

Subject: Consultation on the EUROPEAN PILLAR OF SOCIAL RIGHTS

The following response constitutes the official position of the Swedish Union of Tenants¹ regarding the proposed European Pillar of Social Rights.

There is currently no conclusive evidence to suggest that entirely market-based rental housing systems in Europe function any better than those that fully or partially regulate rents. Nor can it be said that dual rental systems - consisting of a market-based rental sector in combination with a social housing sector with regulated rents (e.g. UK, France) – yield better outcomes in terms of affordable rents, availability of good quality housing in close vicinity to labour markets than more universal systems (e.g. Sweden, the Netherlands).

Housing is a merit good that an individual or a society should have access to on the basis of a concept of need, rather than ability and willingness to pay since the benefits to society of consumption of the good is greater than the individual him- or herself would be aware of, or would prioritise. Unlike a private good, that has clear and immediate private benefits to the individual consumer, the individual consumer will not be fully aware of the effects that housing will have on his/her life. For instance, very few individuals will be aware that his/her own chances of social mobility or health status, or those of his/her children, might be affected by where geographically he/she lives or the quality of housing he/she lives in. Nor will the individual be aware of, at the time of consumption, that his/her housing consumption will have external benefits to society. For instance, the fact that the closer the person lives to an active labour market and/or in the vicinity of public transport, the greater the chances are that he/she will find a job and thus contribute tax revenue to society instead of drawing on societal means through e.g. an unemployment benefit. The latest research on social mobility and urban planning² clearly shows that increasing the density of cities has economic, social and ecological benefits to society and individuals suggesting society can justifiably ensure access to housing to citizens from a societal perspective.

The housing market is affected by various market failures which need to be addressed either through regulation, incentives or sanctions. For instance, the physical planning of housing is usually not a competitive, unregulated market, and nor can it be in order to e.g. minimise harm to consumers or to avoid corruption. In the extreme cases, like in Sweden, local municipalities

¹ The Swedish Union of Tenants have 538 000 household members and represent 3 million tenants in annual collective bargaining of rents in Sweden.

² <http://www.equality-of-opportunity.org/>

have a monopoly over planning whereas in most countries it is shared between central, regional and/or local public entities. Housing investments are often costly, illiquid assets that necessitate access to capital to secure them which means that there are high barriers to entry which naturally limits competition and increases risks to households. The housing market can also be distorted by various incentives that have a negative impact on society or on individual households. For instance, the tax deduction possibilities for buy-to-let investments in the UK, during a time when returns on other investments have seen poor financial performance, have fuelled house prices and made it harder for normal- and low income household to enter the home-ownership market. Rallying house prices on the basis of e.g. scarcity and tax incentives have increased the welfare bill for social housing and/or care where tenants cannot themselves find affordable housing on the open market. It has also meant that, in countries where policies have encouraged home-ownership, that households have accumulated high amounts of household debts to considerable macroeconomic consequences in those cases where there have been subsequent price falls and shocks to demand of other goods and services. From a consumer perspective, information asymmetries are rife both in the rental and home ownership markets. Tenants have a weaker position in relation to landlords, and home-buyers have a weaker position vis-à-vis the seller, given these information asymmetries. Regulation can help to reduce these asymmetries. For instance, the collective bargaining system of rent-setting in Sweden, a form of industry self-regulation, means that price-setting is based on a number of variables reflecting the actual quality, standard, location and values of consumers at market equilibrium. Moreover, through this process of collective bargaining, the consumer representative organisation undertaking negotiations on behalf of tenants are able to dwell into the property owners' financial accounting and question proposed rent increases in a completely different way that an individual consumer, anxious not to get on the wrong foot with the landlord, would be in a position to do. Tenant protection against rent hikes is also justified from the point of view that tenants have a weak bargaining position. Since it involves their own homes they would have a higher willingness to pay than an alternative consumer "off the street", something which landlords cannot be allowed to abuse.

The fact that the proposed charter so clearly supports a housing model aimed at maximising home ownership is contradictory to its aims to ensure increased labour mobility since all research seems to suggest that home-ownership tends to decrease labour mobility due to lock-in effects and higher transaction costs. It further states that: "*income inequality may have a long-term negative impact on potential growth by consolidating and reinforcing existing inequalities of opportunities, limiting skills development and hampering social and occupational mobility*" but fails to recognise the

role of home ownership as a wealth generator only for those households lucky enough to get on the property ladder.

Further, the charter's phrasing that: "*rental market distortions are contributing to the lack of availability*" [of housing meaning different forms of rent control] is simply untrue looking at the available evidence. In the Swedish context of rent-setting through collective bargaining, the system has produced stable and high yields over time and in fact at a much higher rate of return than office rentals which are entirely market-based.³ Nor has the construction of own homes been sufficiently large despite "free" price-setting which seems to suggest that the price-setting mechanism is not what is restraining the supply of new homes. It is more likely that low levels of supply are a reflection of market failures and well as of households' limited ability to pay. Overcoming these failures thus necessitates some form of public response.

Again, from a Swedish context, other positive external effects of the collective bargaining of rents are not well understood. For instance, it is likely that the current system of rent-setting has, at least in part, mitigated against full-blown economic segregation of households into particular neighbourhoods based on socio-economic status since public housing is open to anyone. Given that rental households already have lower incomes and consume less square meters, it could be argued that an entirely market-based system would exacerbate this tendency and lead to increased segregation and gentrification. Hence, it is imperative that the European Pillar of Social Rights does not formulate a vision for housing that could induce such negative externalities as further segregation by calling for abolition of all forms of rent-control.

All in all, there is a need to recognise that a well-functioning housing market is not necessarily one in which all households are homeowners and where different systems of rent-control can be necessary to ensure access and affordability of housing for all. Particular in order to secure the promise of all citizen's: "*right to a standard of living adequate for the health and well-being of himself and of his family, including food, clothing, housing and medical care and necessary social services, and the right to security in the event of unemployment, sickness, disability, widowhood, old age or other lack of livelihood in circumstances beyond his control*", as expressed in the UN Universal Declaration of Human Rights (article 25), housing cannot be allowed to be seen as an investment or a positional good. Already today, tenants living in the "wrong neighbourhoods" risk being discriminated against because of where they live when they apply for jobs. They may also not be able to access healthcare or services to the same extent as home owners in more affluent neighbourhoods.

³ According to IPD/MSCI figures.

The SUT is in favour of tenure neutral policies. We are also firm believers that each member state country should be free to choose whether they want to pursue a universal or a means-tested system provided that it is able to achieve the impacts set out by the charter.

About the Swedish Union of Tenants

The Swedish Union of Tenants is a democratic membership organisation for current and future tenants. We are politically independent and in excess of half a million households are members. This makes us one of the largest social movements in Sweden and also the main representative of tenants across the country. Our mission is everyone's right to quality housing at a reasonable cost. In addition, all tenants should be guaranteed accommodation that is secure over which they have influence in the context of their community.

The Swedish Union of Tenants negotiates for any tenant requiring our assistance – we represent nine out of ten rented households in the collective bargaining process. Each year more than 100,000 members require advice and help from the organisation in their dealings with landlords. Approximately 10,000 members have also chosen to get involved as elected representatives.

More information: <https://www.hyresgastforeningen.se/in-other-languages/>

The Swedish Union of Tenants

Mariell Juhlin

Chief Economist

Norrlandsgatan 7

Stockholm

T: +46 10 459 10 09

E: Mariell.Juhlin@Hyresgastforeningen.se