

Can welfare design help not only individual beneficiaries, but also the whole community?

Response to keynote speech
by Jean-Marie Jungblut

CECODHAS Housing Europe Colloquium
Where is housing in the future social contract?
Leuven, 24 June 2013

Christophe ANDRE
OECD Economics Department



Outline

The global and European macroeconomic outlook

- GDP growth
- Fiscal consolidation and competitiveness
- Unemployment and inequality
- Policy responses

Housing markets developments

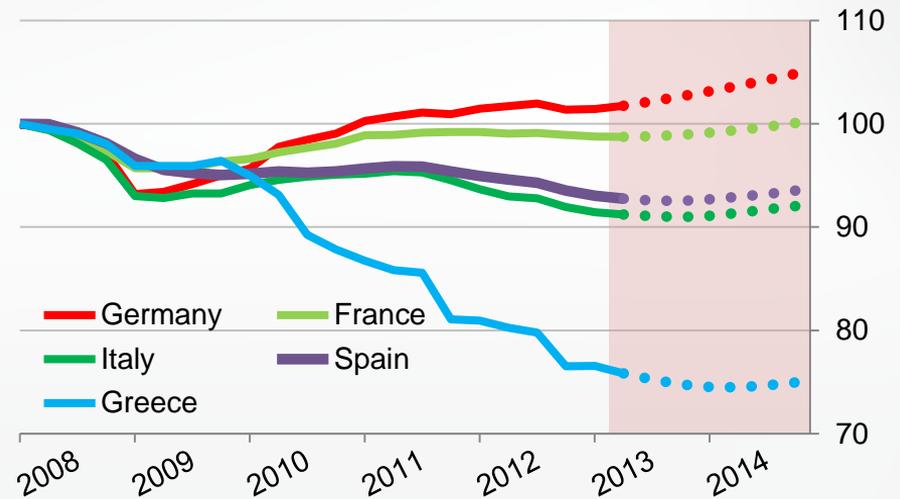
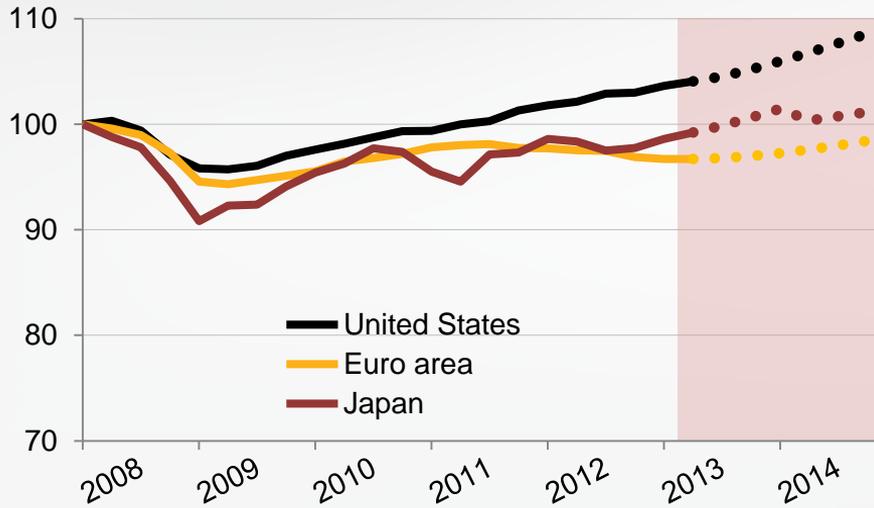
- The US market is healing, most European markets are weak
- Affordability remains a concern in many countries
- Residential investment is often weak

Re-thinking housing policies

- Limits of support for owner-occupation: capitalisation in prices and equity
- Targeting those most in need: what are the trade-offs?
- Supporting disadvantaged households is about more than housing

Divergent recovery paths across major economies and within the euro area

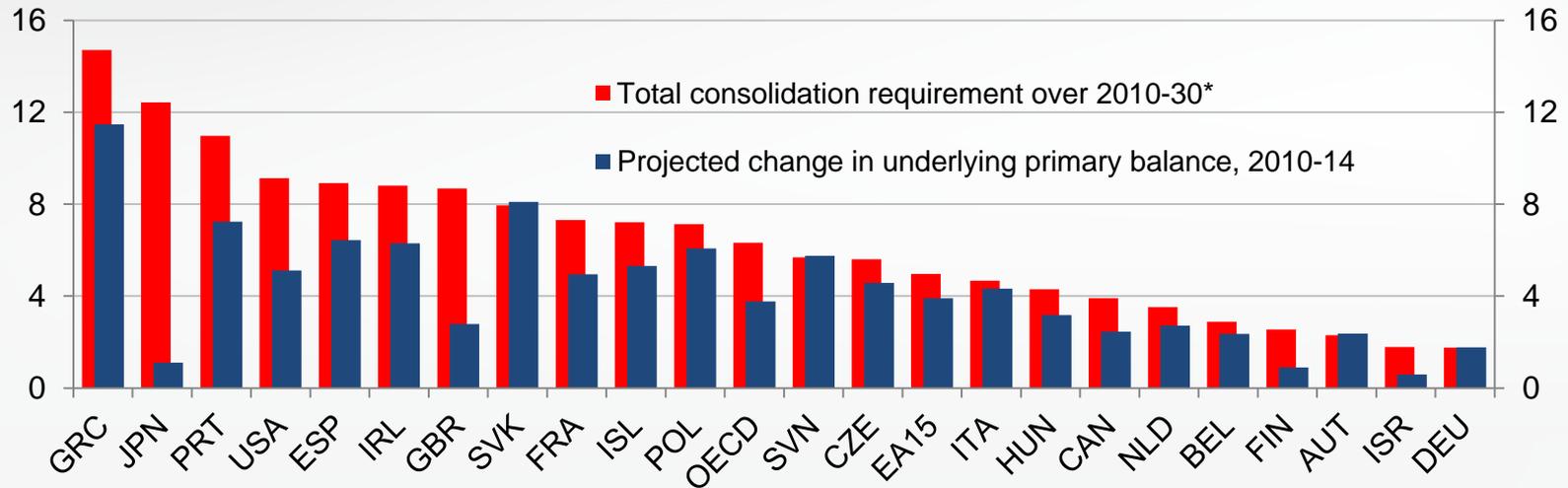
Real GDP
Index, Q1 2008 = 100



Source: OECD Economic Outlook 93 database.

Significant fiscal adjustment has taken place in many countries

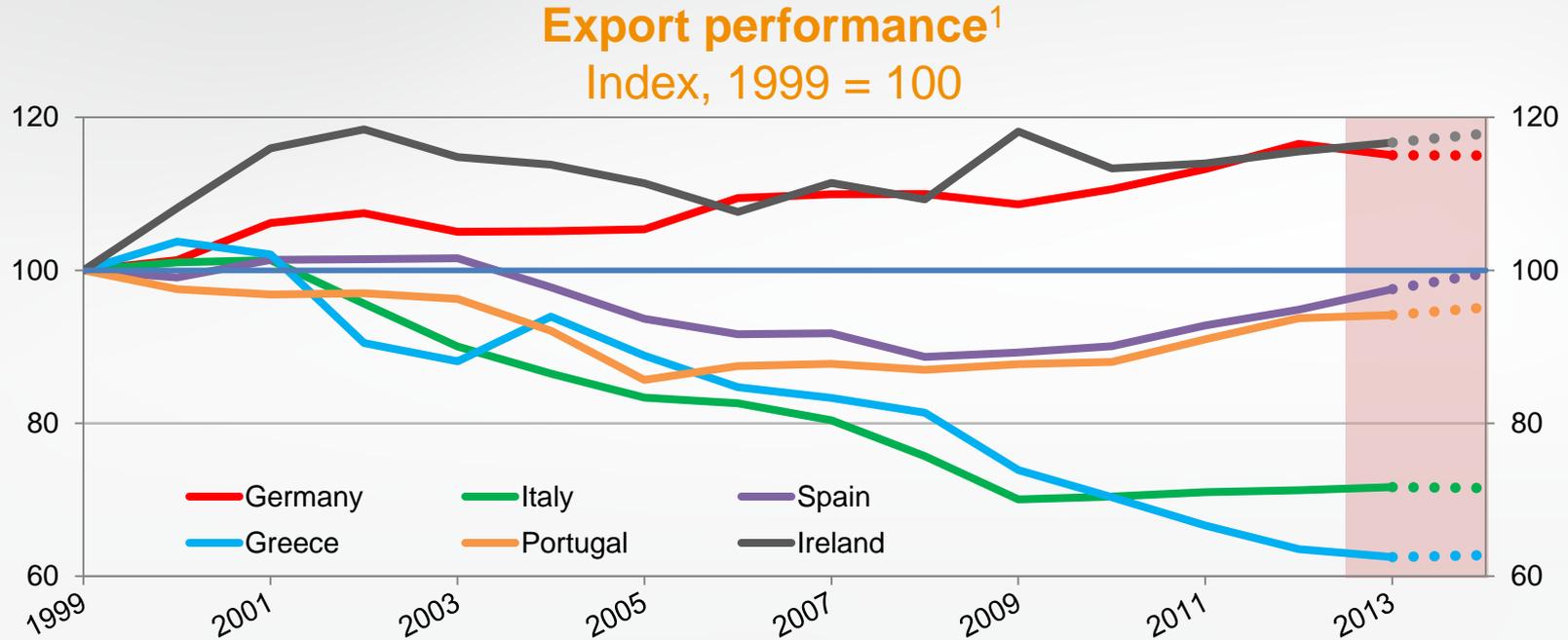
Change in underlying primary balance relative to 2010 necessary to achieve 60% debt-to-GDP ratio no later than 2030
In per cent of GDP



* Sum of the projected change in the underlying primary balance between 2010 and 2014 and the remaining requirement from 2014, defined as the difference between the primary balance in 2014 and the average primary balance between 2015 and 2030, except for those countries for which the debt target is achieved only after 2030, in which case the average is calculated up until the year that the debt target is achieved.

Source: OECD Economic Outlook 93 database, and OECD calculations.

Reforms are contributing to improved export performance in the euro area

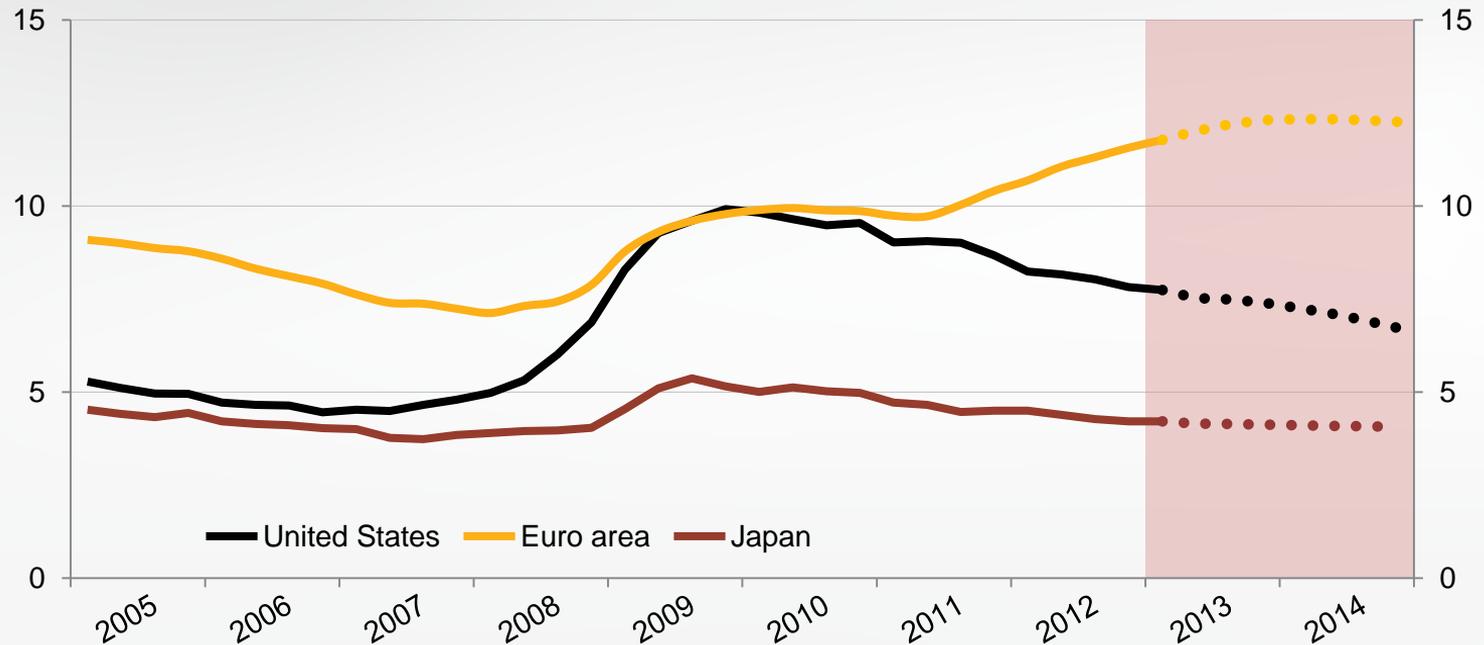


1. The change in export performance for a given country is given by the ratio of export volume growth to the growth in that country's export markets.

Source: OECD Economic Outlook 93 database.

Unemployment rates are diverging

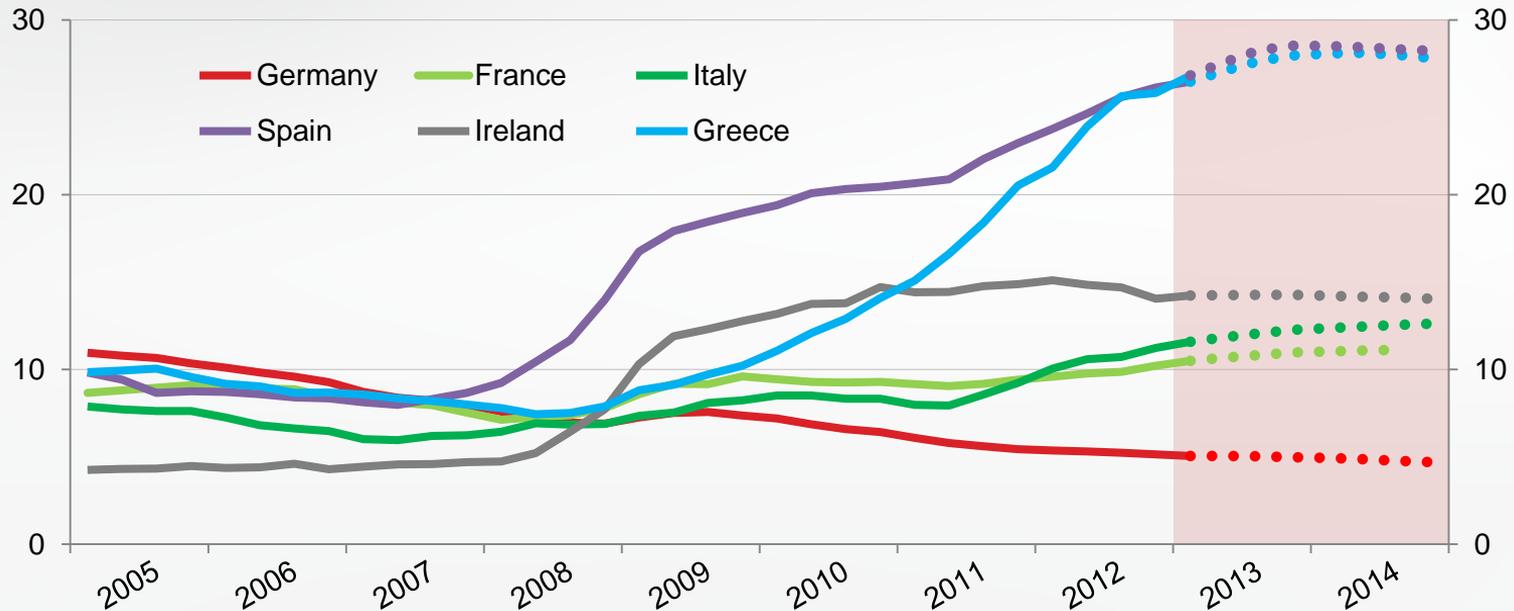
Per cent of the labour force



Source: OECD Economic Outlook 93 database.

Unemployment is high and rising in many euro area countries

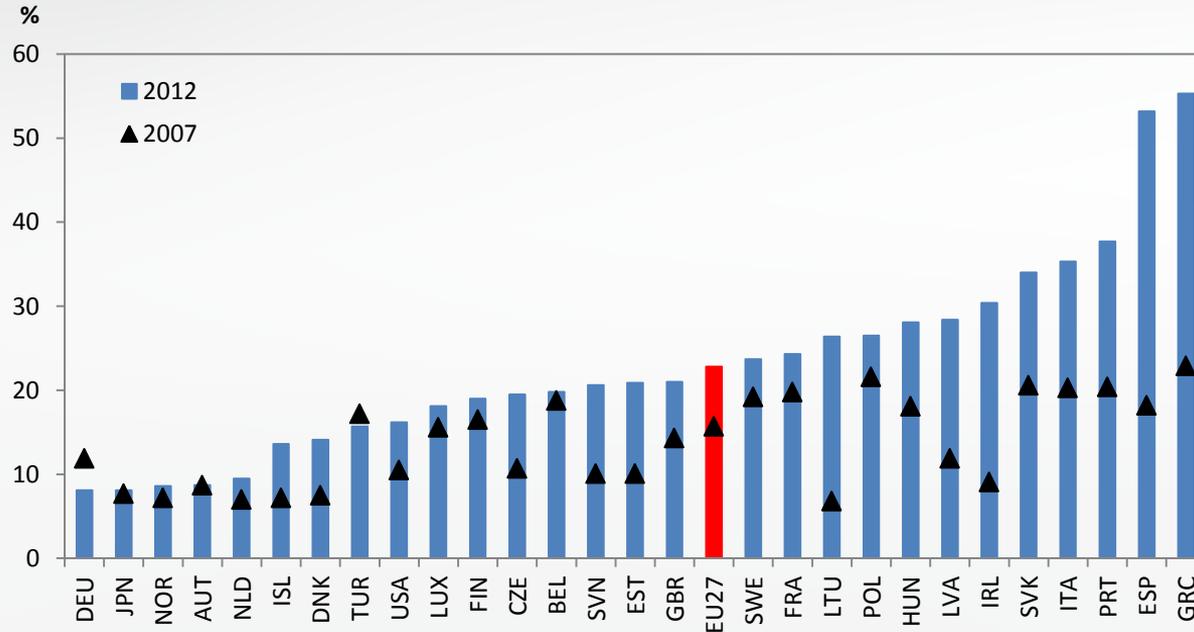
Per cent of the labour force



Source: OECD Economic Outlook 93 database.

Youth unemployment...

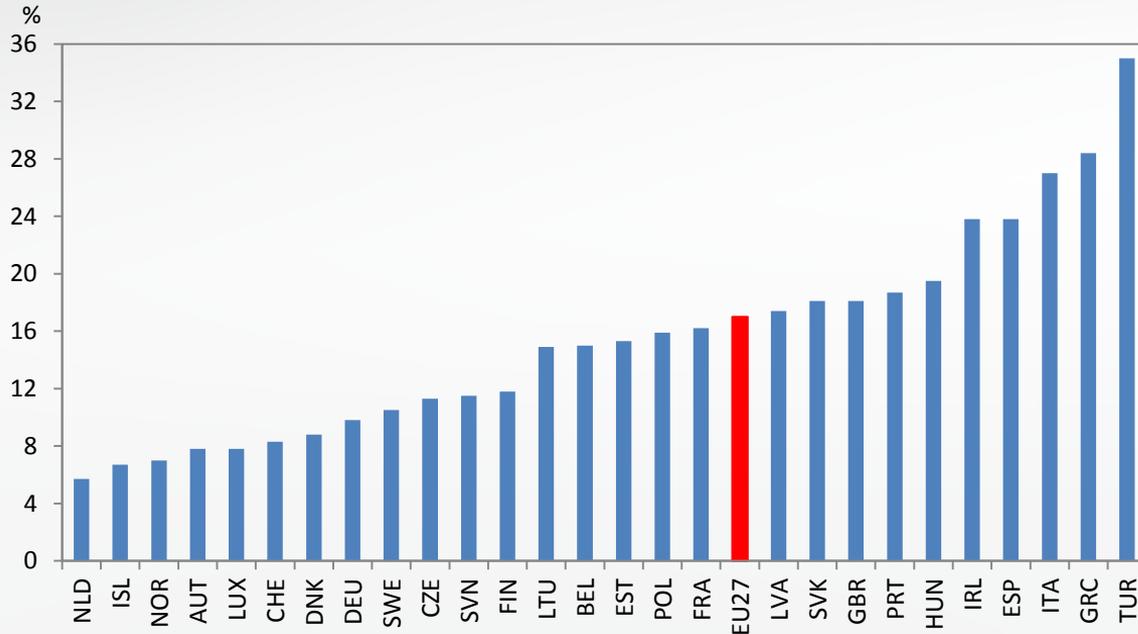
Unemployment rate, age 15 to 24



Source: Eurostat.

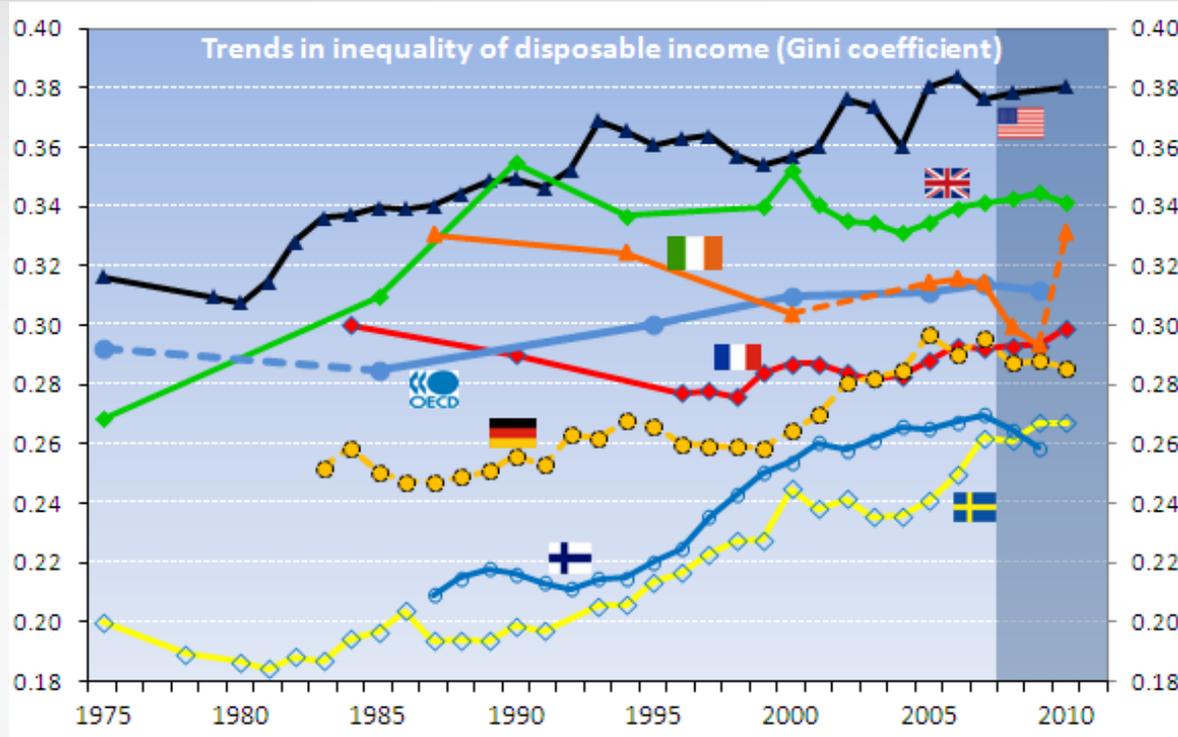
...and NEETs : a “lost generation” ?

People aged 18 to 24 not in education, employment or training (2012)



Source: Eurostat.

Rising inequality: a long-term global trend



Note: Income refers to disposable income adjusted for household size.

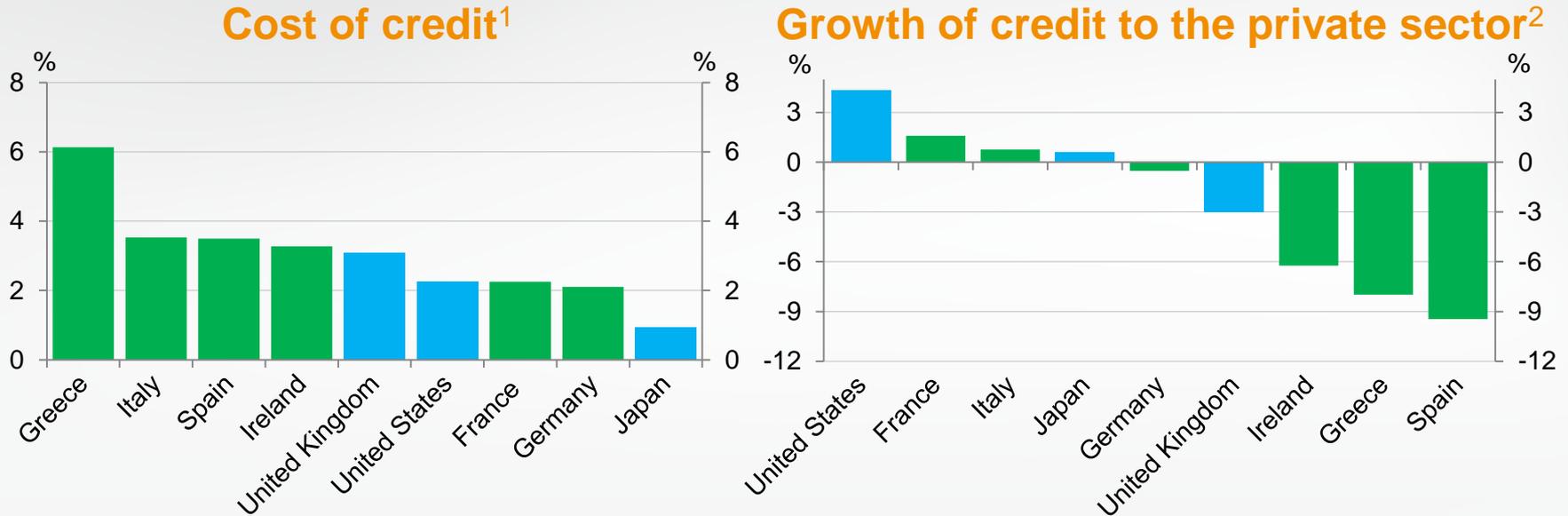
Source: OECD 2011, Divided we Stand and OECD income distribution database.

Policy responses

Policy should provide well designed medium-term frameworks involving all policy pillars:

- Monetary – support activity and avoid deflation
- Fiscal – medium-term consolidation
- Structural – boost growth and employment
- Financial – increase bank capitalisation where needed
- Institutional – e.g. banking union in the euro area

Tight credit conditions in many countries underpin the tepid growth outlook...



Note: Euro area countries shown in green, others in blue.

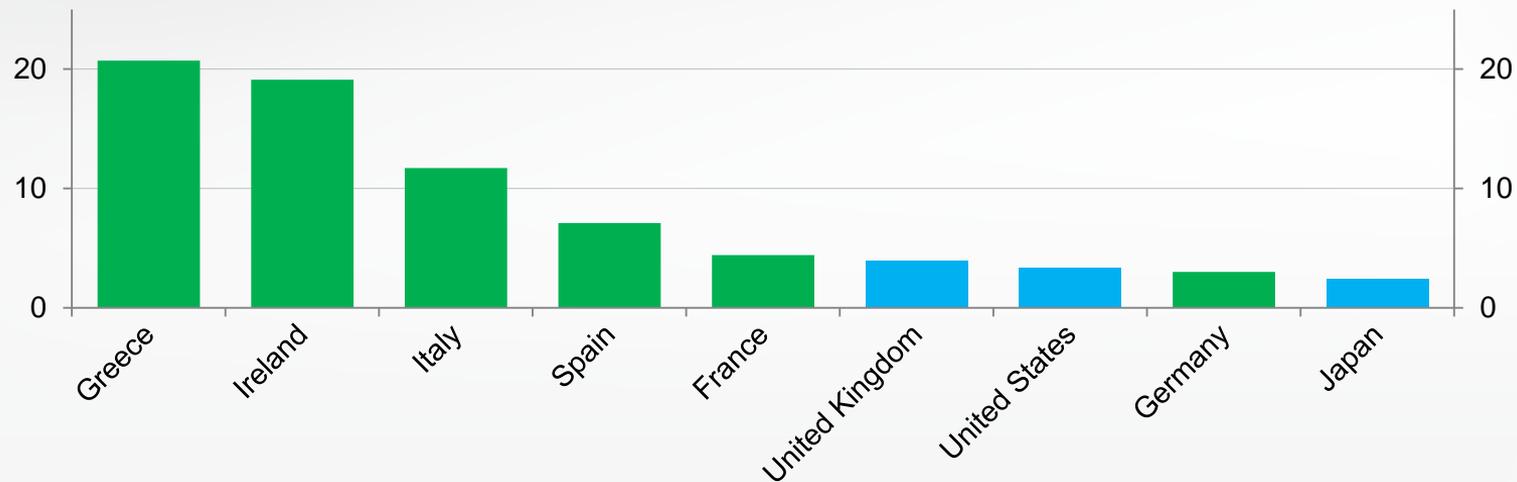
1. Interest rate on new loans to non-financial corporations (all maturities) with the exception of Greece where it refers to new loans with maturity of up to one year. For the United States and the United Kingdom, interest rate on outstanding loans. Year-on-year percentage change in 2013 Q1.

2. Year-on-year percentage change in 2013 Q1.

Source: ECB, national central banks, Datastream.

...partly reflecting slower progress in cleaning up the banking system

Non-performing loans¹ As percentage of total loans



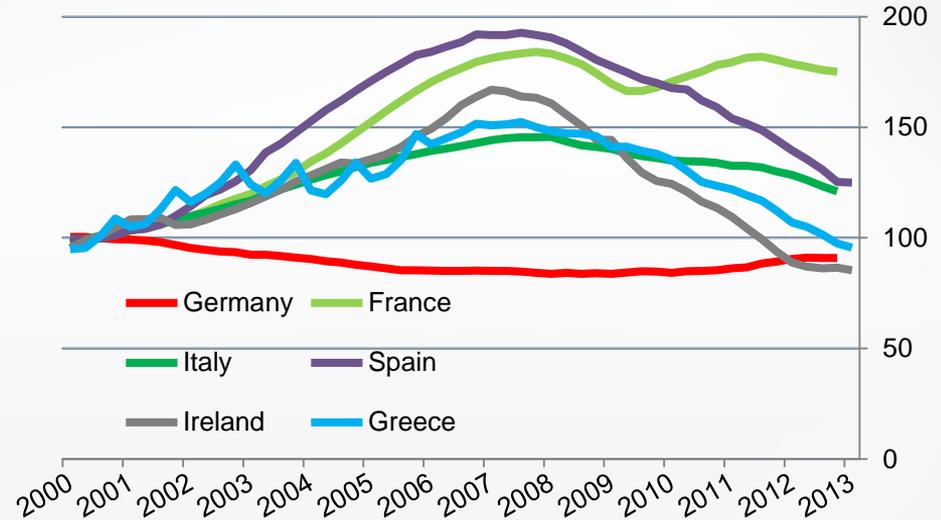
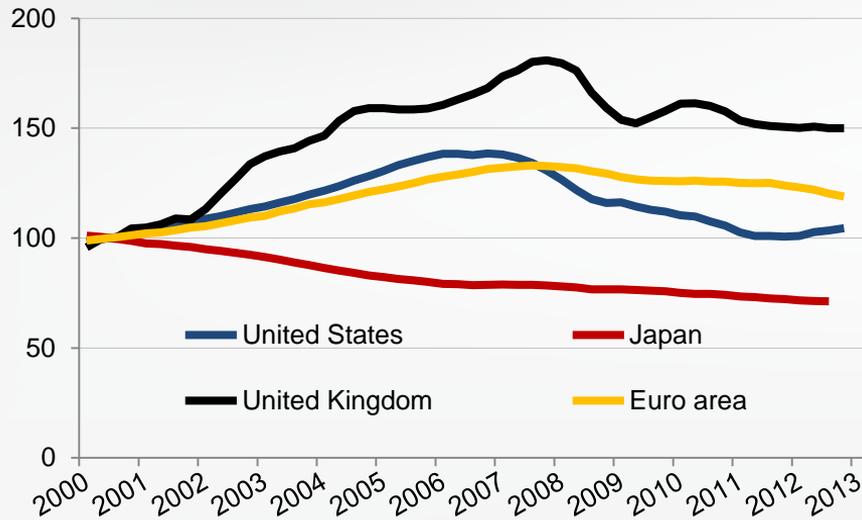
1. For the United States, end-2012; for Germany, United Kingdom and Italy, end-2011; for France, Spain and Ireland, end-June 2012; for Greece and Japan, end-September 2012.

Note: Euro area countries shown in green, other countries in blue.

Source: ECB, national central banks, Datastream.

House prices are rising in the United States but still falling in much of Europe

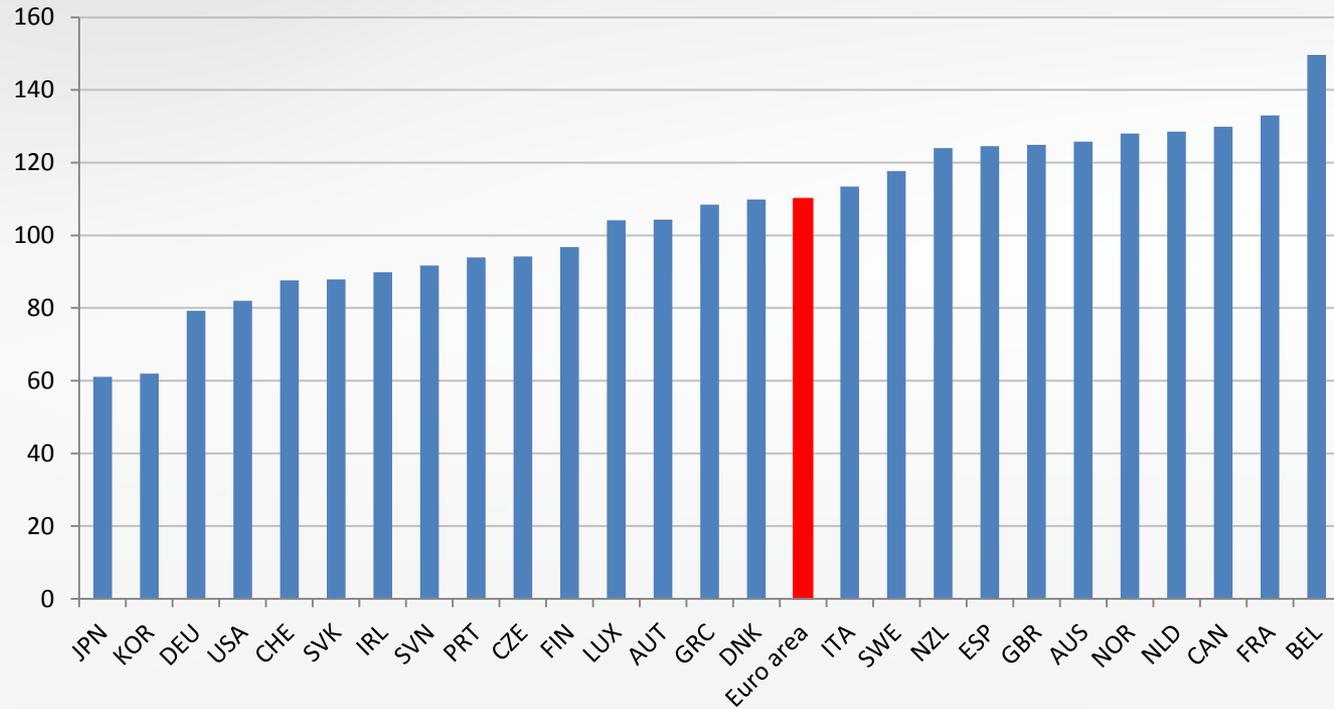
Real house prices Index, 2000 = 100



Source: OECD.

Affordability is still low in some countries

Price-to-income ratio, index, long-term average = 100



Source: OECD.

Housing cost overburden rate, 2011

% of the population with housing costs > 40% household disposable income.

	Total population	Owner occupied, with mortgage or loan	Owner occupied, no outstanding mortgage or housing loan	Tenant - rent at market price	Tenant - rent at reduced price or free
EU-27 (1)	11.5	9.1	6.5	26.1	14.0
Euro area (1)	10.9	9.1	5.1	23.9	10.6
Belgium	10.6	3.3	2.4	36.1	14.9
Bulgaria	9.0	23.1	7.4	32.8	15.4
Czech Republic	9.5	5.3	6.4	25.0	18.7
Denmark (2)	19.9	12.2	9.8	36.9	.
Germany	16.1	13.6	10.5	21.4	16.5
Estonia	7.4	12.7	4.9	28.1	9.3
Ireland
Greece	24.2	11.9	21.4	42.7	30.6
Spain	12.1	13.8	4.8	48.1	10.1
France	5.3	1.4	0.6	16.0	9.4
Italy	8.4	6.3	2.9	33.3	9.3
Cyprus	2.7	3.5	0.5	17.0	1.1
Latvia	12.6	27.9	10.5	16.5	12.8
Lithuania	10.7	20.6	8.9	66.5	12.8
Luxembourg	4.2	0.6	0.5	13.7	1.6
Hungary	11.8	20.5	6.8	43.8	16.8
Malta	2.8	4.5	1.9	32.5	1.5
Netherlands	14.5	14.0	3.4	18.2	6.6
Austria	4.8	1.4	1.9	11.3	5.0
Poland	10.2	10.0	8.6	27.1	14.3
Portugal	7.2	8.5	2.0	25.5	3.1
Romania	9.9	13.5	9.2	65.3	11.4
Slovenia	4.7	10.5	2.8	16.3	5.6
Slovakia	8.4	23.6	6.4	12.9	8.9
Finland	4.4	2.3	2.8	12.5	8.3
Sweden (2)	7.9	3.1	10.9	17.5	16.5
United Kingdom	16.4	8.8	9.3	45.3	23.7
Iceland	11.3	10.8	6.5	16.6	13.7
Norway	10.4	8.2	7.1	27.7	18.2
Switzerland	13.1	7.1	11.8	17.7	15.7
Croatia	7.8	13.3	6.9	33	12.8

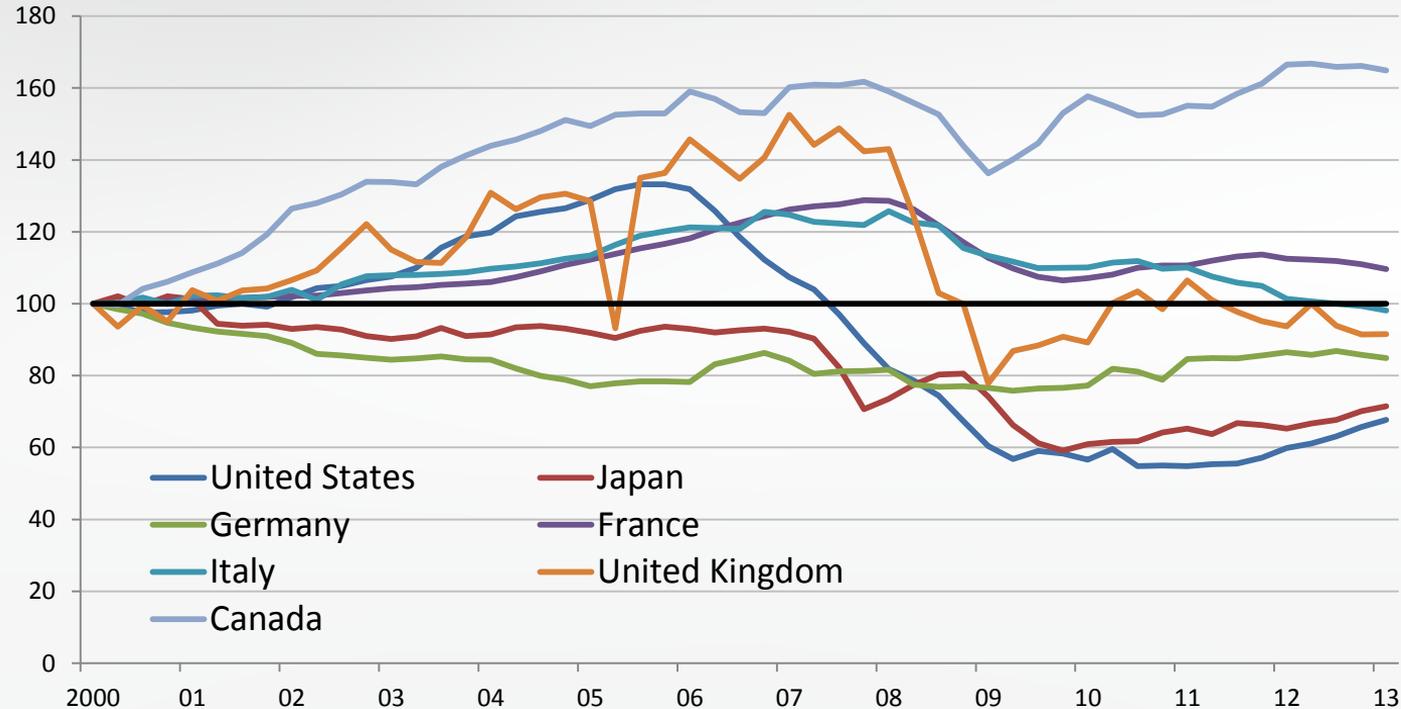
(1) Eurostat estimates

(2) Unreliable for tenants - rent at reduced price or free

Source: Eurostat (online data codes: ilc_lvho07c and ilc_lvho07a)

Residential investment is generally weak

Real residential investment, index, 2000 = 100



Source: OECD Economic Outlook 93 database.

Housing Policies

Demand side:

- Tax systems often encourage home-ownership. Mortgage interest deductibility can be costly and tends to be regressive. If supply is rigid, capitalisation of tax advantage in housing prices. High home-ownership rates are not associated with stable housing systems.
- Housing allowances: under pressure from budget constraints and potential adverse effects (unemployment/poverty traps)
- Homelessness: fighting homelessness is not only about housing. Housing First approaches are promising, but additional services are key

Housing Policies

Supply side:

- Grants for social housing (generally declining since the 1980s): can be costly, lack flexibility and allocation of dwellings can be unfair, but ensure that building takes place, can play a positive counter-cyclical role
- Targeting of social housing: could be improved in many countries, but trade-offs between efficiency and spatial segregation
- Private rental market regulations (rent control, balance of protection of tenant and landlord rights) may restrict supply
- Access to land, zoning and planning are often excessively tight

Conclusions

- The recovery is sluggish, especially in Europe
- Some progress has been achieved in terms of fiscal consolidation and competitiveness in euro area countries, but at a high price in terms of unemployment
- Further measures are necessary to strengthen the euro area, but public support is necessary. A clear growth and employment strategy is needed
- Access to affordable housing is increasingly problematic for some segments of the population, with significant social and labour market consequences
- Resources for housing policies will remain limited, but could be used more efficiently

Thank you!