

Housing policy: beyond welfarism

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The government is saddled with two key responsibilities: overall housing supply, and housing for the needy. Policies should be more market-driven and enabling.

Over time, housing stock simply tracks the number of households. In Hong Kong, meeting that demand is the government's responsibility, since it is the sole supplier of "new" land and sets prices for converting existing non-residential land to residential use.

In hindsight, the government should steadily target the quantity of land supply to meet demographic demand only, while likewise keeping public housing policy market-neutral. When insufficient land was supplied during the run-up to 1997, due to restrictions on land sales under the Sino-British Agreement, prices escalated. Forceful post-1997 expansion of public housing supply, however, exacerbated a cyclical downturn in the private housing market. When prices stayed low given the SARS epidemic, the government apparently targeted what it considered reasonable price levels for its land sales programme. The consequent low land sales and hence low housing completions then underpinned the latest upswing in home prices.

But if government leaves prices to market forces, once home prices ratchet up during property cycles (which sound land policies mollify but don't repeal), what policies can help the burgeoning "sandwiched class" who find themselves priced out of home ownership? Currently many are calling for revival of the Home Ownership Scheme. That, though, dispenses permanent benefits which are expensive and problem-prone when used to address a cyclical phenomenon.

The HOS is an example of welfarism, i.e. governments providing popular benefits that only loosely correspond to actual individual needs. Applicants can qualify with incomes – which are almost certain to rise later – of as little as \$1 short of being enough to buy a private home. They then receive a benefit that historically was a 30-60% discount to the value of a new medium-sized flat. So expensive is the HOS that, as potential applicants have increased, with rising income disparity, only a small fraction of applicants would see their lots drawn.

The HOS, various interest-subsidized loan schemes, and other home ownership assistance offered – all discontinued after 2002-3 – were not market-neutral. They are incentives, using public resources, to entice people to buy instead of rent homes. When taken up at the crest of a property cycle, they may land homebuyers in capital losses later. So, thick subsidy cushions have to be provided. Moreover, HOS is likely to be launched

during a property boom and come onstream during the downturn, exacerbating the price fall.

More fundamentally, an HOS solution would leave untouched the mass deprivation of home ownership caused by Hong Kong's deep-seated contradiction, which is that many people have become poor due to our changing economic structure. Homes were much more widely affordable prior to the 1980s than now. But then factories moved north. Workers increasingly saw their incomes lag while home prices rise out of reach.

Thus, over the past three decades, GDP has increased eleven-fold, but median household income only about six-fold – meaning that half the population fared worse. Meanwhile prices of small and medium-sized flats appreciated nine-fold; yet the poor, relegated to Public Rental Housing only, could not benefit from that appreciation. Nor can the government, by owning the PRH stock, the value of which it can never realize unless PRH is scrapped.

The PRH programme exhibits similar welfarist inefficiencies as the HOS, albeit to a lesser extent. Hence the waiting list for PRH is lengthening and many live in cage homes and cubicles.

Home ownership should be a means for lower-income earners, who are co-contributors to economic growth and hence to property appreciation, to share in those fruits. Instead of building PRH and HOS, the government should sell the land, and make money available for either renting or buying homes, at each household's choice. The amount for each household would depend on need, i.e. its income shortfall against the prevailing cost of meeting prescribed basic housing standards,

Those standards can follow a sliding scale, to encourage upward mobility. When home prices rise rapidly, middle-income earners, too, may come under need and be benefited. Furthermore, huge efficiency savings would translate into higher standards and broader availability for the needy than at present.

Existing PRH should be put up for rent or purchase, but at market rentals or prices. In all cases, to protect against interest rate volatility, long-term fixed-rate mortgages should be required.

Thus, not only does such a system support home ownership upon cyclical price increases. By providing relief against income disparity, it cultivates greater contentment and social stability. By giving the poor valuable nest eggs – at no extra cost to public coffers, it provides retirement protection against the debilitating effects of low-wage poverty coupled with population aging. If implemented on the Mainland, which faces a similar situation, it would also boost consumption and investment.