownership housing for lower income households (Royal

Institution of Chartered Surveyors, 1992). In Australia the federal government is selling off surplus land, often to state governments, to help increase the supply of land for affordable housing (Indicative Planning Council for the Housing Industry, 1991). Similar policies can be found in many other countries.

Sometimes these policies are part of the general planning process, as in the Netherlands where the mechanism for transferring land into development involves purchase by the public sector of unserviced land, servicing and then sale to the private sector with clearly defined planning permissions, and the capacity to cream off much of the planning gain (Conijn, 1991). In these cases there are very clear policies to assist the provision of affordable housing.

Often these transfers of land to housing have been part of more general privatisation policies. Even so there has been a consistent strand of attempting to achieve housing goals by either constraining the range of possible land uses (and so reducing the land price), selling below the market price for socially desirable uses, notably housing, or using part of the planning gain to generate investment - policies, which, except for the last, could be argued to go against the ethos of privatisation and generating the highest valued uses.

The majority of policies to increase land supply and reduce prices thus involve modifying land use planning systems in such a way as to favour housing (as compared to the existing framework). Second, because planning controls necessarily generate planning gains for those able to obtain permission to build, the potential exists to direct some of this gain towards either cheaper housing land or greater housing investment. A major problem remains of how to ensure, in a market system, that the outcome is affordable and that the dwellings actually go to lower income households.

5. REMOVING CONSTRAINTS ON REDUCING COSTS OF PRODUCTION AND PROVISION

Most of the emphasis in the literature on removing constraints concentrates on those relating to land supply. This is in part because land costs are clearly the most variable element in housing production, in part because planning controls impose direct and obvious constraints on land use and in part because the rising value of land, particularly in urban areas, inherently generates rising real costs of housing production. Increasing the elasticity of supply of land is therefore fundamental to ensuring affordability (Renaud, 1990). Even so, in most circumstances other costs of production, raw materials, labour, finance etc, actually account for the majority of total costs. Reducing constraints so that the production process can be improved and the mix of factors modified to reduce the effects of rising land costs can

therefore, at least in principle, make a significant contribution to ensuring an adequate supply of affordable housing.

What of course remains the case is that such innovations will be valueless in terms of increasing provision if the benefits of more efficient production methods are lost in higher land prices. Increasing the elasticity of the supply of land is therefore a prerequisite in market based economies for ensuring that more efficient production methods result in lower unit costs for housing. This fundamental problem appears to have been well understood by the industry and has sometimes been used as a rationale for not developing least cost methods of production and provision (Royal Institution of Chartered Surveyors, 1992; Research Institute of Construction and Economy, Japan, 1990; Commonwealth of Australia, Background Paper 1, 1991).

5.1 Infrastructure

One important issue here is the removal of constraints on ensuring an adequate provision of infrastructure. This is because the relevant supply elasticity for land relates to that for serviced land made available for housing, not just to the amount of raw land in the system. So the elasticity is not simply a function of the responsiveness of owners and the land use planning system but also of the ease with which land is serviced, the cost of that servicing and the time lag involved in bringing raw land into use. The Australian National Housing Strategy placed considerable emphasis on the importance of ensuring suitable infrastructure provision (Commonwealth of Australia, Background Paper 4, 1991). This paper stressed the importance of an efficient pricing policy for the provision of urban infrastructure, not only for obvious allocative efficiency reasons - in terms of the costs of production, excess infrastructure, unsuitable built form - but also because, unless such services are correctly priced, the outcome will be higher land prices and windfall gains to the owners of serviced land. Suitable pricing policies also help guarantee the finance necessary for maintaining an adequate investment programme.

The importance of serviced land and suitable administrative and financial mechanisms for achieving adequate provision in relation to demand is particularly stressed in the literature relating to rapidly developing countries (Dunkerley, 1983). Lack of infrastructure is one of the most important reasons for the development of squatter settlements in urban areas and often generates inefficient urban structures and land uses (Baharoglu, 1991). The problem is particularly important in rapidly growing urban areas and in countries where there has been large scale immigration or intra-national mobility. However, the basic question of ensuring least cost provision of infrastructure services and efficiently structured urban development applies to all countries. The most usual approach is to link provision with planning permission. The most usual barrier to effective provision within a market framework is traditional pricing methods unrelated to the marginal cost of provision,

resulting in under-investment overall and windfall gains to those receiving the benefits of infrastructure at below the cost of production. These windfall gains can in certain circumstances be taxed in such a way as to provide finance for affordable housing as in the case of planning gain (Shoup in Dunkerley, 1983; Commonwealth of Australia, Background Paper 4, 1991)

5.2 Building costs

The extent to which the regulatory framework, notably as it applies to density constraints and inflexible building codes, generate higher costs of production is stressed in many policy documents. The study on removing barriers to affordable housing in the USA puts particular emphasis on the cost of environmental protection regulation and the extent to which the indirect costs that these impose on housing have not been taken into account when passing such legislations (Advisory Commission on Regulatory Barriers to Affordable Housing, 1991). The report also stresses the heavy transactions costs in obtaining building permits and the large fees that are sometimes charged by local government. It argues that in urban areas building codes are often not suitable for upgrading existing units as opposed to the development of new units. As a result many areas become more rundown because investment cannot be profitably undertaken. Moreover, where investment does occur the cost of improvement is far higher than necessary to achieve acceptable standards. One approach to this problem which has been developed over the last decade is to specify performance rather than input standards.

The question of whether codes are suitably flexible in relation to different types of investment is also raised at the other end of the scale where what is involved is squatter upgrading rather than urban rehabilitation. Here the original building has been undertaken outside the regulatory framework and the objective is to bring units up to legal standards without making the resultant dwellings unaffordable to lower income households. It is of particular importance in Turkey, (Baharoglu, 1991). However it is also relevant in countries, such as Japan, where rapid growth has led to rapidly rising standards which are not readily applicable to existing units.

It is clear that there are many opportunities for simplifying codes and reducing constraints on least cost production while continuing to maintain standards. In addition in some countries there is also discussion about whether it is possible to reduce standards in order to enable more households to be accommodated at a lower cost, and in particular to spread government subsidy more widely. In the main this question is not addressed directly but in relation to the appropriateness of existing standards in general (Advisory Commission on Regulatory Barriers to Affordable Housing, 1991; Affordability and Choice Today, 1989), or with respect to particular groups of households.

5.3 Production costs and processes

A number of countries have policies aimed specifically at improving the efficiency of the construction industry, including greater standardisation, better information systems and the use of modern technology. In Japan there is very considerable emphasis on promoting and facilitating research and development, particularly with respect to the interface between conventional methods and new techniques. Studies suggest that information-orientated technology constitute a new social infrastructure which will help cut costs and achieve higher quality housing and communities (Research Institution of Construction and Economy, 1990). The Australian National Housing Strategy also stresses the need to break down barriers to the spread of innovative housing developments, both through information and training and through the modification of inappropriate of institutional and regulatory arrangements (Commonwealth of Australia, Issue Paper 4, 1991). They also argue that instability in the housing market is an important source of higher costs, one which is noted by many other commentators in other market-based economies.

The Australian government has undertaken a detailed survey into housing costs which shows very considerable variations between construction costs per unit in relation to location, dwelling type and density of production (Commonwealth of Australia, Issue Paper 4, 1991, page 36). The detail of such analysis will generally be applicable only to the country in question but the key components are likely to be similar across countries. The study suggests that modifying the regulatory environment to ensure that suitable densities and built forms are permissible, where there are no obvious reasons to the contrary, could be an important source of cost reduction. Detailed studies of this type are necessary in each country to conform policy with respect to the industry and to building codes.

Specific innovations with respect to construction often relate to the methods of organising the production process as much as to technology or even building codes. Two important approaches in this context are self-build and public/private partnership of different forms. Self-help building and renovation has a long history. The main attributes are that those involved have a strong commitment to achieving their goals and often clear ideas of exactly the types of dwelling they require. Self-build is also a way of reducing financial costs by using the labour, skills and money of those involved. Over the last decade there have been many examples of self-build applied to renovations and redevelopment in inner urban areas in Europe (Harloe and Martens, 1990). Many of these involve young, often unemployed, people providing their own homes with the help of local government and national and local subsidies. The evidence put forward by Harloe and Martens suggests however that few projects secure more than 25 percent of direct costs and that for infill building the proportion is very much less. Considerable professional support and advice is required and virtually all such projects have serious difficulties in coping with the regulatory system which rarely takes account of the potential for

such approaches. This, in turn, generates problems in obtaining borrowed finance which can often only be alleviated with government guarantees or subsidies.

In France the Foyer Experiment brings together the provision for housing for young people with the provision of jobs, some of which may involve self-build or rehabilitation and other investment in the construction industry (Union National des Foyers et Services pour Jeunes Travailleurs, 1991). In the UK there has been a certain amount of policy emphasis on homesteading - where units in poor condition are sold to individuals for upgrading in the expectation that this will help generate additional investment in the immediate area (Booth and Crook, 1986). There is also a small but significant self-build movement in the UK providing perhaps 10,000 units per annum. Again projects are often linked to youth employment. There have also been some attempts to develop simple, streamlined methods of production suitable for self-built housing.

The movement is more prevalent in the United States where it is often called 'sweat equity' because it involves one's own labour rather than purchased skills. Many such schemes have an element of government involvement, often to help to make necessary finance available during the building or rehabilitation process. They also often involve community based agencies. However the resultant developments are normally owned by the participants in the form of cooperatives (Thomas, 1990).

An important question with all these types of scheme is the lack of replicability. The costs of demonstration schemes are necessarily high. What is disappointing is the apparent difficulty in diffusing the lessons learned from these demonstration projects in such a way that regulatory frameworks can be modified and funds made available so enabling significant investment to occur.

A wide range of public/private partnerships both for new construction and for rehabilitation have developed over the last decades in many countries. In the United States Community Development Corporations (CDCs) were pioneered in the 1960s. They are now a vital part of neighbourhood improvement programmes. They usually involve federal funds (the CDC block grant) and are a major source of low-income housing. However, they are often small and lack expertise especially with respect to finance. This has led to the development of housing partnerships to create more coordinated and permanent vehicles for private investment in low-income housing (US Department of Housing and Urban Development, 1990, 1990a, 1991, 1991a). Detailed examples of their operation can be found in Thomas (1990).

In the UK there have been a wide range of public/private initiatives often aimed at substituting such partnerships for wholly government provision. Estates Action involves large scale investment in run down estates in order to diversify tenure and expand local income generating potential (Department of Environment, 1991b). Other low-cost home ownership initiatives, such as homesteading, improvement for sale, build for sale, etc. are mainly ways of overcoming finance

market constraints. More generally local authorities are expected to play an enabling role in housing provision in partnership with housing associations and the private sector (Department of Environment, 1991a). In the main, however, these type of arrangements are aimed at transferring land at below market price and generating additional involvement rather than directly at reducing construction costs.

Overall, while there are significant opportunities for standardisation, improving technology and diffusing the results of innovation these are unlikely to significantly reduce costs unless regulatory frameworks are sufficiently responsive to change and particularly unless adequate serviced land is made available. Many initiatives are constrained by difficulties in obtaining adequate finance through the market because of the perceived risks involved. As a result most initiatives involve government guarantees or subsidies. Different methods of organisation can generate lower costs in a particular circumstances. Self-build and particularly self-rehabilitation are important ways of involving consumers, but more formal partnerships between organisations with different skills and capacities to subsidise low-income in a range of ways are likely to generate far greater levels of investment.

6. REMOVING BARRIERS TO THE PROVISION OF ADEQUATE FINANCE

There is a clear dichotomy in the literature between those who see the most important constraints on the provision of adequate housing as basically a supply side issue to be alleviated by making more land available and reducing construction costs and those who concentrate on demand side variables, notably the price and availability of finance for ownership. Yet finance actually crosses this divide affecting both the costs of production and the costs of ownership and occupancy (Buckley, 1994). The lack of suitable finance is often a major constraint on innovation in terms of development as has been made clear in the section above. Here the most obvious barriers to private finance are the inability of the private market to effectively assess risk and adjust to new methods of production and ownership. The main ways in which this problem is dealt with is by the provision of guarantees by local and central government or more often the provision of direct government finance - with the accompanying problems that such finance is limited.

Regulatory and other controls on financial markets have had a more fundamental effect on the provision of demand finance because ownership requires much longer-term financing than development. The efficient provision of that finance can reduce barriers to affordability very considerably, not just through overall availability and price but also through the time structure of payments.

During the 1980s there has been an explosion of interest in the potential for developing private finance markets for housing and in increasing the efficiency of these markets. This arises from the general policy emphasis on privatisation and deregulation but it has also affected housing particularly strongly due to the tradition

of special circuits of housing finance within most of the developed world (Lomax, 1991; Diamond and Lea, 1992). These policies have led to rapid internationalisation of finance markets in general and the integration of housing finance into these international markets.

In some countries the emphasis has been mainly on developing housing finance markets where they have been highly constrained in the past. Two important examples here are Greece and Spain. In Greece liberalisation began in 1984 when detailed quantitative controls over credit flows were abolished and commercial banks were permitted for the first time to supply housing loans at freely negotiated interest rates. At the same time mortgage banks were forced to raise funds by orthodox means rather than through subsidised housing credit programmes. The outcome was far higher interest rates, of 21-22 percent (about 5% real), which excluded many households from entering into owner-occupation. To some extent this effect was offset by special interest rate subsidies directed at low and middle income earners and those who put money into long-term bonds (Emmanuel in MacLennan and Williams 1990b).

The approach in Spain has in some ways been rather similar. Before 1980 the housing finance system was heavily controlled by the state. During the 1980s there has been radical deregulation of the financial system brought about initially through the Mortgage Market Regulation Act 1981. This increased allowable loan to value ratios to 80 percent, extended the potential loan term to 20 years, allowed variable rate mortgages and free competition among financial institutions. Thereafter there have been further changes to make it possible for banks to issue mortgage bonds, mortgage backed securities and other more liquid instruments that make housing a more attractive investment to the market. These measures have made funds far more readily available, but they have also raised issues of affordability for those on low and middle incomes.

Special circuits of housing finance were put under enormous strain in most industrialised countries as a result of the combination of high inflation, interest rate volatility, growing affluence and positive policies aimed at the liberalisation of the international banking system. As a result the supply of funds for housing became generally more elastic, but at prices which reflected the opportunity cost of that finance rather than the outcome of government controls. There have been a number of studies of the extent of constraints on housing finance provision and on the effect of liberalisation policies, notably that funded by Fannie Mae (Fannie Mae, 1991; Diamond and Lea, 1992 and 1992a) and work done by the Bank of England (Lomax 1991; OECD 1991). Lomax lists a wide range of restrictions placed on the sources of funds for mortgages (for example only 8 percent of commercial banks deposits in Italy may be used for longer term lending; in Germany Bausparkassen may only use retail funds; in France 60 percent of long-term funding must be matched by similar term liabilities) and on mortgage lending (most of which are concerned with the nature of security offered and matching borrowing and lending funds). He

suggests that in Anglo-Saxon countries regulatory segmentation of retail banking systems has been largely eliminated but that the process of liberalisation has been less rapid in continental Europe. The role of special institution remains dominant in Germany and Italy for instance, although their share of lending has certainly declined. In Japan banks have not historically participated in the mortgage markets as a result of broad administrative guidance rather than specific regulation (Cargill and Royama, 1988). On the other hand the Government Housing Loan Corporation continues to provide funds to home owners and landlords in order to make housing more affordable. These loans are long term and at low interest because funds come mainly from central government sources and from pension funds while the interest rate is subsidised (OECD, 1991).

The Fannie Mae sponsored comparative evaluation of developed mortgage markets (Diamond and Lea 1992, 1992a) suggests that the process of transformation is by no means complete, especially in continental Europe. However, it also suggests that the total quantity of housing finance made available has significantly increased and that the market has become more efficient at risk assessment and pricing. They also suggest that there have been certain macroeconomic costs in terms of volatility in house prices and equity withdrawal. What is also clear is that while margins may be lower, real interest rates have increased significantly over the decade in many countries, especially in Europe, and this has worsened the affordability crisis. Deregulation to a significant extent may have reduced constraints on those already reasonably housed while worsening the problems for marginal households. This point has been stressed in the United States where access for younger households has declined significantly, even though there has been a considerable increase in the efficiency of the mortgage market (Wachter, 1990). In Australia it is suggested that while wholesale margins have fallen, those for retail funds have actually increased, suggesting that the corporate sector has benefited at the expense of house-owners (Milbourne and Cumberworth, 1990).

This raises the important issue of whether there are suitable instruments for reducing the costs of funds for particular groups of households or owners. The most obvious approach is that of government guarantee as this removes the risk associated with lending to lower income households or other landlords. The US has provided such guarantees since the 1930s and continues to rely heavily on federally sponsored agencies to provide funds and to operate in the secondary market. The same is true in Canada where the NHA mortgage insurance programme has been revitalised since 1986 and where the securitisation programme depends on government guarantee (Canadian Mortgage and Housing Cooperation, 1990, 1991). In Australia most of the initiatives to raise money through a secondary market have been state based. Guarantees have been mainly implicit or provided through the private insurance market. There is considerable pressure to introduce a Commonwealth guarantee through a national housing corporation or some other form of underwriting. This it is argued would increase efficiency and reduce the cost of finance (Commonwealth of Australia, Issue Paper 3, 1991). In other

countries, such as Denmark and France many of the major mortgage banks remain in government ownership so that guarantees as such are not required (Diamond and Lea, 1992). Only in the UK has the government set its face against such guarantees particularly with respect to the provision of private finance for social housing. Instead large scale subsidies are provided to Housing Associations to ensure that rents are affordable (Pryke and Whitehead, 1991).

A particularly important development, which has almost always involved government guarantees, has been the provision of deferred interest and index linked loans. These reduce outgoings in the early years at the cost of higher outgoing in money terms later on in the mortgage. Such a funding instrument clearly matches real expenditure and income more closely in an inflationary environment and can enable lower income households to afford to buy. On the other hand risks, especially those associated with employment and sudden changes in income are increased because real payments remain higher for longer (Commonwealth of Australia, Issue Paper 3, 1991). In Finland where mortgage market deregulation occurred rapidly, from a heavily regulated position in the mid 1980s to almost complete deregulation currently, a new system of state supported housing loans has been introduced. These are based on providing index linked mortgages to lower income households whenever inflation is over 3.75 percent. As a result the government has been able to abolish mortgage tax relief but has improved the housing allowance system to help those on modest incomes (Kosonen in Turner and Whitehead, 1993; OECD, 1991a).

In a number of countries private institutions have introduced small quantities of deferred payment and index linked mortgage funds (Commonwealth of Australia, Issue Paper 3, 1991). However, the majority of such funding has been raised through government agencies either for owner-occupation or, often, to help fund social housing. The idea of geared finance at a real interest rate of about 4 percent has been put forward in Australia (Flood, 1991). It has been used to fund the cooperative housing programme in Canada (Canadian Mortgage and Housing Corporation, 1990). It has also been a major element in funding transfers from local authorities to housing associations in Britain (Pryke and Whitehead, 1991). Most commentators see this as an important way forward, by which given quantities of government subsidy can be spread over longer programmes of investment. However there is little evidence that this can be successful in significantly reducing costs without suitable guarantees.

Deregulation of housing finance has clearly generated enormous changes in the way that housing is funded in many countries. It has also generated the capacity to analyse the necessary conditions for a sustainable housing finance system (Diamond and Lea, 1995). Reducing these barriers, which can only be done at a national or international level, has made more funds available and increased market efficiency. On the other hand, removing special circuits of housing finance has increased costs to those who would have benefitted in the past - not all of whom were on low

incomes. The result has undoubtedly been more credit to more people. However especially as reliance on the private market, directly or indirectly has reached further down the income scale, increases in real interest rates as well as continuing inflation have generated significant affordability problems.

7. REMOVING GOVERNMENTAL BARRIERS

The most important direct regulatory constraint in many countries has been rent control on privately provided accommodation. Rent controls together with varying levels of security of tenure were enacted in many developed countries, often initially during 1914-1918 but continued to varying degrees throughout the century. Such legislation obviously aims to ensure that accommodation is available at reasonable rents to tenants of all types and lower income households in particular. However, in most countries rents have been held down well below market clearing levels and this has generated many adverse effects including: disincentives to new landlords to enter the market; disincentives to existing landlords to maintain the quality of the stock provided; incentives to landlords to gain vacant position and often not to relet vacant units; and incentives to both landlords and tenants to avoid and evade the law. The outcome has often been that the accommodation provided is of poor quality and inadequately managed; that the supply of privately rented accommodation for lower income households has been increasingly restricted; and there have been high costs of directly monitoring and enforcing the law and as well as from avoidance and evasion. Most of the literature therefore suggests that such controls, as generally operated, are inefficient and also that they rarely have desirable distributional consequences (Gyourko in Maclennan and Williams 1990c; Arnott 1988; OECD. 1986).

In this context the UN has stated: "The production of new rental housing units is often hampered by the unintended results of social legislation designed to help the weak groups of society, e.g., rent controls over the urban housing stock which, particularly in times of high inflation, often crystallize with time into unfair privileges for consolidated tenants and the exclusion of deserving households. A review of rent control legislation, in line with the general principles of the strategy on subsidy policy - compassion, equity and efficiency - will have to be undertaken in all such countries" (UN, Centre for Human Settlements, 1990). Rent controls are thus seen as a major impediment to the provision of affordable housing.

While controls are easy to impose they are difficult to remove especially as the initial objective was usually seen to be to help poorer households. In Britain rent controls have been replaced by market rent determination for all new tenancies, together with varying, mainly contractually determined, levels of security. There has undoubtedly been a growth in the number of new lettings since the legislation was implemented in 1989. However it is not clear how long-term many of these lettings will prove to be. Nor is it clear that rents are affordable to lower income

households unless they are eligible for housing benefit (Best et al., 1989). Other countries have had rather more flexible approaches to decontrol which have allowed rents to adjust more slowly to changing circumstances. In Germany there has been a system of 'mirror' rents by which rents adjust with a lag to market conditions. In East Germany the system of strong rent controls which had been enforced under the communist regime has now been abolished and will be phased out. However, at the same time the western system of housing allowances for low-income households is being put in place (Tomann, 1991). The same approach is being employed in Hungary as part of the transition process (World Bank, 1990). Similar approaches - i.e., adjusting rents upwards, if not fully to market rents, and at the same time ensuring that allowances are available for those on low incomes are being applied in many developed countries. Indeed such an approach was suggested in the OECD paper on Urban Housing Finance (OECD, 1988). Housing allowances are in place in many developed countries. Without such allowances it is extremely difficult to generate the political will for decontrol.

The obvious alternative to controlling rents and providing security of tenure has been direct provision and allocation by the public, or through the wider social sector. Clearly direct provision and allocation give government the power to house whom they wish to at the price that they wish. It may also generate inefficiencies in management and the wider allocation of resources (Whitehead, 1991, 1993). In the main, the emphasis has been on reducing the regulatory constraints through privatisation of management of the housing stock and of finance to generate a wider range of social housing. These by definition involve government subsidy and are usually targeted at particular needy groups. Their capacity to provide an adequate supply of affordable housing ultimately depends upon public funds. Moreover, because they are not directly controlled by government, the extent of which they meet the government's objectives depends crucially on the incentive and regulatory mechanisms that are put in place.

One obvious implication of this discussion is that while reducing barriers to efficient supply and finance may help to reduce the costs of housing overall, making that housing affordable to those on low incomes still depends on reducing the price to that group, through rent controls, on direct provision or subsidy to (mainly social) suppliers or on increasing the capacity to pay among these groups. The final initiative towards reducing barriers is therefore that of increasing the housing specific income of the lower paid.

In the main this has been done by moving away from general subsidies to housing towards housing allowances of one form or another. In principle, this will allow wider consumer choice, as those in receipt of benefit can buy what they want, and can now afford, on the market from a wide range of competing sellers, who can respond to this extra demand by increasing investment. The housing allowance experiment carried out in the USA in the 1970s suggested that supply at the lower end of the market was very elastic so that such an increase in demand did generate

additional supply rather than higher prices (Lowrie, 1983, Struyk and Bendick, 1981). Later work in the 1980s, however, suggests that the outcome depended heavily on the fact that the rental market was depressed at the time of the experiment, and that demand subsidies may not always be the best solution because of its adverse effect on price. The best policy must depend on the suitability of the targeting of subsidy, the extent of the supply elasticity and any externality effects (Apgar, 1990). Once again the lesson would appear to be that each initiative must be evaluated within its own context.

Many other countries have been shifting their subsidy policies away from supply towards demand subsidies in this way, in part as an element in greater targeting but often also as a way of reducing government involvement in housing. (Hills et al., 1990, Commonwealth of Australia, 1991). Whether or not this actually increases affordability at the bottom of the market clearly depends on the extent of that targeting and the extent of overall cutbacks in funding. In Britain for instance, while the housing allowance system protects those at the bottom of the income scale very effectively, there are large and growing problems of affordability for those with incomes just above benefit levels (Chaplin et al., 1994; National Federation of Housing Associations, 1992). In this context it is not surprising that the emphasis in many countries still remains on social provision, even if that now comes from a much wider range of landlords, including those in the private sector who are subsidised to provide for particular needy groups.

9. CONCLUSIONS

The growing emphasis on removing and simplifying regulatory barriers to the provision of adequate housing has come both from the market oriented economies, particularly those of North America and from the more administratively organised economies, where deregulation has been accompanied by privatisation.

Because of the nature of the resources involved, notably finance and land, pressures for deregulation must occur at all levels of government if they are to be successful. National initiatives together with international agreement and implementation have been necessary to increase the efficiency of world wide finance markets. This is a pre-requisite for the deregulation, and often indeed the dismantling, of special circuits of housing finance. As a result, housing is now able to compete in a much larger and more efficient international finance market. But the outcome of this is that housing must offer a competitive risk and return as compared to all other financial investments. The housing finance market has therefore had to develop more suitable instruments to raise funds efficiently and has been far more directly exposed to the pressures, and indeed the volatility of that market.

In such a context it is not surprising that many governments have chosen to continue some elements of a special circuit, in the form of guarantees and subsidies. However these have generally become far more targeted on affordable housing for lower income households. In principle, therefore this development can be regarded as part of a positive policy to direct resources to meeting governmental aims of reducing the cost of housing to needy groups - as compared to the earlier situation where much of the benefit of such special circuits went to those further up the income scale.

Modification of the regulatory framework by which housing is produced and allocated, notably the land use planning system and building codes, also depends on initiatives at the national level because the basis of these regulations form part of the national legislative framework. However, because housing is locationally specific, changes must be activated at the local level. This often entails reevaluation of the principal-agent relationship between central and local government and in particular the introduction of incentive mechanisms (as well as constraints) in order to encourage local authorities to more adequately achieve national goals.

This raises the very difficult issue of how to mediate between the wide range of different objectives which exist at the local level in relation, in particular, to land use. In particular, existing users of land often have a strong interest in potential changes to the use made of adjoining land both for efficiency and distributional reasons. Effective deregulation depends on mediating between these groups, often by providing incentives that bring their objectives more in line with those of the overall community. The two main approaches to this problem are on the one hand to try to simplify existing regulatory barriers, to remove inconsistencies and to evaluate overall costs and benefits - i.e., to build a more suitable regulatory framework - and then allow people to operate within that framework, or on the other to place more emphasis on comprehensive planning involving the full range of agencies at the local level and to mediate between different objectives through discussion and co-ordination. Clearly, in practice, any solution has an element of both, but one can argue that the first approach is generally exemplified in North America, while the second is seen as the more suitable way forward in much of continental Europe.

What is also true is that in both types of system many initiatives come from the bottom up, rather than being imposed from above. Community based coalitions, special interest groups, and in particular groups of potential consumers have all generated initiatives to provide affordable housing at the local level. However, if these are to be replicable, and therefore are to produce significant additions to the total quantity of affordable housing, they must be assisted by government both in terms of modifications to the regulatory and finance systems and, usually, in terms of direct subsidy.

Another major initiative in breaking down barriers lies in improving the flow of information about these initiatives in particular with respect to the relationship between technical improvements and suitable regulatory codes. In countries such as Japan, Australia and most developing countries, where the main emphasis remains on new building, the importance of generating lower cost methods of construction and ensuring that the regulatory mechanisms are modified to allow these systems to be introduced effectively is extremely obvious. In countries where much of the emphasis is on rehabilitation and renewal of existing stock, there is an equally clear need to modify the regulatory framework, and particularly building codes, to ensure that suitable standards can be achieved at the least possible cost and use methods appropriate to improvement and infill. All too often these codes have not been modified since before the need for rehabilitation was recognised.

All of these points suggest that what is required is a more positive regulatory framework where the rationale of each regulation, together with some idea of its costs and benefits, is clear and where the regulatory framework is flexible enough to respond to change. This is the ideal. The current emphasis on de-regulation recognises this ideal but on the whole has not yet generated significant change, at least with respect to the regulation of supply. All too often the outcome is a different form of regulation and sometimes even additional regulation rather than simplification and liberalisation. There are thus few initiatives to which one can point where the net benefits are significant, measurable and measured.

The two areas where liberalisation has been most obviously effective are within the finance market and with respect to rent controls. In both cases existing benefits where they existed have given rather untargeted assistance, often concentrated on those on higher incomes. Removal of these constraints does seem to have increased, on average, the efficiency of these markets, although even at this level there have been some offsetting, perhaps transitory, costs. What it has not done in the main is to increase provision or decrease costs, for the majority of those on lower incomes. This suggests very strongly that while removing barriers may be a necessary condition for efficient operation of the housing system it is not a sufficient condition. What is needed, in addition, is government subsidy, targeted at the relevant groups, so that their costs are actually reduced, and structured in such a way as not to generate inefficiencies in the market. What is also clear is that in many countries this will mean the continuation of a significant public, or at least, social sector and of significant programmes of assistance to supply - in other words special circuits of both housing and housing finance. However this subsidy must be clearly directed towards specific groups designated by government as in need of additional assistance in order to obtain adequate accommodation at affordable prices.

Even if this could be achieved, certain basic problems will remain. First, in a market system, any increases in demand from lower income households will generate increased prices unless the supply side is able to respond at reasonably constant cost, and to adjust rapidly to these changes in demand. The same is true

of reductions in the cost of construction. If there are constraints on land supply any such savings will simply disappear into increased land prices. Regulatory controls are by no means the only cause of price inelasticity of supply, but they clearly present a major constraint, both in terms of land and housing provision, in many countries. Reducing and simplifying these controls will therefore increase total investment and make the goal of affordable housing for all more readily achievable.

What underlies all of these points is that housing is necessarily an expensive good in terms of the value of the real resources it requires. However well-organised its provision, supply cannot be readily adjusted to changing demands. Given the unequal distribution of income, households at the lower end of the scale will always find it difficult to obtain affordable housing. Removing barriers can make provision more efficient and therefore lower the cost of supplying the housing stock at an acceptable standard. Without effective targeting of subsidy to needy groups this may not of itself help lower income households to afford adequate housing.

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