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Note for the reader

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Book review of R. Czada, A. Héritier and H. Keman (eds.), *Institutions and Political Choice. On the Limits of Rationality.* VU University Press, Amsterdam 1996

Due to an unfortunate combination of circumstances, the previous issue of *Acta Politica* featured a book review of *Institutions and Political Choice. On the Limits of Rationality*, edited by R. Czada, A. Héritier and H. Keman. Neiher the Board of Editors, nor the reviewer, G.P. de Bruin, had been informed of the fact that VU University Press had suspended publication of the aforementioned volume in February 1997 and had withdrawn all copies that had already been distributed, because of the many mistakes that had been made in the process of editing. The Board of Editors feel that the authors and editors of *Institutions and Political Choice*, G.P. de Bruin, and *Acta Politica* have all suffered from the neglect of VU University Press. The Board of Editors greatly regrets this state of affairs and apologizes to the readers for any confusion or inconvenience caused.

The Really Big Trade-Off: Home Ownership and the Welfare State in the New World and the Old

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Abstract

This paper focuses on the role of private home ownership as an alternative means of accomplishing the horizontal, life cycle redistribution that is one of the primary functions of the welfare state. The analysis uses cross-national evidence to examine the proposition that there has been an inverse relationship between the level of home ownership and the degree of welfare state provision in the advanced nations during the post-war period. The paper also utilizes a comparative approach to demonstrate that widespread home ownership may reduce the need for generous income maintenance for the aged and may redress the overall extent of inequality amongst that population. On the basis of these findings, it is suggested that extreme contrasts between the outcomes of European welfare state leaders and supposedly more laggardly New World countries may need to be somewhat modified.

1 Introduction

More than two decades of findings from a burgeoning comparative literature on welfare policy outcomes have shared the common assumption that such outcomes are more fully achieved in the countries of Continental Western Europe and Scandinavia than in the New World nations of Australia, Canada, New Zealand and the United States (see Wilensky 1975; Flora and Heidenheimer 1981; Castles 1982; Esping-Andersen 1990). Whether operationalized in terms of expenditure levels, replacement rates, measures of inequality, degrees of decommodification or the extent of social rights of citizenship, European nations have been seen as leaders and New World nations as laggards. This paper seeks to question this orthodoxy in at least one important respect by asking whether the living conditions of the old in Europe and the New World are as divergent as implied by such a contrast.

The impetus for such a questioning arises from the fact that standard comparative public policy accounts of the conditions of the role of the welfare state have focused almost exclusively on the role of government benefits and on resulting distributions of income. There has been less research on the role of private welfare schemes and virtually none on asset accumulation and the way in which that may modify the resources available to those in need. The focus of past comparative research has been justified by the fact that our information, and especially our comparative information, concerning private provision and asset holdings has been scant. However, in one important respect, that is becoming less true. We do now know rather more about cross-national variance in that form of asset holding which is most significant for ordinary people in most advanced nations: namely, the ownership of private homes.

The purpose of this paper is to ask whether home ownership might make a difference to our understanding of welfare outcomes. The emphasis here on the living conditions of the old is an obvious one, since it is for this category of welfare recipients that we might expect home ownership to have the biggest impact. Home ownership is generally an investment over the life cycle, with costs unequally distributed between young and old. Younger age cohorts purchase, with the normal expectation that the process will be over at or before the time that labour force participation terminates. That means that the old own more than the young and enjoy the benefits of purchase free accommodation from precisely the time when other sources of income tend to diminish. Home ownership, although involving asset accumulation, is very like the growth of pension income entitlements, in storing resources that come on stream later in the life cycle.

The account offered here does not focus directly on policy mechanisms, but the existence of such mechanisms and the political and policy relevance of these issues is not in doubt. The contribution of a welfare statist strategy to social amelioration has constituted the claim of European left and centrist parties to political legitimacy in the post-war era. Comparable policy initiatives in the field of housing are no less well documented, with many European governments playing a major role in the provision of rental housing for the poor or in adopting 'comprehensive' policies designed to cater for the housing needs of the entire population (see Donnison 1967). Less well acknowledged, but no less certainly, the encouragement of home ownership has offered a platform by which right and centrist parties in the New World have sought to build popular support. The means that have been used have differed from country to country although, sadly, the literature contains no adequate cross-national account of the mechanisms in use in different countries and at different time-periods. Almost certainly, the most prevalent mode of policy intervention has been the use of the tax system to offer mortgage interest relief on some portion of housing loans, but other mechanisms commonly used have included control on interest rates chargeable for home loans, public guarantees of private loan arrangements and special facilities allowing the occupants of public housing to purchase their home often at a highly subsidized rate (for a discussion of the variety of mechanisms, see McGuire 1981). This

latter device was prominent in the most dramatic shift from European to New World style housing policies of recent decades: Margaret Thatcher's wholesale privatization of the British housing market in the decade following her initial electoral victory in 1979 (see Forest and Murie 1987).

In respect of the impact of home ownership on the aged, it is clear that the governments of the New World nations have not been motivated by clearly articulated social policy goals in the manner of those who have contributed to the design of the European welfare state. But that may not really be the point. New World politicians have been deeply aware of the electoral appeal of extending the reach of home ownership and know very well that much of that appeal lies in catering to the motive for life cycle asset accumulation. Indeed, a point we wish to emphasize is that social policy is no less social policy for being categorized by policy-makers as something quite different. To the degree that home ownership and the welfare state can be shown to have quite similar outcomes for a very significant part of the electorate, it might well be argued that a major aspect of post-war politics in both the Old World and the New has been a common politics of old-age security through which the diverse parties have sold similar sets of outcomes packaged in different forms. An account which can reveal the essential similarities of political coalition-building and electoral rewards stemming from behaviour as seemingly diverse as the Swedish Social Democrat's battle for ATP pensions in the 1950s (see Esping-Andersen 1985) and the Australian Liberal's attempt to use home ownership to turn "workers into little capitalists" (see Tiver 1978: 112-16) in the same decade clearly has some potential to offer a novel perspective on the dynamics of politics and public policy development in the post-war era.

The discussion offered below has two main components. First, we examine cross-national data to establish whether there is any clear pattern with regard to the incidence of home ownership, pension rights and the welfare state more generally. Second, we review cross-national evidence with a bearing on whether high home ownership levels may serve to modify and counteract inequalities in the distribution of income amongst the old. The character of the evidence offered here on the incidence of asset holding in the form of home ownership and its effects does not allow for any definitive conclusions, but it does suggest that commentators should be rather less dogmatic than they sometimes are concerning the welfare contrasts between the Old World and the New. It also suggests that there is ample room for more research in this area.

2 Housing tenure and the welfare state

Until recently, the data available concerning levels of home ownership have been very fragmentary. The best that researchers could do was seek information from national sources and this resulted in spotty coverage for highly divergent time-points. This meant that such data could not readily serve as the basis for systematic comparative analysis and the only attempt hitherto to examine the relationship between home ownership and the welfare state has been research by Kemeny (1980; 1981), which used the patchy data available to hypothesize the existence of an inverse relationship or trade-off between welfare spending and the incidence of home ownership in the advanced nations of industrial capitalism. The remainder of this section may be seen as a test of this early and intriguing hypothesis.

Only in the 1990s has the data situation improved somewhat with the publication of figures for the majority of advanced countries for more or less common time-periods from the 1960s onwards. The two best sources of such data are a study by Choko (1993), which presents information for most OECD countries for various points in two broad time-bands, one in the 1950s or 1960s and the other in 1970s and 1980s, and a survey by Hedman (1994), which, more systematically, provides figures for the majority of OECD nations for time-points circa 1960, 1970, 1980 and 1990. The data in Table 1 is derived from these sources plus relevant census data for New Zealand.

Table 1 Home ownership in advanced nations (percentage share), 1960-1990

Country	1960	1970	1980	1990
Australia	63	67	71	70*
Austria	38	41	48	55
Belgium	50	55	59	62*
Canada	66	60	62	61
Denmark	43	49	52	51
Finland	57	59	61	67
France	41	45	51	54
Germany	29*	36	40	38
Ireland	60	71	76	81
Italy	45	50	59	67
Japan	71	59	62	61
Netherlands	29	35	42	44
New Zealand	69**	68**	70**	71**
Norway	53*	53	59	59
Sweden	36	35	41	42
Switzerland	34*	28	30	30
UK	42	49	56	68
USA	64	65	68	64

Source: Unless otherwise indicated from Hedman (1994).
* From Choko (1993). ** From New Zealand censuses of 1961, 1971, 1981 and 1991.

The figures in Table 1 demonstrate the very clear contrast between the incidence of home ownership in Europe and the New World at the beginning of the period covered. In 1960, Japan, Australia, Canada, New Zealand and the USA had the highest levels of owner-occupation in this sample of 18 OECD countries. By contrast to these nations' levels of ownership in excess of 60 per cent, a substantial number of European countries – including Austria, Germany, the Netherlands, Sweden and Switzerland – had levels below 40 per cent. An important historical antecedent to this contrast was the urgent need for post-war reconstruction in Europe, which dictated massive government intervention to provide cheap accommodation in urban apartments which were scarcely likely to be very attractive propositions for owner-purchase. Moreover, in some of these countries, rapid industrialization and concomitant urbanization led to a shift from former patterns of rural ownership to a no less pressing stimulus for mass housing in big city blocks (see Heidenheimer, Heclo and Adams 1990: 100-101).

The data for subsequent decades – and particularly for the 1980s – suggest that there has been a quite considerable convergence in types of housing tenure across the OECD nations, although there remains a gap between the now, effectively, monotenural Anglo-American nations and European nations typified by a continuing coexistence of a variety of types of tenure. However, with the exceptions of Japan, Switzerland and Canada, there has been a marked increase in the proportion of owner-occupation, with the transformation being at its greatest in Ireland, Italy and the United Kingdom. Increasing post-war affluence has almost certainly been one of the key background factors in this convergence process (Headey 1978), permitting the European nations to overcome their acute housing shortages of the late 1940s and 1950s and to diversify their housing priorities so as to permit greater suburbanization and with it more single-occupancy dwellings and more owner-occupation.

The existence of the dataset in Table 1 makes it possible to examine Kemeny's trade-off hypothesis more rigorously than he was able to do in the early 1980s. Using this dataset, Table 2 offers a quite straightforward attempt to assess whether the basic insight of the Kemeny thesis stands up to more systematic testing in light of the most recently available cross-national data on the extent of home ownership and a variety of aggregate indicators of national welfare performance. Kemeny's own argument points to pensions and healthcare as the most likely areas of welfare performance to suffer adversely in countries with high levels of home ownership. However, since he specifies a causal mechanism resting on tax resistance induced by the individual resource accumulation demands of home ownership, it seems appropriate to examine possible impacts more widely. Accordingly, Table 2 examines the bivariate relationships between levels of home ownership and the total revenues and outlays of government, together with total expenditures on social protection and its component parts (pensions, public health and other social protection) for each of the time-points for which data is offered in Table 1.

An important point to note in interpreting Table 2 is that data on total social protection and its components is missing for Switzerland. This omission needs highlighting since the data we have on both total outlays and on total revenues of governments suggest that Switzerland is much the most conspicuous exception to the postulated trade-off relationship between home ownership and the welfare state. Throughout the period under review, Switzerland has manifested virtually the lowest levels of home ownership and, ostensibly, at least, amongst the lowest levels of government revenues and outlays in the OECD. In Table 2, we present data on total revenues and outlays both including and excluding Switzerland. As the results in that table make abundantly clear, this one case makes a huge difference to the strength and significance of the imputed relationship in respect of both of these aggregates, and there is every reason to believe that it would make a no lesser difference in respect of total social protection and its components.

Table 2 Correlations between home ownership levels and measures of government revenues and expenditures, 1960-1990

	Revenues[1]	Outlays[2]	Total SP[3]	Pensions[3]	Public Health[3]	Other[3]
1960	-.79*	-.76***	-.75***	-.68***	-.14	-.61***
	(-.60***)	(-.48**)				
1970	-.61***	-.61***	-.81***	-.71***	-.53**	-.56**
	(-.36)	(-.25)				
1980	-.68***	-.59**	-.76***	-.71***	-.34	-.58**
	(-.45*)	(-.21)				
1990	-.52**	-.54**	-.54**	-.40*	-.24	-.40
	(-.26)	(-.15)				

Sources and Notes: Home ownership data as from Table 1. Revenues are total tax revenues from OECD (1996b), Outlays are total outlays of government from OECD (1996a), Total SP is total expenditure on social protection from OECD (1994). Pensions are pension expenditures calculated from OECD (1985) for 1960 and 1970 and from OECD (1994) for later dates. Public Health is health expenditure for all dates from OECD (1994). Other is other social protection expenditure reported in OECD (1994) or calculated from OECD (1994) and OECD (1985). 1. Revenue data for earliest period is from 1965. 2. Data on outlays missing for New Zealand. 3. Data on Total SP and its components missing for Switzerland. Figures in parentheses indicate findings including data from Switzerland. Significance levels are indicated by asterisks as follows: * = <.1; ** = <.05; *** = <.01.

Excluding the findings influenced by the Swiss case, the picture revealed by Table 2 is quite consistent. For the first three time-points, there are strong to moderately strong inverse relationships between the extent of home ownership and all the welfare state measures bar public health, which is significant only in 1970. For the final time-point, the inverse relationships are substantially reduced and are only of moderate significance for the three aggregate measures: total revenues, total outlays and total social protection. Although the public health findings contradict a specific aspect of the Kemeny thesis, the overall implications of the findings excluding the Swiss case are extremely supportive of his basic insight. For the past three decades, and dramatically so between 1960 and 1980, high levels of home ownership in Western societies have gone along with weakly developed welfare states, manifested in lower aggregates of government revenues and expenditures and in lower levels of pension and other non-health, welfare spending. These relationships now appear to be fading, but that the alternative poles on this trade-off matrix have represented quite distinct configurations of policy outcomes for much of the post-war period is clearly revealed by the evidence examined here.

Whether we regard the Swiss case as destructive of conclusions otherwise so firmly grounded rests on our evaluation of the singularity of the Swiss experience. Unquestionably, Switzerland is an outlier in a statistical sense, manifesting a relationship between the relevant variables wholly at variance from any other nations in the dataset. There are, moreover, reasons to doubt the cross-national comparability of Swiss welfare revenue and expenditure data for recent decades as reported by the OECD. This is because of a failure to include as revenue employer and employee contributions to mandated second-tier pensions schemes or to include as expenditure outgoings from these schemes. Data supplied by the Swiss Statistical Yearbook (Bundesamt für Statistik 1996) suggest that, since 1985, inclusion of second-tier pensions would have increased estimated Swiss pensions expenditure by around 75 per cent and would have made that country one of those in the OECD with the biggest increase in pension expenditure in the post-war era, a finding far more compatible with the trade-off hypothesis. Hence, our position is to view the Swiss expenditure and revenue data supplied by the OECD with some suspicion, whilst providing findings based on their inclusion for the sake of completeness and because of the need to alert the reader to evidence potentially at variance with the hypothesis under examination.[2]

3 Does home ownership make a difference?

So far the discussion has demonstrated that for much of the post-war period there has been an inverse relationship between aggregates of welfare spending, revenues of government and the incidence of home ownership in advanced nations. Over the period 1960-1980, this has also been true with regard to pension expenditures. At one extreme of the trade-off matrix, it is possible to identify a group of New World nations characterized throughout the post-war era by persistently high levels of home ownership and correspondingly low levels of welfare effort. In this section we will look at what implications, if any, this has for the way we assess the adequacy of social protection in these nations.

Kemeny's early research in the area suggested the consequences of widespread home ownership would be that low welfare expenditures would generate inferior welfare outcomes and that inequalities in holdings of housing assets would exacerbate income inequalities unaddressed by underfinanced systems of social protection. However, this argument overlooks the possibility that home ownership assets might to some degree compensate for flows of benefits deriving from welfare state entitlements in countries where the welfare state is the primary agency of horizontal redistribution.

If such an equivalence could be demonstrated, it would suggest that the New World nations' systems of social protection may, in at least some respects, have been too harshly judged. In so far as it could be shown that the fact of living in an owner-occupied home served to mitigate hardships that would otherwise result for those in the non-active population who are necessarily dependent on otherwise frugal income support systems, it would also, in some considerable degree, modify the adverse conclusions often drawn from these countries' lowly positioning on the international league tables of social expenditure. Rather than the balance of cross-national evidence pointing to the inadequate outcomes of these countries' welfare states, as the story has been so often told, the more prosaic truth would then be that these countries' systems of social protection, in respect of at least some objectives of social policy, had differed more fundamentally in terms of institutional design than of socially protective outcomes.

Of course, this case for a reappraisal of welfare outcomes should not be exaggerated. Home ownership can only be a source of life cycle redistribution for those who own their own homes and many of the most prominent categories claiming on the welfare state do not. In general, the disabled have lower rates of home ownership than others because of their weakness of labour market attachment. Single mothers are a category likely to be at risk of losing what protection they once had in virtue of home ownership, and long-term unemployment similarly undercuts continuing ownership. These are all categories of welfare recipients that have grown markedly in recent decades in most Western nations and, in so far as that has been the case, the argument that the advanced welfare state and the owner-occupier society are functionally equivalent is clearly not sustainable.

There is, however, one category of welfare state recipients for whom home ownership is crucial: those who have left the labour market participation in

virtue of old age or retirement: this group has always constituted the biggest clientele of the welfare state; has been, in most countries, the initial focus of its development; remains by far the largest single claimant on the welfare budget; and, as a result of demographic change, is growing no less rapidly than other welfare categories. The key to the importance of home ownership for the old is that they constitute the social grouping clearly in the best position to have used ownership as a vehicle for horizontal, life cycle redistribution. That is true because, by the time of retirement, for a large percentage of owners, the process of home purchase is likely to be complete, leaving them with a net benefit equivalent to the rent they would otherwise have to pay on the property minus outgoings for maintenance and property taxes. In other words, when individuals own their own homes, they can get by on smaller pensions. Thus, if the assumption is made, almost certainly accurately, that the high home ownership levels in the countries of the New World, as shown in Table 1, translate into high ownership levels free of mortgage amongst older age cohorts, it seems reasonable to suggest that we have identified a factor potentially mitigating low public expenditure levels on pensions in these countries.

However, this is not a matter to be settled by assumption. Kemeny's argument that the distribution of home ownership simply reinforces other social inequalities may not be accurate, but it is not self-evidently false. Even very high levels of overall owner-occupation amongst the aged population could disguise relatively low levels of ownership amongst those in the lowest income deciles. In that case, the likely verdict would be that the only sort of social protection delivered by the owner-occupation society was to the middle classes who could afford to be a part of it.

Table 3 Deciles of disposable income, retired household heads over 55 years

Country	Year	1	2	3	4	5	6	7	8	9	10	Gini coefficient
Australia	1989	4.3	6.2	6.6	7.1	7.7	8.3	9.6	11.4	14.2	24.7	0.28
Austria	1987	4.7	6.2	7.2	8.1	9.0	9.8	10.8	12.0	13.8	18.5	0.21
Belgium	1988	4.4	6.2	7.1	8.0	8.8	9.6	10.3	11.5	13.9	20.1	0.23
Canada	1991	4.1	6.0	6.8	7.5	8.2	9.1	10.2	12.1	14.4	21.5	0.26
Germany	1989	1.8	5.4	6.8	7.8	8.7	9.8	10.5	12.9	14.7	21.7	0.29
Netherlands	1987	4.5	6.5	7.0	7.9	8.1	9.2	9.9	12.2	14.4	20.3	0.23
Norway	1986	5.9	6.8	7.3	7.8	8.6	9.4	10.4	11.7	13.4	18.8	0.20
Sweden	1987	6.0	7.5	8.1	8.8	9.1	9.6	10.4	11.2	12.7	16.5	0.15
US	1991	2.6	4.3	5.4	6.4	7.6	9.0	10.6	12.7	15.9	25.7	0.34

Table 4 Home ownership levels by deciles of disposable income, retired household heads over 55 years

Country	Year	1	2	3	4	5	6	7	8	9	10	Average
Australia	1989	76	73	74	77	81	81	84	88	88	90	81
Austria	1987	42	47	41	46	45	56	51	50	52	59	49
Belgium	1988	70	75	66	68	66	77	77	71	78	87	74
Canada	1991	63	64	64	64	71	72	83	81	85	86	73
Germany	1989	39	54	48	45	50	46	36	45	37	51	45
Netherlands	1987	46	44	27	21	17	22	32	37	30	56	33
Norway	1986	31	27	40	36	58	44	49	56	47	58	45
Sweden	1987	30	39	33	29	36	36	50	44	52	56	41
US	1991	58	68	68	75	81	85	86	88	90	92	79

Tables 3 and 4 from Mitchell (1995) provide data on the income and ownership distributions of retired people in 9 LIS countries in the late 1980s/early 1990s. The retired here are defined as those who are no longer seeking work and who are over the age of 55. Table 3 presents a picture of the distribution of net income after taxes and transfers for the retired population and Table 4 a picture of home ownership status by corresponding income decile. The first point to note from these tables is that the inverse relationship between home ownership and pensions expenditure discussed earlier is broadly replicated for home ownership and final income inequality amongst the retired population. Thus, the big home ownership nations of Australia, Canada and the USA turn out to be amongst the countries with the highest gini coefficients of inequality as shown in Table 3. On the other hand, the most equal countries – Austria, the Netherlands, Norway and Sweden – are amongst the countries with the lowest levels of home ownership. Assuming that greater degrees of income equality are seen largely as a function of greater welfare expenditure, this provides further support for the trade-off hypothesis, with only two countries – Germany and Belgium – standing as exceptions, the first because aged inequality is high and home ownership low and the second because that relationship is reversed.

But while the inverse relationship is once again confirmed, a second point suggests that this analysis is not readily compatible with the argument that the asset accumulation involved in home ownership reinforces income inequality. What Table 4 shows is that the countries of high home ownership are not countries in which the lower income deciles are denied access to private purchase. On the contrary, they are the countries in which lower income groups have apparently had the greatest success in accumulating housing assets, with the lowest decile of retired people in the United States manifesting a level of ownership higher than the average across all deciles in Austria, Germany, the

Netherlands, Norway or Sweden. Since the lowest income deciles in both Australia and Canada enjoy still higher levels of home ownership than the corresponding decile in the US, there is, therefore, a strong prima facie reason to suppose that, in all these countries, home ownership is of sufficient magnitude to modify the impact of the distribution of final income to some substantial extent. Certainly, there can be no question that, in these countries, the lower income deciles amongst the retired have access to financial resources unavailable to their counterparts in the leading welfare states of Western Europe.

The data presented so far relate to the simple fact of ownership or non-ownership of housing. Scepticism about these conclusions might arise because this takes no account of the extent of the benefits accruing to individuals as a consequence of their owner-occupation. Whilst our findings strongly suggest that, in some countries, home ownership does not reinforce inequalities stemming from other sources, critics might well argue that, since high income is a key to better housing, the apparent relative equality of housing status may deliver quite unequal benefits to different income classes. Arriving at even approximate figures for the size and impact of such benefits is extremely complex and involves the use of methodologies that are as yet far from universally accepted. The most advanced work on the calculation of non-cash income has been conducted under the auspices of the Luxembourg Income Study (Smeeding et al. 1992) and deals with benefits deriving from health and education as well as from owner-occupied housing.

Using this methodology, a major comparative study of the incomes and living standards of older people undertaken for the British Department of Social Security (Whiteford and Kennedy 1995) has arrived at conclusions about the impact of home ownership in the New World nations, which far from conflicting with our own, are congruent with them in almost every respect. They suggest that, unlike health benefits, which are invariably income equalizing in their impact, housing benefits (calculated as the imputed rental of owner-occupied housing) have very different effects in different countries.

> Housing benefits are strongly equalising in Australia and the USA, less so in Canada, but very unequally distributed in the UK...In each country the highest quintile receive benefits equal to about seven or eight per cent of their cash income, but for the lowest quintile, noncash housing benefits are only five per cent of income in the UK but 25 per cent in Australia (and nearly the same in the USA and Canada). (Whiteford and Kennedy 1995: 84-5)

This is their finding for the population as a whole, which they attribute to the fact that, in Australia, Canada and the USA, "the highest level of imputed income is received by older people, who tend to have lower average cash disposable incomes" (Whiteford and Kennedy 1995: 85). Hardly surprisingly, the reported impact for the older population is still stronger, with Australia standing out with imputed benefits of home ownership equalling 26.7 per cent of cash disposable income across all quintiles and no less than 46.4 per cent of the cash disposable income of the poorest quintile. Corresponding figures for Canada are 20.2 per cent and 29 per cent and, for the USA, 17.7 per cent and 49.1 per cent, respectively (Whiteford and Kennedy 1995: 85). In all these countries, the inclusion of the benefits of home ownership as part of the income concept markedly reduces the gap between the average income of older people and the average income of the total population.

4 Conclusions

In distributional terms, then, the evidence suggests that widespread home ownership in the countries of the New World does make a substantial difference to the social protection of the aged. It is, of course, not the whole story, both because there are old people in all deciles of the income distribution who lack homes and because, in any case, home ownership only partly substitutes for income. That means that the adequacy of public support for the aged remains a relevant consideration in owner-occupier societies as in advanced welfare states. However, what may matter most for the basic living standards of the elderly poor are differentials in minimum pension levels. Despite appreciably lower overall levels of public pensions expenditure, Australia, Canada and New Zealand provide rather high minimum pensions compared with most European countries (Whiteford 1995: Table 9) and offer that guaranteed minimum either to the whole population or to a substantial majority of it. These arrangements might well be seen as the elements of a distinctive social policy design well suited to complementing the distributional consequences of utilizing home ownership as the major bulwark of social protection for the aged. An intriguing, although clearly controversial, policy conclusion might be that the optimum age pension system for countries which achieve much of their life cycle redistribution through owner-occupation would be one that stresses adequacy for lower income earners and those without housing assets rather than income maintenance for higher income earners.

The conspicuous exception to high minimum pensions in the New World nations is the United States which, even taking the equalizing impact of home ownership benefits into account, has by far the highest rates of after-housing cost age poverty in the OECD (Whiteford and Kennedy 1995: 89). Arguably, that is a function of the combination of widespread home ownership with a contributory benefits system in which those failing to make adequate contribution receive only the destitution minimum supplied by supplemental security income plus food stamps. Whether or not the contrast between the United States and the other owner-occupation nations of the New World holds lessons about the optimum institutional design of social policy systems (see also Myles 1996), it does underline that conclusions about the welfare conferring impacts of home ownership should not be taken too far. Understanding the distributional implications of widespread home ownership properly modifies our conclusions concerning the efficacy of social protection for the aged in the nations of the New World, but it does not necessarily make any or all of these nations social policy exemplars.

Indeed, the very notion of being a policy exemplar, of policy league tables, and of leaders and laggards is a proper casualty of the approach taken here. The analysis we have presented rests on the view that similar outcomes may be encompassed by quite diverse policy configurations, leading not to quasi-normative debates as to which nation performs best, but rather to empirical enquiries as to the mechanisms leading to particular outcomes. Our investigations have shown that, for much of the post-war era, there has been an inverse relationship between the size of the welfare state and the incidence of home ownership in the advanced industrial nations; that the distributional implications which follow from these diverse configurations modify, to at least some extent, the conclusions that normally derive from cross-national comparisons of welfare state development in the Old World and the New.

We see these conclusions not as an occasion to draw moral lessons, but as a platform for further investigation and analysis. In the early 1980s, Kemeny (1981) argued that a home ownership/welfare trade-off was brought about by the increased tax resistance of those engaged in the process of house purchase. That appears to be an account which is too simplistic for several reasons. The first is that the story is at least partially contradicted by the course of events, both the strong increase in home ownership in the welfare leaders of Western Europe in the 1980s and the consequent decline in the strength of the inverse relation between home ownership and welfare expenditure. A possible clue to that development may be the increased willingness of some countries to rely on deficit financing to underpin the maintenance of welfare expenditures despite increased tax resistance (see Castles and Ferrera 1996). A second reason is the real possibility of quite different causal links between welfare expenditure and home ownership, once it is conceded that the welfare impacts of widespread ownership may be beneficial, for then it might be just as appropriate to argue that high levels of ownership in some part diminished the need for high pensions (for this argument on Australia, see Jones 1990: 181). Finally, the assumption implicit in Kemeny's work and much of what is said above is that the extent of home ownership impacts on the form of the welfare state. But that is only one way of reading the coefficients reported in Table 2. There is no a priori reason why the relationship may not be entirely the other way around, with a weak welfare state providing an incentive to home ownership as a means of life cycle saving or a well developed tax state crowding out the possibility of saving for private home ownership. To establish a better understanding of the diverse linkages which undoubtedly exist between what are, from the viewpoint of the individuals and families, the largest expenses they confront – providing for old age and providing for shelter – requires much further research.

Notes

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2. In reality, there is an extremely close relationship between the housing and second tier pensions sectors in Switzerland. Ownership of private rental accomodation is primarily in the hands of the insurance companies that provide second tier contributory cover. This means that adequate pension provision in Switzerland is, in substantial part, a function of the weak development of private home ownership in that country. This is obviously constant with the implications of the Kemeny thesis, though illustrative of yet another linkage mechanism between the two phenomena.

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