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Housing and
Homelessness:
models and practices
from across Europe



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The housing crisis and homelessness

By Guillem Fernandez, *Associació ProHabitatge* and Marc Uhrý, *Abbé Pierre*

INTRODUCTION

This article looks at the current economic climate and the phenomenon of homelessness, indicating possible tools that could help to avoid mistakes of the past and build a new social Europe.

BUBBLES AND INTERVENTION

On the 15th of November 2008, the highest representatives of the countries that make up the G20 met in Washington to address the financial and economic crisis. An action plan for the next five months was agreed, based on five principles: strengthening transparency and accountability in financial markets; promoting tighter surveillance systems; protecting the integrity of markets and its actors; strengthening international cooperation and reforming international financial institutions. Some think that this marks the end of a historical neo-liberal period and is the start of a Breton Woods II with more Keynesian interventionist policies. Others think that new tools are being redesigned in order to deepen the neo-liberal thesis especially when the agreed document reads:

*"We recognize that these reforms will only be successful if grounded in a commitment to free market principles, including the rule of law, respect for private property, open trade and investment, competitive markets, and efficient, effectively regulated financial systems. These principles are essential to economic growth and prosperity and have lifted millions out of poverty, and have significantly raised the global standard of living. Recognizing the necessity to improve financial sector regulation, we must avoid over-regulation that would hamper economic growth and exacerbate the contraction of capital flows, including to developing countries."*¹

An IMF report noted that the lost production caused by the bursting of the housing bubble is twice as big as the losses associated with a stock market crash², but the two are "intense, long, and damaging to the real economy"³.

The European Commission presented on the 26th of November its strategy to curb the effects of the financial crisis. The European Economic Recovery Plan⁴ is a temporary spending effort of €200,000

million (an amount equivalent to 1.5% of EU GDP). Some €170,000 million will involve the individual member states, based on increases in public investment and lower taxes, such as VAT. The remainder will be provided through EC funding. The origins of the current crisis are identified as follows:

*"During a period of strong global growth, growing capital flows, and prolonged stability earlier this decade, market participants sought higher yields without an adequate appreciation of the risks and failed to exercise proper due diligence. At the same time, weak underwriting standards, unsound risk management practices, increasingly complex and opaque financial products, and consequent excessive leverage combined to create vulnerabilities in the system. Policy-makers, regulators and supervisors, in some advanced countries, did not adequately appreciate and address the risks building up in financial markets, keep pace with financial innovation, or take into account the systemic ramifications of domestic regulatory actions"*⁵

Alan Greenspan chairman of the U.S. Federal Reserve until 2006 and now retired, provides some recent thoughts on the crisis and American responsibilities:

*"I was aware that the loosening of mortgage credit terms for subprime borrowers increased financial risk and that initiatives owned subsidized housing distort market outcomes. But I thought, and I still believe that the benefits of an expansion of home ownership outweigh the risk. The protection of property rights, so crucial to a market economy, requires a critical mass of owners to sustain political support."*⁶

After Greenspan's "negationism"⁷ of the existence of a housing bubble, we face a deliberate political choice. Of the nearly \$3 trillion new housing mortgages in the U.S. in 2006, one fifth were subprime. On the 24th of August, CNBC News reported that the combined subprime mortgages in the hands of large banks in China totalled 11,000 million dollars. No doubt many national banks in other emerging markets in search of high-yielding assets, speculated these subprime mortgages⁸.

1 Declaration of the Summit on Financial Markets and the World Economy, at para. 12. See

<http://www.efe.com/FicherosDocumentosEFE/Declaracion%20of%20the%20Summit%20on%20Financial%20Markets%20and%20the%20World%20Economy.doc>

2 World Economic Outlook. Housing and Business Cycle Report. 2008. See <http://www.imf.org/external/pubs/ft/weo/2008/01/pdf/text.pdf>

3 Desequilibrios estructurales del capitalismo actual. Emir Sader. Le Monde Diplomatique. N°156

4 See http://ec.europa.eu/commission_barroso/president/pdf/Comm_20081126.pdf

5 Declaration of the Summit on Financial Markets and the World Economy, at para. 12. See <http://www.efe.com/FicherosDocumentosEFE/Declaracion%20of%20the%20Summit%20on%20Financial%20Markets%20and%20the%20World%20Economy.doc>

6 La era de las turbulencias, Alan Greenspan, Ediciones B, p. 263

7 De la quimera inmobiliaria al colapso financiero, José García Montalvo, Antoni Bosch Editor, p.11

8 El carry trade y la actual crisis financiera por Michael M.H. Lim. Revista del Sur, N° 173 (sept-oct 2007)



In Europe, the absurd theory of "Decoupling"⁹, has developed i.e. that Europe could 'decouple' or disconnect from the United States. But while it is true that real estate markets are local, mortgage funding is global. While restrictions of credit or "credit crunch" at first affected those institutions that had bought U.S. sub prime securities, they later burst real estate bubbles in some European countries, particularly in Ireland and Spain. In truth nobody yet knows what the real impact of this housing crisis will be.

CRISIS? WHAT CRISIS?

In this context it is very important to be aware of what use is made of the term "crisis" in the field of housing. According to Cortes Alcalá¹⁰, there are two basic perspectives. The first draws on the real estate industry belief that the residential market is a basic and essential structural element of society, and the concept of crisis refers to the moments in the real estate cycle when there is a paralysis of the market, manifested in a drastic reduction in the production of new housing and/or an excess supply that demand cannot address, either for rental or purchase. From this perspective we can say that in 2007 we began to detect early symptoms of a crisis after a decade of growth in many European countries.

The second approach is to interpret the term "crisis" from a perspective of needs. This holds that the dominant system of residential provision has no capacity to adequately address the housing needs of its own population through markets. Thus, States should enable alternative systems to allow people to access housing. This perspective is highlighted by the UN Rapporteur for adequate housing, pointing out that approximately 100 million people worldwide are without a place to live. Over 1 billion people are in inadequate housing. Thus, while global economic integration is creating new wealth, the number of homeless or precariously sheltered persons continues to grow¹¹. At the European level, Caritas estimates that there are about three million people homeless and 18 million living in inadequate housing. From this perspective we can say that we have been in a crisis for many years. Homelessness was already identified as a priority by the EU Council of Employment and Social Affairs Ministers (EPSCO) Council in 2005¹², and is a

priority under the 'active inclusion' strand of the EU social protection and inclusion strategy. The EU Parliament also adopted the Written Declaration 111/2007 to end street homelessness¹³ in April 2008.

In this sense, the current situation can be analyzed as the convergence of the historic residential needs crisis with the current crisis in the housing market. In so far as the most vulnerable groups will see reduced chances of improvement, it will sharpen and stabilize some residential problems and create new situations of residential social exclusion. It is in this context that the claims for prioritizing different residential solutions for the homeless and for setting quality standards are strengthened.

WHAT COSTS HOW MUCH?

The European anti-crisis measures recently announced do contain some useful measures which could address the needs of people in poverty or those furthest from the labour market. However they come without a coherent strategy based on human rights. To carry out public policies to eradicate homelessness, solid data on the phenomenon is required, as well as a good legal framework, political consensus and a significant budget allocation. But how much does it cost to solve homelessness? There has been no attempt yet to conduct a cost-benefit analysis in Europe to address the problem of homelessness.

In the U.S. or Australia¹⁴ there are various cost-benefit proposals that continue to be controversial, because we face a problem of values whenever we try to reduce the personal, emotional or health costs of living on the street to monetary units.

But is homelessness costly? There are different approaches but one of the most interesting ones is that homelessness programmes produce positive outcomes for users in the period immediately following the provision of support and does so at low cost of delivery relative to the delivery of other services. Indeed, if homelessness programmes were able to reduce the utilisation of health and justice facilities by users of homelessness programmes down to population rates of utilisation, the savings achieved would pay for the homelessness programmes many times over.¹⁵

9 De la quimera inmobiliaria al colapso financiero, José García Montalvo, Antoni Bosch Editor, p.11

10 La crisis de la vivienda. Luis Cortes Alcalá, Documentación Social nº 138, p.84

11 Kenna, P. "Globalization and Housing Rights." *Indiana Journal of Global Legal Studies*, No. 2, 2008.

12 FEANTSA, Policy Statement - The Council of Ministers for Social Affairs sends key message to the Spring European Council 2005: "Treatment of the phenomenon of homelessness is a key priority".

http://www.feantsa.org/files/social_inclusion/Spring%20European%20Council%202005/spring_council.pdf

13 European Parliament Written Declaration on ending street homelessness 111/2007, <http://www.europarl.europa.eu/sidesSearch/search.do?type=WD&ECL&term=6&author=28111&language=EN&startValue=0>

14 See: *Accountability, Cost-Effectiveness, and Program Performance: Progress Since 1998*, Dennis P. Culhane, University of Pennsylvania, Kennen S. Gross, University of Pennsylvania Wayne D. Parker, The Virginia G. Piper Charitable Trust Barbara Poppe, Columbus Emergency Food and Community Shelter Board Ezra Sykes, Massachusetts Housing and Shelter Alliance and - *Counting the Cost of Homelessness: A Systematic Review of Cost Effectiveness and Cost Benefit Studies of Homelessness*, Mike Berry, Chris Chamberlain, Tony Dalton, Michael Hom and Gabrielle Berman Of the RMIT-NATSEM Research Centre Prepared for the Commonwealth National Homelessness Strategy Final Report July 2003

15 What is the cost to government of homelessness programs? by Kaylene Zaretsky, Paul Flatau, Michelle Brady, *Australian Journal of Social Issues*, Winter, 2008 http://findarticles.com/p/articles/mi_hb3359/is_2_43/ai_n28565860/pg_1?tag=artBody;coll



The objective of full implementation of rights is the ultimate assessment grid for public policies. It is not simply enough to describe efforts made, without evaluating the outcomes. To make decisions about homelessness, administrations ought to make a Social Multi-criteria Evaluation (SMCE) to evaluate various alternatives to a complex situation because it has to facilitate discussion and consensus between different actors. SMCE is proposed as a policy framework to integrate different scientific languages, for example, when concerns about civil society and future generations have to be considered along with policy imperatives and market conditions¹⁶. And we must bear in mind that to solve homelessness in Europe there is no single solution.

TAX TO PREVENT HOMELESSNESS

EU public policies in housing need to regulate the inadequacy of the market. But the first obstacle that arises is that housing is not a competence of the European Union. However, in practice, an increasing number of EU regulations are having great impact on housing at member state level. For example, monetary policy controlled by the European Central Bank has a direct effect on housing and mortgage markets through domestic interest rates. These are very different to each other, and therefore comparison of data or specific actions in one country can not be extrapolated to others. Indeed, the European Commission has already sought to promote the integration of European mortgage markets with the same products appearing at the same prices across the EU¹⁷.

It's clear that the process of European economic convergence has gone at a quicker pace than other forms of convergence, such as European consumer and other harmonisation laws and social rights of people living in Europe. Indeed, we believe that the integration of a single European mortgage market may primarily benefit banks and fund investments. What is needed is an instrument consistent with a structural, long-term reform of the housing system. A more general study framework is needed, as it is affected by the property rights regime, the housing finance regime, the residential infrastructure regime, the regulatory regime, and the housing subsidies/public housing regime¹⁸.

Different ideas have to be taken into account. One of them could be to create a Directive similar to the anti-discrimination one, to achieve the ending of homelessness at EC level. Another would be to levy a tax on speculative financial movements related to housing, to avoid situations like the subprime crisis. This would be understood as a tax to prevent homelessness. The aim would be to achieve financing to address the inequalities created by the market on access to housing, which is a human right. It could be called a TPH (Tax to Prevent Homelessness) or the Ferkery Tax¹⁹.

Fiscal policy could be an important instrument on the state level. If we want a strong social state to develop an active role in meeting the needs of the population, then funds are required. Quality health care, housing or education cannot exist if governments do not have the resources necessary to achieve them. Secondly, it must be decided which segments of the population will bear the brunt of the taxes. In this regard it is worth remembering that the most advanced countries base their tax system more on direct taxes (income, property, corporate, inheritance) as opposed to indirect taxes (VAT, gasoline). Taxing currency transactions to penalise speculation and to control the movement of capital in the short term, would affirm that public interest prevails over individual speculative interests. It would place housing needs and housing use over housing as a market commodity, indirectly subject to international finance market speculation. Ferkery Tax would be the local version of the "Tobin Tax on Housing."

Another tax may not be the solution to resolving homelessness - it may only raise money to develop programmes. But what is needed in the interests of the vast majority of the population, are real changes to reach another paradigm where the financial system contributes to social equality, economic stability and sustainable development.

Indeed, we believe that the integration of a single European mortgage market may primarily benefit banks and fund investments. What is needed is an instrument consistent with a structural, long-term reform of the housing system.

16 Social Multi-Criteria Evaluation for a Sustainable Economy, Munda, Giuseppe 2008, XVIII, 210 p. 35 illus., Hardcover. ISBN: 978-3-540-73702-5

17 The Costs and Benefits of Integration of EU Mortgage Markets Report for European Commission, DG Internal Market and Services, London Economics, 2005

18 Housing Law and Policy in Ireland, Padraic Kenna, Clarus Press, April 2006

19 'Ferkery' takes the initials of the surnames of the three people who have thought this up.

