

Housing policy strategies – what is best practice?

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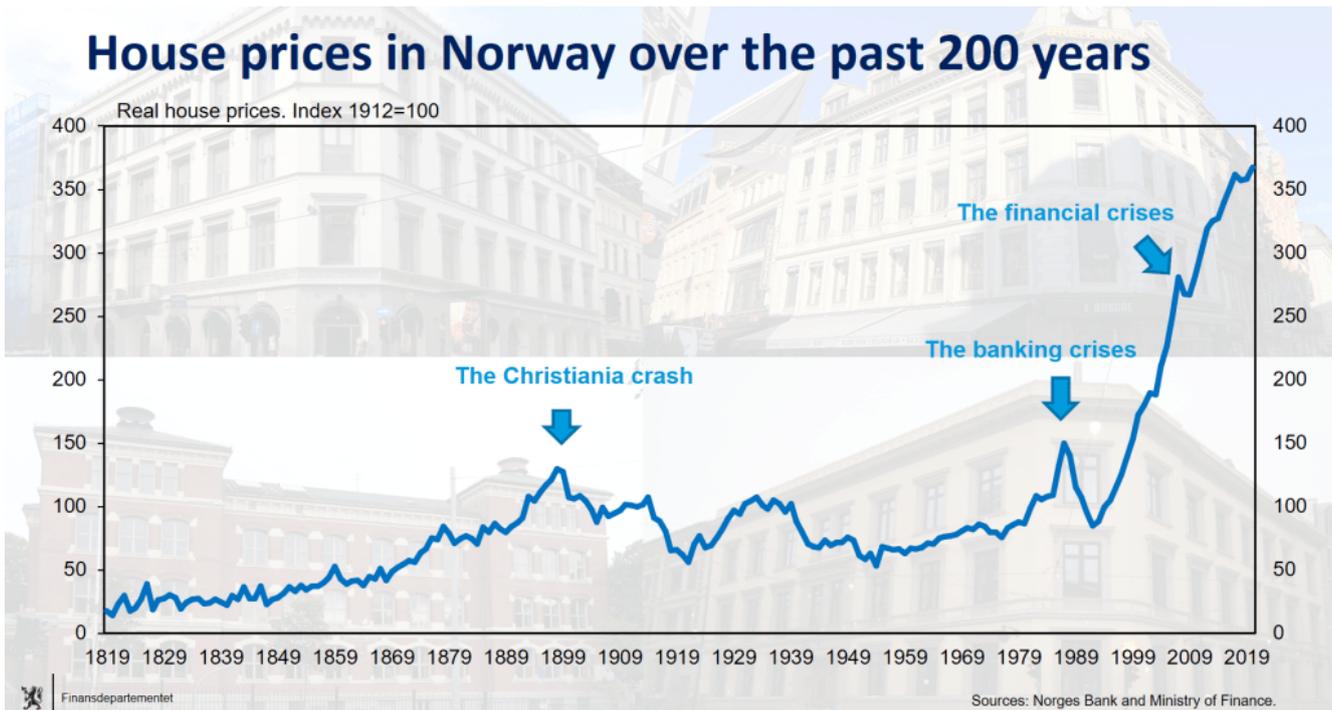


<https://www.oecd.org/housing/policy-toolkit/>

The first phase of the horizontal housing project has been completed, resulting in a new **OECD Toolkit for housing policy** that can guide national reform efforts. The toolkit complements the OECD housing policy strategy. The core importance of the housing market both for welfare and efficiency in our economies makes this toolkit highly relevant and timely.

First, debt-driven housing market bubbles are at **the root of many financial crises** and may imply harsh and very long-lasting downturns. Let me take my own country as an example. The financial crisis in Norway in the late 1800s, the so-called Christiania crash (that was the name of the capital at that time), left deep scars. Not only among ordinary people who saw their fortunes evaporate, but also in the city's physical landscape. Large parts of today's city centre in Oslo were built during the housing market frenzy of the 1890s. When the housing market collapsed in 1899, most building activity came to a standstill that lasted for two decades, leaving the architecture of the 1890s as one of the city's distinctive

characteristics. It took 90-years for house prices, in real terms, to recover most of their losses.



A new financial crisis was then approaching. The Norwegian banking crisis in the late 1980s is one of the worst financial crises in advanced economies in modern times according to Carmen Reinhart and Kenneth Rogoff. Real house prices declined by 40 percent and did not return to pre-crisis levels for more than 12 years. The impact of the crisis was harsh, as the number of unemployed tripled and the three largest banks in the country collapsed.

In recent years, house prices have surged once again, fuelled in part by low interest rates at home and abroad. However, we really have a close eye on this. Much is done

- **at the demand side** with macroprudential regulations to contribute to more sustainable household debt
- **at the supply side** to reduce building cost.

Certainly, a lesson both from our crises-experiences and similar crises in other countries is that the housing market is at the core of financial stability and far too important to be left at its own. Not only for financial stability, but also

for a range of other aspects of the welfare of the population.

To **own the house you live in**, is of great value to most people. Owning a house often gives a sense of safety and security. In Norway, 80 percent of households own the house they live in. A high level of home ownership is a typical pattern in most OECD countries, with an OECD average of about 68 percent. Housing is typically the largest asset in household balance sheets, as well as one of the largest spending items in household budgets. Housing market developments are therefore **of great influence for the distribution of income and wealth**. Housing is a fundamental driver of the accumulation and the distribution of wealth and debt within and across generations.

This has a strong link to **housing affordability**. House prices across the OECD countries have raised to levels that may undermine housing affordability, particularly for low-income households, first-time buyers and in fast-growing urban areas. Access to affordable housing is crucial for achieving a number of key policy objectives, including poverty and homelessness reduction, equality of opportunities and sustainable growth. What policy avenues to follow to achieve housing affordability are challenging. As an example: Tax subsidies to homeownership often favours insiders, as house prices are pushed upwards, making the step into the housing market for first-time buyers even more difficult.

Housing is also important for productivity and the growth potential of our economies. A main channel is via the **impact on the mobility of workers**. The degree of geographical mobility has strong implications for the functioning of the labour market as it affects the job-matching process and use of human resources. This is of crucial importance when labour market developments between regions show an asymmetric development. In this respect, high transaction taxes on houses or difficult access to reasonably priced housing in other regions can trap workers in unemployment or low-productivity

jobs, and workers can even end up falling out of the labour market. Such obstacles to worker mobility may have strong effects on economic efficiency.

Another aspect of housing development is how it may **affect environmental outcomes**, including thorough interactions with urban land-use patterns, residential energy consumption and transport systems. Here there has been a complete change in many countries over the last decades. One might say that car use strongly influenced urban planning in the former millennium. Currently, public transport, less parking, more cycling, less cars in the city centres and better clustering of living areas are more at the forefront. Net zero emissions are the new keywords in urban planning and transport policy.

Building land is a scarce resource in urban areas, and it is a strong tendency that big cities experience a stronger house price growth than more rural areas. When working on national house policy strategies, we have to address such differences between pressure areas and areas with less pressure.

Taking all this together – a **multi-faceted housing policy strategy** is needed. Such a strategy has to cut across many policy areas, including financial regulation, taxation, carbon footprint, urban land use regulation, transport policies, local public finance, social housing, welfare support, housing standards, rental regulation and the enforcement of competition in related activities as construction and real estate. To be successful making such national strategies, we need to learn from the each other. What is best practice? The new OECD Toolkit for housing policy and the OECD Housing Policy Strategy give many of the relevant answers.

Further insights and policy implications can be found in the new OECD report Brick by Brick: Building Better Housing Policies. The accompanying online toolkit features a Dashboard of indicators covering outcomes and policy settings, Country Snapshots of the housing sector, and

a Policy Action Tool that allows policymakers to anticipate synergies and trade-offs across various outcome dimensions before implementing housing reforms.