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## Chapter 3

### The Rewards of Policy Legacy:

#### Why Dutch social housing did not follow the British path

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#### 1. Remarkable reform in Dutch housing <sup>1</sup>

In 1989, during the third term of Prime Minister Ruud Lubbers, the Dutch government announced far-reaching reforms of housing policy. Now, fifteen years later, it is clear that nearly all of the reforms that were then proposed have indeed been implemented. The social housing reforms included budgetary cuts that gave way to a more fundamental reorganisation of the relationships between the government and the housing associations. Two objectives lay at the heart of the reforms: the more efficient use of the capital that had accumulated over the years – which was stored in the social housing stock and the financial reserves of the housing associations - and the development of new governance relationships between the state and the housing associations. The climax of the reforms was the so-called balancing and grossing operation (*bruteringsoperatie*), which took place in 1995 when, at a stroke, the housing associations and the national authorities each wrote off the debts held by the other – over EUR 16 billion in unpaid object subsidies against EUR 17 billion unredeemed government loans (Tommel, 1995).

Many things are remarkable about the Dutch housing reform. From the Second World War until the late 1980s, Dutch housing policy was constrained and determined by external policy requirements and by the obligations entered into under earlier subsidy agreements (Brandsen and Helderma, 2004; Van der Schaar, 1987). Until the mid 1980s, Dutch housing policy seemed to be a classical example of the ‘lock-in’ effects of previous policies. Yet in the 1990s, these lock-in effects apparently had lost their relevance in the sense that they no longer constrained reforms. Moreover, whereas the struggle against the housing-shortage used to be considered as one of the most politicised issues in the post-war Dutch welfare state, in the 1990s, reforms could be accomplished without any notable political and public attention. Dutch housing more or less underwent a ‘silent revolution’ in which reforms could be accomplished without opposition from political parties (from the left), interest groups (especially those of the housing associations) and without attention by the media and the wider public. But in international terms, too, the Dutch social housing reforms are considered to be remarkable: so far, for example, they have avoided the marginalisation of the social housing stock that has taken place in Great Britain where the proportion of social housing in overall stock was severely reduced through sales and declining construction levels (Harloe, 1995).

This chapter examines how the reform in Dutch social housing was possible and why it did not result in a marginalised housing stock. In the UK, social housing production dropped off from the 1970s onwards, whereas Dutch construction levels during the 1980s remained close to those of the early 1970s (Harloe, 1995). In the early 1980s, moreover, the social housing stock in the UK was reduced by as much as a fifth through the Right-to-Buy policy (1.2 million homes) while in the same period the Dutch social housing stock continued

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<sup>1</sup> This chapter reflects points made in earlier studies by the authors, particularly Helderma and Brandsen, 2004; Brandsen, 2004; Brandsen and Helderma, 2004; Brandsen, Cardoso Ribeiro and Farnell, 2005.

to grow, its proportion in overall stock remaining fairly stable. Finally, contrary to what happened in the UK, Dutch tenants have not suddenly found themselves in a residual and marginal sector that caters only for the poor. Although this chapter focuses primarily on Dutch social housing, it will refer to the British situation as a contrast case. One must of course acknowledge the historically divergent course of Dutch and British housing policy, but many authors (as will be explained below) have regarded the British evolution as typical and ultimately inevitable – an assumption the Dutch recent history seems to question.

## **2. Social housing: a vulnerable policy sector?**

Politics not only create policies, but policies also create politics. If there is one subset of policy areas from which this crucial lesson has been learned it certainly has been the welfare state. The development and expansion of social policy programmes in the welfare state, providing income maintenance, pensions, education, health care and housing, was part of a struggle over the role of the state vis-à-vis the market, but simultaneously it transformed the institutional context in which these political and social struggles took place (Esping-Andersen, 1996). Once enacted and implemented, social policy programmes themselves feed back into social politics and by doing so, transform the institutional constellation and political processes through which the welfare state develops over time (Skocpol and Amenta, 1986; Pierson, 1994). These insights have had important consequences for both causal-analytic and historical interpretative studies of welfare state reforms. Instead of simply analysing the impact of state-society relations and the socio-political power constellation on policy reform (politics creates policies), social policy reform should be analysed in a more fine-grained and dynamic way by tracing the political consequences of institutionalised policy programmes (policies create politics).

Arguably the most famous study on positive feedback and welfare state reform can be found in Paul Pierson's study *Dismantling the Welfare State* (1994), which addresses neo-conservative reforms undertaken in the 1980s by the Thatcher government in Great Britain and the Reagan administration in the United States – two critical cases in which reform of the welfare state focused primarily on dismantling the social services and reducing citizens' claims (retrenchment). Retrenchment is explicitly concerned with moving the welfare state toward a more *residual* role; either by cutting social expenditures; by restructuring social policy programmes (programmatic retrenchment) or by re-arranging the political environment (systemic retrenchment) in such a way that enhances the probability of such (residual) outcomes in the future (Pierson, 1994: 17).

Pierson's most important conclusion was that even for Thatcher and Reagan the welfare state turned out to be nearly impregnable. However, Pierson added a subtle qualification to his general 'resilience thesis': the extent to which the British and American welfare states had been resilient to neo-liberal reforms differed from one policy domain to another. What is particularly interesting for the present chapter is that in Pierson's study, social rented housing stood out as the case of what he called a vulnerable welfare programme. Contrary to what occurred in adjacent policy areas, positive feedback in housing did not lead to reform inertia, but instead created the conditions for a dramatic turnaround in British housing policy. In his own words:

In housing, retrenchment advocates succeeded in establishing a self-reinforcing dynamic in which cutbacks led to weaker opposition, allowing further cutbacks. Had the government been able to apply these strategies effectively in other domains, the repercussions for the welfare

state would have been serious; but housing was the exception rather than the rule.” (ibid.: 159).

For example, one of the most radical aspects of privatisation to be successfully introduced under Margaret Thatcher was the so-called ‘Right-to-Buy’ programme. Thatcher was able to offer a large number of tenants a home of their own – and thereby to transform the political risks of retrenchment into political gain – simply by obliging the Labour-dominated council housing services to sell council houses to their sitting tenants for between fifty and thirty percent of their market price. At first glance, this is surprising because social housing could be expected to be a prime example of a sector in which entrenchment plays an important role. After all, the long life-cycle, high initial price and sheer immovability of housing all mean that houses built in the past have a considerable influence on supply and prices in the current housing market (Floor, 1971). In other words, policy feedback is physically located in the housing stock. Also, housing costs account for an important part of disposable income and house building represents an important investment market. Social housing policy is therefore often closely interwoven with socio-economic policy. One would rather expect a high degree of positive feedback in social housing and hence a firm obstacle to reform (Pierson, 1993).

Yet Pierson concludes the opposite and notes a striking openness of the housing field to reforms, which he ascribes primarily to the capital-good nature of the housing market, and to the fact that housing is characterised by one-off investments whose effects are spread over a long period of time. This made it easy for the Thatcher government simply to shift the cost of its policy (e.g. more limited availability of social rented housing) to the future, all while ensuring that the government would benefit from the revenues from the sale of council houses, both financially and politically (happy new home owners often voted Tory). Housing thus provided scope for neo-conservative reform that was not available in other policy areas of the welfare state. However, the consequences of the Right-to-Buy programme were dramatic: because only the worst rented accommodation remained, the public rental sector was marginalised.

It should be noted at this point that Pierson is not alone in his conclusion that housing is an extremely vulnerable policy area for welfare state retrenchment. Various international studies comparing social housing in the welfare state show that housing has developed into the ‘wobbly pillar’ of the welfare state (Lundqvist, 1992; Harloe, 1995; Kleinman, 1996). Their claim seems to be confirmed by European housing trends; in nearly all countries, the share of social housing stock has decreased, often in significant numbers, and increasingly reserved for the poorest sections of society.

Dutch social housing reforms seem to defy Pierson’s conclusion in two ways. To begin with, reforms took place only after forty years of steady growth and numerous failed attempts to liberalise the housing market, as we will describe below. Furthermore, when the reforms finally did occur, they did not result in marginalisation: in relative terms, the Netherlands still has Europe’s largest and most varied public housing stock. The private non-profit housing associations own over two million homes, more than a third of all Dutch housing (see table 3.2). On the basis of their current market value, these give the associations estimated assets of EUR 29 billion, which they are obliged under law to use for the benefit of housing needs (Ministry of Housing 2004). In fact, the Netherlands seem to have gone further than any other country by stating that social rented housing can be self-supporting, in the sense that the mature social housing stock could function as a ‘revolving fund’. In other words, we are faced with a double question. If housing is as easy to reform as Pierson and others suggest, why did reforms in the Dutch system not occur earlier? And when reforms did happen, why did they not result in a marginalisation of the British type?

### 3. Historical barriers to reform: private ownership and socio-economic policy

In spite of the supposed vulnerability of social housing to reform, no substantial policy reforms aimed at liberalising the housing market occurred until the early 1980s. Instead, Dutch post-war housing policy became locked-in by external socio-economic policy requirements and by obligations from long-term subsidy agreements. There were two main factors that created this lock-in situation during the 1960s and 1970s: (1) the stock was controlled by private non-profit housing associations rather than public organisations, and (2) social housing had become closely entangled with other policy areas. Both factors created not only a large social rented housing stock, but they also generated positive feedback in Dutch housing.<sup>2</sup>

#### *Institutional contingencies: private rather than public control*

Because the Netherlands is a case par-excellence of a corporatist (confessional) welfare regime (Esping-Andersen, 1990; Van Kersbergen, 1995), Dutch social housing policy has puzzled international researchers for a long time (e.g. Lundqvist, 1992; Barlow and Duncan, 1994). In the post-war era, the Netherlands has been able to build up one of the largest and most diversified social rented stocks in the world that caters not only for the lower incomes, but for the middle incomes as well. Hence, in their comparison of European housing systems Barlow and Duncan (1994: 31) concluded that Dutch housing seems to fit more closely into the social-democratic regime type. Jim Kemeny came to a similar conclusion; what is striking about the Dutch approach according to Kemeny (1995: 119), is the great preponderance of non-profit rented housing over profit rented housing. How and why did the Dutch achieve this social rented stock? Was it because of a political preference for a large and comprehensive social rented housing system, or are there other factors that can explain this particular outcome?

One important institutional aspect of Dutch social rented housing definitely fits into the corporatist regime type. Christian democracy in the conservative corporatist welfare regime developed its own political place between the free market and state-oriented socialism that distinguishes it from social democratic welfare regimes and liberal welfare regimes. Based on the Catholic principle of subsidiarity and the Protestant principle of sovereignty, the state should not perform any functions that lower-level entities can perform (Van Kersbergen, 1995: 148). For housing, this meant that already in 1901, with the enactment of the Dutch Housing Act, it was decided that social rented housing should be devolved to private non-profit housing associations. Municipalities were only allowed to start their own housing companies when private initiative failed. At the local level, each of the ideological (religious) pillars that constituted Dutch society was allowed to start their own housing associations. Financial contributions of the state to social housing were restricted to local and private housing associations, operating under a public regulatory regime. The only restriction was that the housing associations should exclusively serve the general interest in housing instead of the interests of their members.

The current model of Dutch social rented housing had its formative moment in the first years of the twentieth century, but it took until the 1960s before the housing associations could really build up a stake in the Dutch housing market (see table 3.1). Although they were able to expand for a small period of time during the First World War, as soon as private

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<sup>2</sup> The historical description of Dutch housing policy in this chapter owes a great deal to a small number of studies that have appeared over the last few decades, in particular Van der Schaar, 1987; Harloe, 1995; Kemeny, 1995; Van der Schaar et al, 1996; Brakkee, 1997; Faber, 1997.

housing investment had been recovered, their role was residualised again. In 1934, the Dutch government even decided that, from then on, housing associations were obliged to refund all the subsidies they had received, so that it was impossible for them build up any financial reserves. It was not before this policy was abolished in 1965 that they could really develop into modern housing companies. Also, in 1968, after a long period of deliberations and negotiations (Faber, 1997), the housing associations were finally given formal primacy over municipal housing companies. They were even allowed to invest in the middle segment of the housing market, under the crucial condition that for-profit landlords were allowed to build up a share in the social rented sector (which, in practice, the latter never took an interest in).

**Table 3.1: Social housing stock by type of provider, in absolute numbers (x 1000) and in relation to the overall housing stock**

Year	Private non profit share of total stock	Local authority share of total stock	Overall social housing share of stock
1947	9%	3%	13%
1956	12%	11%	24%
1967	22%	13%	35%
1975	29%	12%	41%
1982	27%	7%	34%
1989	32%	6%	37%
1994	35%	2%	37%
1997	37%	0%	37%
1999	36%	0%	36%
2001	36%	0%	36%
2002	35%	0%	35%

Source: CBS, *Housing Statistics*; Ministry of Housing, *Public Housing in Figures*.

The institutional contingencies of the Dutch social rented stock are important for three reasons. Firstly, housing associations represented so to say a compromise between the major political factions. As expressions of private initiative, they were the favourite housing provider of the Christian parties. This was not unimportant, since from 1954 to 1974 the Ministry of Housing was controlled by ministers from the religious parties. But the private nature of housing associations to some extent also accommodated liberal preferences while the fact that they were ‘non-profit oriented’ appealed to the social-democrats, even if the latter preferred local authority provision.<sup>3</sup> Secondly, although the Dutch housing associations came under heavy state influence as time progressed, having little say over their own construction programmes and rent levels, the fact that they were privately owned made it legally extremely difficult to implement a radical and irreversible intervention in their assets. Finally, they maintained a strong lobby with the government. Having grown as extensions of a pillarised society, the housing associations, were generally affiliated to one of the major ideological ‘pillars’ (Catholic, Protestant, socialist) and maintained close links with political parties, both through their branch associations and informal social networks (Lijphart, 1968).

#### *Social housing as an emergency exit*

Equally important for the development of the social rented system, however, was the change in housing policy goals after the Second World War. At the end of the Second World War, the country found itself faced with immense housing shortages, higher than those of most European countries. During the war, construction had ground to a halt and many dwellings

<sup>3</sup> By contrast, from the early 20<sup>th</sup> century onward social housing in the UK came under the control of the local authorities, a choice which was more clear-cut from the start than it was in most countries (Harloe, 1995). Private nonprofits were historically of relatively minor significance, though they have recently been on the rise (Kendall & Knapp, 1996; Mullins, 2000).

had been demolished or destroyed. The housing market of the time was (still) wholly incapable of meeting such shortages. Not only were building materials and capital scarce, but private builders also delayed their investments in the hope that the economic conditions might soon improve. It was at this point that the state stepped in and started to plan and finance construction on a large scale. Housing policy became one of the most important instruments of socio-economic policy making in the Netherlands, a relationship that was to bring considerable benefits to the housing associations. With their size, the state-driven construction programmes in housing not only served the interests of those in need for housing, but they were of a major economic interest in terms of employment and investment. What is more, the level of rents paid by tenants were of great significance to government's wage and price policy, which was tied to the costs of living (of which rents make up a large share). Through construction subsidies invested in housing units (object subsidies), rents were generally brought to a level below cost. At a time when the government's main preference was for the economy to recover, it was important to keep wages low. Under pressure from the unions and the electorate, this was only possible given commitment to keep the costs of living low. As a consequence, any sharp rent rise was likely to cause controversy. Housing served as an 'emergency exit' for socio-economic policy, with which it had become inextricably bound up and which created a lock-in situation that proved difficult to overturn in the years to come (Helderman & Brandsen, 2004).

#### **4. Previously failed reform attempts**

The wish to build housing in large quantities and keep it cheap effectively thwarted any attempt to reduce state-driven construction, since private builders generally operated in the more expensive and more profitable segments. The protestant minister Van Aartsen (1959-63) tried to enact a programme of liberalisation, arguing that local authorities and non-profits should only build housing for the poor sections of society. He lowered construction subsidies and targets for social housing, while raising those for the private sector. Simultaneously, he attempted to liberalise rents, which inevitably involved rises. Although initially successful, he was in the end forced to retrace his steps as the social housing construction dipped while private construction did not pick up sufficiently. Overall construction rates were set to drop, which went against the political preferences of the time. Yet only local authorities and non-profits could meet the targets with any degree of certainty. There were also grave concerns that the rise in private construction would threaten the growth of cheap market segments, where shortages were still higher than in the housing market generally. The minister was forced to raise the construction targets for social housing closer to their former level. The liberalisation was over before it had truly started (Van der Schaar, 1987).

Van Aartsen's successors of the 1960s, the catholic Bogaers (1963-67) and the protestant Schut (1967-71) realised that the liberalisation of housing policy would be impossible until the housing shortages had been effectively alleviated. Accordingly, they quickly expanded the construction programme to record heights (see table 3.2). Between 1962 and 1967, social housing construction rose from 35% till 55% as share of total housing construction (Adriaansens and Priemus, 1986). As a consequence, total expenditures on housing subsidies as share of GDP rose from 0,8% in 1950 till almost 4% at the end of the 1960s (Van der Schaar et al, 1996).

At the end of the 1960s, the government started to develop new instruments to control public expenditures. One of these was the introduction of the individual – income related - rent subsidy, an instrument that concentrated financial support on the neediest. The idea was that this type of subject subsidy might help bring down the less discriminate object subsidies.

But on the whole, these attempts at reform met with strong resistance within Parliament and from the housing associations (Van der Schaar, 1987). Minister Schut introduced a system of small yearly rather than large irregular rent rises, in the hope that these annual rent rises would face less opposition. It proved to be a gross miscalculation: the intense discussion over rent rises now returned on a yearly basis in the Dutch Parliament.

In the early 1970s the protestant minister Udink (1971-1973) tried a head-on approach, setting ambitious targets for the harmonisation of the rents in the housing stock and the abolition of object subsidies. Udink proposed two successive yearly rent rises of 10% in order to harmonise the rents of the stock with the new cost prices. Although these rent rises were at an unprecedented high level, it was argued that high inflation would largely mitigate their income effects. It was a ‘window-of-opportunity’ to get rid of the object subsidy for once and for all. But in 1973 the government of Christian-Democrat Prime Minister Biesheuvel fell, and the political tide turned with the centre-left government of the Social-Democrat Joop Den Uyl. In their programme there was no scope for 20% rent increases; instead, an increase of 6% was chosen (while inflation at the time was about 8%). Den Uyl and his cabinet saw housing explicitly as a ‘merit-good’ that could be fostered only by means of continued state involvement (Ministry of Housing, 1974). All in all, there was no political support for radical reforms aimed at liberalisation in housing policy. Housing policy was too strongly embraced by other policy areas, and vested interests were too strong.

**Table 3.2: Housing construction in absolute numbers (x 1000), as spread over local authorities, private non-profit housing providers and for-profit builders.<sup>4</sup>**

	Total	Las	Non-profits	For-profits
1946	1,6	0,4	0,2	1
1949	42,8	18,3	14,1	10,4
1959	83,6	24,7	22,9	36
1969	123,1	23,4	39,1	60,7
1979	87,5	2,6	23,8	61,1
1989	111	3,8	32,3	74,9
1994	87,4	1,1	23,6	62,7
1997	92,3	0,5	24,6	67,2
1999	78,6	0,4	17,3	61,0
2001	70,7	-	14,6	56,1

Sources: CBS (1989) and Ministry of Housing, *Public Housing in Figures*

The global recession that came at the end of the 1970s resulted in the collapse of private construction and the owner-occupier market, resulting in one of the most severe crises in the post-war housing market. The centre-right cabinet of Prime Minister Dries van Agt (1977-1981) was forced to return to anti-cyclical investments in social housing. Construction was encouraged by expanding subsidies, at a time when significant rent rises were politically unacceptable. Housing expenditure reached new records. The Ministry of Housing partially succeeded in suggesting budget cuts by inventive bookkeeping, particularly by transferring the state loans to housing associations away from the regular budget. But housing expenditure was spinning out of control. Overall, total expenditure on social housing would eventually rise from approximately EUR 0.9 billion in 1970 to EUR 6.3 billion in 1988 (Ministry of Housing, 1989). In 1988, 60% of commitments on the budget of the Ministry of Housing consisted of subordinated payments as a result of the various subsidy schemes. In forty years’ time, the effort to reduce public expenditures on housing and to liberalise the housing market

<sup>4</sup> From 2000 onwards, local authority and private non-profit construction have no longer been measured separately, because the former is now negligible.



(advocates of liberalisation would say: 'to return to normal market conditions') had proved unsuccessful.

## 5. Social rented housing at the crossroad: the process of reform

Between 1945 and 1982, Dutch housing policy had become completely locked-in by external socio-economic policy requirements and by obligations from long-term subsidy agreements. After 1982, however, the political climate in the Netherlands changed significantly. The political agenda became dominated by the need to reduce the government's budget deficit. Reforms started in those areas that were considered to be the most vital or crucial part of the Dutch economy, given its high dependency on the world economy.

One way to achieve this was wage moderation. Yielding to pressure by the employers and the threat of government's imposed wage control, the trade unions abandoned their long-lasting claim to the automatic indexation of wages to prices. This resulted in the so-called Accord of Wassenaar that was reached under strong pressures of the then reigning centre-right government in 1982 and after a long period of cumbersome negotiations between the representatives of employers and employees. This Accord helped to lower the real exchange rate and thereby to restore the competitiveness of Dutch firms and products. The Accord of Wassenaar is generally considered to be the start of the miraculous recovery of the Dutch economy in the 1980s and 1990s (Visser and Hemerijck, 1997). After the Accord of Wassenaar in 1982, however, welfare state reform still had to begin in the Netherlands. Whereas wage moderation was aimed at improving the competitiveness of the Dutch economy, reforms in social security benefits, health care, education and social housing were generally aimed at restricting social entitlements to social provisions.

The start of the reforms in social housing are usually dated at the publication of a new, integrated policy document in 1989, *Volkshuisvesting in de jaren negentig (Housing in the 1990s)* under the responsibility of the Christian Democrat Enneüs Heerma, State Secretary of Housing in the Centre-Left government of Prime Minister Ruud Lubbers (Ministry of Housing, 1989). However, already early in the 1980s, changes were made that more or less paved the way for the 1989 policy paper. First of all, the Accord of Wassenaar meant that the direct link between rent policy and income policy was formally abandoned so that rent increases were no longer tested against their effect on incomes. From then on, rents policy could finally catch up. From 1982 until 1997, rents actually rose faster than building costs and inflation (Ministry of Housing, 1989). Secondly, in the mid-1980s, the legitimacy of previous housing policies became subject of an intense political and public debate. Thirdly, by means of incremental adjustments and strategies of institutional layering and conversion<sup>5</sup>, the risks and costs of housing investments and maintenance were gradually privatised to housing associations and individual consumers.

### *A crisis of legitimacy: opening the window in the house*

The first centre-right government of Prime Minister Ruud Lubbers imposed a strict budgetary discipline upon the various ministries. Not surprisingly, housing became subject to these budgetary policies as well. While it had previously been fairly easy for the Ministry of Housing to pass on budget cuts by declaring expenditures on state loans for social housing simply as

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<sup>5</sup> Institutional layering refers to the transformation of policy by means of adding new institutions to the established institutionalised system. Institutional conversion refers to the process of adapting existing institutions to new circumstances. In both instances, reforms are accomplished without the elimination of established institutions (Streeck and Thelen, 2005).

not being relevant for the Ministry's budget, in 1982 this game of 'budget-obfuscation' was over when new budgetary rules were introduced by the Ministry of Finance (Van der Schaar et al, 1996). In 1985 the Social-Economic Council (SER), a policy advisory body in which both employers and employees are represented, even openly wondered whether the object subsidy should not simply be abolished, if necessary even at the risk of a fall in building activity. In doing so, the SER referred to a soon published policy review of rents and subsidy policy, conducted under the supervision of the Ministry of Finance by the Ministry of Housing, which in 1986 was to lead to the formulation of six possible cutback strategies in housing (Ministry of Finance, 1985). The Council for Public Housing (RAVO), in which all the major interest groups in housing were represented, responded with shock and indignation on the policy review and the SER advice. Given the crisis on the housing market and the low levels in housing investments, government's involvement should rather be increased, it was claimed. Yet, the Council was fighting a rear-guard battle.

In 1986, a public Parliamentary Enquiry examined the rents and subsidy policies that had led to the expansion of housing expenditures as well as the functioning of the Ministry of Housing and its predecessor over the previous twenty years.<sup>6</sup> The Parliamentary Enquiry was initiated on request of the parliament after the publication of an article in one of the leading national newspapers (*De Volkskrant*, August, 19<sup>th</sup>, 1986) about fraud with housing subsidies by one of leading institutional investors and the lack of control on these subsidies by the Ministry of Housing. While real fraud was never really proved by the Enquiry, nor by an investigation of the judicature, the Enquiry had a dramatic impact on the legitimacy of past housing policies. All of the 90 public hearings undertaken by the Commission were broadcasted live on national television and extensively reviewed and discussed by the press. Housing was pictured as a budget-maximising sector with a voracious appetite for subsidies. To limit the risk of any further political damage, the then responsible State Secretary for Housing, Gerrit Brokx, was forced to resign by his own Christian-Democratic party even before the Enquiry was properly under way. Enneüs Heerma, who was State Secretary of Economic Affairs and member of the same party, succeeded him and came to office in 1987.

### *Privatising risks and containing costs*<sup>7</sup>

One of Heerma's first political acts was to prepare a new, comprehensive policy document called *Housing in the 1990s*. The main purpose of the policy paper was to formulate a new vision on the role of the state in housing provision. Abandoning the concept of 'merit-good' that had been used to legitimise state intervention in the housing market, the paper defined housing explicitly as being an individual consumer good. Also, it was believed that the large-scale post war housing shortages had finally been resolved. Therefore the responsibility for securing adequate housing could finally be given back to the market and to individual providers and consumers. Direct government assistance should in principle be confined to households with below-average incomes through a limited programme of subsidised social rented housing and means-tested rent allowances. The rest of the population had to rely on the owner-occupied housing market or the liberalised rented market (Ministry of Housing, 1989).

Yet formulating a coherent and comprehensive vision on housing is one thing, formulating and implementing a workable policy programme quite another. Although the policy paper can be conceived of as the seminal document of the housing reforms, it was preceded and

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<sup>6</sup> Parlementaire Enquête Bouwsubsidies, *Eindrapport*, Tweede Kamer, 1987-1988, 19623, no. 30-36. The Hague: SDU.

<sup>7</sup> The several measures that were taken in order to reform the rent- en subsidy system in the Netherlands step by step are technically and economically too complex to do them full justice in this short overview. For more detailed analyses and explanations of these reforms, see: Van der Schaar, 2003; Helderma and Brandsen, 2004; Brandsen and Helderma, 2004.

succeeded by more incremental reforms in order to gradually adjust the housing system. The reforms that preceded and succeeded Heerma's policy paper, drew on the fact that the housing market is characterised by supply in the form of stock, but this stock was now deployed for the purpose of funding cutbacks and institutional reforms in social housing. The common element in these reforms was that the financial costs and risks of housing investments and consumption were privatised to the housing associations and also partly to the tenants.

The first step involved the reallocation of the risks associated with housing investments. Since state loans and government guarantees on capital loans were part of the Ministry's budget, these needed to be abolished. In order to do so, the Ministry more or less imposed upon the housing associations the establishment of the Social Housing Guarantee Fund (*Waarborgfonds Sociale Woningbouw*, WSW). The WSW is a private collective fund established in 1984 to pool the risks of maintenance and housing improvement for participating housing associations. Although housing associations and municipalities had great difficulties with the replacement of government guarantees by a private Guarantee Fund, they realised that this was the only way to maintain a system of object subsidies in the long run. The WSW was financed by the contributions of participating housing associations. While it was originally intended for guaranteeing investments in housing maintenance and improvement only, in the 1990s its scope gradually extended. Today, it guarantees the capital loans for all the investments of almost 90% of the housing associations. The WSW-arrangement gives housing associations an excellent reputation on the capital market and a substantial reduction on the interest rates that they have to pay for their mortgages (Van Kempen, 1996).

Another fund, the publicly legislated Central Fund for Social Housing (*Centraal Fonds voor de Huisvesting*) had been added to the sector as a solidarity fund in 1988, anticipating the government paper *Housing in the Nineties*. It was initially founded for the purpose of reorganising the finances of the housing associations, by whose contributions it was funded. But again, as with the WSW, its purpose and tasks gradually extended in the 1990s. In 1998 it was also given a role in financial supervision and monitoring of the housing associations. Together, these two funds enhanced the stability of the social housing sector, making it virtually impossible for housing associations to go bankrupt. They are illustrative for the public/private constellation of the Dutch social rented system. By means of pooling the assets of participating housing associations (WSW) and by compulsory contributions (CFV) they established a firm basis for organised solidarity between the housing associations and eventually paved the way for the abolition of the object subsidies in social housing and the establishment of a revolving fund in social housing in the 1990s.

Because rents had been rising faster than building costs since 1982, the gap between costs and revenues (rents) had grown smaller. But there were still many open-ended subsidy schemes which needed to be brought to an end. From 1988, various subsidy schemes were standardised, and devolved to the municipalities in order to put an end to the open subsidy schemes. Helped by low interest rates and the abolition of government loans, the government was eventually able to rid itself of the burden of ever-rising subsidies. Although this brought government expenditure under control, subsidies agreed at an earlier date continued to weigh on the Ministry of Housing. In the 1991 mid-term review, a further EUR 0.6 billion was levied on social housing (Van der Schaar, et al, 1996). To phase out the object subsidy as quickly as possible, the treasury finally allowed the Ministry of Housing after cumbersome negotiations to make a large part of the necessary saving by raising the trend-related rent increase from 3% to 5.5% (Ibid.). The rise in expenditure anticipated for the individual rent subsidies as a consequence of the annual rent increase of 5,5% had to be absorbed completely by the social housing budget. Significantly, from then on the annual rent increases were referred to as the *subsidieafbraakpercentage* – literally, the subsidy-destruction rate. In the 1992 Trend Report, the first reference was made to the abolition of the object subsidy (Heerma, 1992). The housing associations realised that the

system of object subsidies had come to an end. Higher rents together with low interest rates had helped to lower the amount of object subsidies that housing associations were entitled to.

#### *A win-win situation is created*

It was at this point that both the housing associations and the Ministry of Housing realised that they were facing an unique trade-off and win-win situation. The provisional climax of the reform came with the so-called agreement on balancing and grossing (*bruteringsakkoord*), which was agreed upon in 1993 and implemented in 1995. After protracted negotiations in which future costs and risks of housing investments (with many uncertain parameters) had to be carefully calculated and fairly allocated, the representatives of the housing associations, the ministry and the Association of Netherlands Municipalities agreed that all of the resisting object subsidy and government loans then current would be written off against each other. For housing associations and government alike, this represented a win-win situation. At a stroke, the budget of the housing ministry would be relieved of one of its highest sources of expenditure, while the housing associations were assured of the remaining object subsidies. Ultimately, over ninety percent of the housing associations agreed to the operation, a near-unanimity that was sufficient for the government to go ahead with it.

With this, the financial independence of the housing associations had been achieved. Partly as a consequence of the balancing and grossing operation, the share of social housing as a percentage of overall government expenditure fell from 8.7% in 1985 to 2.7% in 1998. At the same time, there were radical shifts between subsidy types. In 1990, 60% of subsidies consisted of object subsidies (Ministry of Housing, 1999). Since then, however, income-related subject subsidies have become the most common type. Nowadays, the housing associations (which now have mostly converted themselves to foundations) receive only incidental subsidies from the state, which constitute only a very minor part of their revenues. Though still governed by specific regulation circumscribing the range of their activities, this is relatively light compared to the regime that existed before the reforms. The knot of rules and subsidies has been effectively cut through.

## **6. Explaining the reform: a crisis, leadership and policy inheritance**

The success of the reforms can be attributed to a combination of three factors. First, the social housing sector was publicly disgraced, creating a crisis of legitimacy and opening a window of opportunity. Secondly, the policymakers of the time handled the opportunity well. Finally, and perhaps most important, the inheritance of past policy allowed a type of reform that would previously have been impossible.

#### *Changing policy objectives and a crisis of legitimacy*

One significant factor in enabling reforms was that the public image of housing was shattered. This was certainly related to a general shift in policy objectives. In the 1960s and 1970s, housing policy had become an important instrument for Keynesian anti-cyclical investment strategies. As such, it served many socio-economic policy goals. In the 1980s, when Keynesian economic ideas were abandoned, the ever-rising expenditure on social housing was increasingly problematised and its subsidy apparatus was critically questioned. Throughout the 1980s and 1990s, the government's political agenda was dominated by socio-economic objectives such as curbing inflation and reducing the budget deficit. This meant that the link between policy on rents and policy on wages and inflation was formally severed, and that rent increases were no longer tested against their effect on personal income. Housing policy therefore became less tightly connected with socio-economic policy, and rents could finally catch up (Van der Schaar,

1987). The greatest shock, though, was caused by the parliamentary enquiry in 1986, which examined policy on rents and subsidies as well as the functioning of the Ministry of Housing over the previous twenty years. With hindsight, the parliamentary enquiry opened a window of opportunity for more radical reforms.

#### *Leadership: a gradual and depoliticization approach*

In explaining the success of the reform, one must also recognise the cunning of policymakers, particularly Heerma, in seizing the option that opened up before them. Heerma came in after his predecessor succumbed to the massive financial scandal, and social housing was subject to intense scrutiny. He did not play the game of power play, but of depoliticisation. Rather than announcing a massive reform, as many of his predecessors since the 1960s had done, Heerma had a trial-and-error way of working. New proposals were tested, evaluated, and, in many cases, silently formalised as new policy by the Stuurgroep Experimenten Volkshuisvesting (SEV, *Steering Committee for Experiments in Social housing*), an independent non-profit foundation created by the Ministry of Housing in 1982 exactly for this purpose. Its experiments included the decentralisation of budgets, new methods for housing allocation, new methods of calculating the gross-rent incomes of housing associations and innovative forms of service provision. The prevailing policy paradigm was not confronted in major debates, but slowly undermined by adjustment of existing instruments, by veiling measures in administrative terms, and by adopting a gradual approach that never hinted at a grand design—although, with hindsight, the reforms clearly amount to one.

Heerma was successful because he did not dismiss other political options, but kept reforms out of the public eye and, as much as possible, out of the formal political decision-making process. By excluding economically charged measures such as the sale of social housing (which would have led to serious opposition from his own party, the social democrats and the housing associations), it proved possible to undertake sweeping reforms (such as the devolution of financial risks to housing providers) under the guise of technicalities. It is telling that the *bruteringsoperatie*, one of the greatest financial operations in the history of the policy field, was only announced midway through the reform process, and sold to a potentially hostile opposition of providers (who still had powerful political connections) as a clever accounting measure and potential win-win situation rather than as a fundamental change in state-provider relations. Not only did this work method facilitate the particular reforms Heerma undertook, it also kept other (more radical and controversial) options off the agenda. Incremental adaptations of the existing institutional frameworks meant that social housing was privatised and reformed step by step, not dismantled wholesale as it had been in Great Britain.

#### *Positive feedback and the legacy of past policy*

But why was this reform at all possible? It is particularly the legacy of past policy that makes the Dutch experience different from the British one. Some success factors for reform were present in the latter case. Whatever one can say of Margaret Thatcher, it is not that she lacked leadership. As in the Netherlands, the system of social housing had come under increasing criticism. But despite these apparently similar conditions, reforms in the two countries went in an entirely different direction. In the UK it resulted in the decline of social housing, whereas in the Netherlands the reforms led to a new, possibly more vigorous form of social housing provision. The difference is that in the latter case, policy feedback eventually opened up policy options other than sell-out and marginalisation. This challenges a widespread view in housing research that the British development towards a residual system is typical of an innate logic in housing policy, which cuts across national differences. It also challenges the

view that the institutional structure of housing does not make any difference in explaining current developments in social housing across European housing systems (i.e. Harloe, 1995).

The private character of social rented housing in the Netherlands explains why a Right-to-Buy scheme along Thatcherite lines was never really an option. A crucial difference between the British and Dutch social housing stocks was that the former was largely controlled by municipalities, whereas the latter was in the hands of private non-profit housing associations. With such legal, political and societal support, a reform of the Thatcher type was simply impossible. The relatively independent position of the housing associations not only prevented the short-term capitalisation of the stock but also aided the development of an alternative reform strategy. Given the private nature of the social rented stock, Heerma could only be successful if the housing associations were willing to collaborate. Housing associations, on their turn, had also something to win with the reforms. The huge size increase, the fifty-year time span and favourable regulation (e.g. permission to retain surpluses) had allowed the associations to gradually develop into modern housing companies, with large operational reserves and a well-maintained property. The consequences of the reform were also different from other countries: the housing stock, having grown over such an extended period, represented a diversity of architectural styles and locations. It also housed both lower and middle income segments of the population. In short, the housing associations had matured to the point where they no longer needed the state. Their exposure to stronger market forces had become financially, commercially and organisationally viable (Brandse, 2004). It is perhaps ironic that the Dutch social housing reforms became possible precisely because previous attempts at liberalisation had failed. It reminds us, however, of the crucial importance of timing and sequencing in policy reforms (Pierson, 2004).

#### *Timing and sequencing, or ...could things had gone different?*

But this immediately raises the question whether things could have gone different if, at any moment in time, other choices had been made in Dutch housing, including a choice for the status-quo? What consequences could these alternative courses of action have had for the policy reforms under examination? The answers to these questions are not decisive or self-evident, since we simply cannot know what would have happened if things would have gone different or not have occurred at all. But it is clear, for example, that the 'grossing and balancing' agreement in Dutch housing could only have been successful at this particular point in time when the outstanding government loans and the future subsidy obligations were more or less at the same level. In the mid 1980s, this one-off-exchange would probably not have been possible and acceptable for both the housing associations and the state, nor would it have been such a positive-sum outcome in 2000, assuming that cutbacks in object subsidies would have continued at the same rate as before. In other words, by analysing the causal sequence of reforms over time and in retrospect, we need to analyse the opportunities that actors (could) have had at particular points in time in reaching favourable outcomes, and then examine if and how they have taken these opportunities, or alternatively, why they simply missed the point. To paraphrase March and Olsen (1989) in their argument about the 'inefficiency' of history, analysing long term policy developments and policy reforms requires a clarification why some histories (notably the Dutch) are nevertheless less inefficient than others (the British). It may very well be that taking a shortcut in welfare state reform is not always the most efficient path in the long run.

## **7. Conclusion: the mirror face of policy inheritance**

Our case of the Dutch housing reforms reveals that policy feedback does not necessarily lead to reform inertia, but that it may generate the conditions for a radical policy shift as well. But the manner in which this took place was highly contingent on the timing and sequencing of policy reforms, as well as on institutional contingencies of the Dutch social rented sector.

Our analysis shows that Pierson's (2004) conclusions on policy feedback may be too limited, in the sense that it ignores the potential incremental effects of such feedback, in this case in the very tangible form of housing stock. The ability of positive feedback to act as a 'productive constraint' remains unrecognised (Streeck, 1992). Following Streeck (1992), to support a socially benevolent development of policy, institutions must simultaneously impose constraints on, and provide opportunities for, individual actors. Constraints are necessary as to prevent actors from seeking short-term solutions that may, at the end, lead to 'tragedy of the commons' such as what happened in the British housing system. Opportunities, in turn, have to be offered to adjust a policy system to new demands and challenges. The difficulty is that institutions must be designed in such a way that they can function as constraints and opportunities simultaneously; if they do just one and not the other, their capacity to facilitate and guide social policy reforms is likely to be low. The institutional structure of the Dutch social housing system functioned in this respect as a 'productive constraint'. Although over time there were clearly changes in the government's attitude and goals concerning housing, the will to reform had been present for decades. What ultimately changed was that it proved possible to realise those preferences by different means, not by scaling back the housing system in the form of retrenchment, but through a new decision-making option that had not existed previously. Though there were external factors facilitating the reform, it was essentially opened up from within the institutional legacy itself. Incrementalism and critical junctures found themselves together.

If policies create politics, then the crucial question with respect to the relation between positive feedback and policy reform brings us back to Laswell's lesson that, in the end, politics is about *who gets what, when and how?* That is, who is entitled to decide over, and profit from, the inheritance of past policies (Helderman, forthcoming). In our analysis of the timing and sequences of Dutch social housing reforms, we have shown that the institutional structure of Dutch social rented housing turned out to be a productive constraint that, together with the positive feedback created by earlier housing investments, created the conditions within which more sustainable reforms could be made possible when Dutch housing arrived at a crossroad in its development. An interesting question is whether this is a peculiarity of housing (and of goods with similar characteristics), or whether it points to a driver of reform that has been overlooked within the conceptual framework of previous reform literature.

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