



## Retrenchment and Social Housing: The Case of Finland

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**Abstract:** *About 12 per cent of households in Finland live in social rental housing. The Finnish system of social housing is now facing challenges. Finland has reached a situation where large numbers of social rental dwellings are free from regulation because the state housing loans have been paid off, while new production of such housing is unable to make up for this loss. Potentially this means a decrease in the social rental housing stock. Current housing policy discourse sees social housing more as a failed policy than a necessary welfare measure. Such developments can be related to a larger change in the Finnish housing regime. It has entered a phase of retrenchment, where the government withdraws from its previous commitment to housing provision in order to give more room to market forces. Retrenchment has led to the strengthening of one of the basic features of Finnish housing policy, its selectiveness.*

**Keywords:** social housing; welfare policy; land markets and housing policy.



## Introduction

This paper deals with the development of the social rental housing sector in the latest stage of the development of Finnish housing policy, and the focus here is especially on the time after 2008. Here this stage is called the retrenchment phase. Pierson provides a wide definition of retrenchment (Pierson 1994, 17):

*Retrenchment can be defined to include policy changes that either cut social expenditure, restructure welfare state programs to conform more closely to the residual welfare state model, or alter the political environment in ways that enhance the probability of such outcomes in the future.*

So, retrenchment is not just budget cuts but a process that cumulatively contributes to changing the welfare policies from the path of more general public provision towards the path of increasingly selective policies.

The idea of ‘retrenchment’ is here linked with a specific ‘ideal type’ of development of housing policies. This ideal type distinguishes four phases of housing policy: (1) the introduction or establishment phase; (2) the construction phase; (3) the administration or management phase; and (4) the privatisation or retrenchment phase. In the first phase political interventions in the housing market are introduced. Housing becomes a political issue. In the second phase the principal goal of policy is to eliminate the housing shortage by producing as much housing as possible. However, not only houses but also institutions are built and consolidated in this phase. In the third phase attention shifts from production to the maintenance and management of the housing created. Renewal and modernisation of the housing stock, the quality of the environment, resident participation and combating social segregation become major issues. In the fourth phase the policies and institutions produced in the previous stages are seriously questioned, re-evaluated, remodelled, and partly discarded – in favour of shifting the responsibility of housing the population from public powers back to the market (Bengtsson 2013; Ruonavaara 2011).

## Social housing

As is well known, ‘social housing’ is a term that is used in many ways. Some housing researchers avoid the term thinking that it entails a negative valuation of the form of housing and its residents (‘welfare housing’). Here ‘social housing’ is used without such connotations. Here ‘social housing’ means housing:

- that is allocated not only by demand and supply,
- but by bureaucratically established rules that
- favour applicants in pressing housing need and modest means, and
- is priced by bureaucratically established rules
- aiming to provide housing on a lower price level than in the market.



Thus, social housing is housing that is not allocated and priced by market principles and targeted to households that are not particularly wealthy or high-income. This description fits quite well with what in the English translation of Finnish statistics is called ‘government-subsidised rented dwellings’. In the past it would also have fitted owner-occupied housing financed with government-subsidised housing loans.

At present the government-subsidised rental housing sector houses about 12 per cent of Finnish households.<sup>1</sup> Due to needs, wealth, and income testing, and also self-selection processes, social renting is the form of tenure for low-income people. According to a report on the social structure of residents in social rental housing in 2005, 42 per cent belonged to the lowest income quintile and 23 per cent to the second lowest (Hirvonen 2008). Looking at the socioeconomic position of residents, workers, students, and the ‘other’ socioeconomic status – a category composed mostly of unemployed – were overrepresented in the residential structure in comparison with all households (op. cit., 32).

The basic principles of the social rental housing system are twofold: such housing should be non-profit and the public support involved should ultimately benefit tenants in the form of affordable housing. The location of such housing in cities and population centres, costs, and quality of the production and the selection of tenants and the determination of rents are all controlled by public authorities. The landlord gives up some of the rights of the owner to the controlling agencies, agrees to comply with the regulations, and submits to regulatory control. Tenant selection is based on an assessment of the housing need and financial situation, and rents are determined on the basis of historical costs. Dwellings are under regulation for the time in which the developer has not paid back the state housing loans, that is, for decades. After the state controls are removed, the landlord is free to choose tenants and charge market rents, but by virtue of legislation in some cases the dwellings must still be available as rental dwellings.

## Retrenchment in Finnish housing policy

The beginning of the retrenchment phase in Finland can be dated to the early 1990s (Ruonavaara 2013). What happened in housing policy reflected a larger public sector reform towards state retrenchment. Finland experienced a deep economic depression at the end of the 1980s and in the early 1990s. The depression opened a window of opportunity for deregulation and marketisation in public policies, and Finland’s joining European integration in the early 1990s further intensified this trend (see Niemelä, Saarinen 2012).

One of the most important indications of retrenchment in the Finnish housing policy was the decline of state involvement in the new production of housing. In the 1970s more than 300,000 dwellings were produced with the help of state finance, whereas in 2001-2010 this figure did go down to around 50,000 dwellings. Of course, the total housing production has

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<sup>1</sup>‘Household’ is used here to refer to ‘household-dwelling unit’, a term used in Finnish statistics. This term is a handy way to bypass the problem of whether the people living in a dwelling form one or more households. A household-dwelling unit simply consists of all the people who live in the same dwelling. For example, students sharing a flat form one household-dwelling unit.



also gone down, but so has the percentage of state-subsidised production of all housing production. In the 1970s more than half of all housing was produced with the help of state housing loans, whereas in the last decade the respective proportion was around one-quarter.

Also, the tenure division of housing produced with the state's financial support changed. In the 1970s majority of publicly supported production was that of owner-occupied housing, whereas in recent decades the majority of state-supported housing has been rental housing. In the first decade of the new millennium and also later (see *Construction and Housing Yearbook 2012*, 135) four-fifths of all publicly supported production has been rental housing. In fact, state financing support has targeted rental housing and 'right of occupancy housing', a Finnish form of co-operative tenure (housing around 2 per cent of households). Putting the focus on supporting the production of social rental housing was justified by the idea that state support should be directed at the most vulnerable households. As pointed out above these kinds of selective policies are typical of retrenchment.

There has also been a change in the structure of direct and indirect subsidies to housing. Tax subsidies to owner-occupiers used to be the most important form of subsidising housing. In the 1980s the right to deduct housing loan interests in taxation accounted for 50 per cent of public support for housing. Since that its importance has declined and the present policy is to eliminate this subsidy altogether. A selective form of support benefiting mainly tenants, housing allowances, has become the single most important form of government subsidy to housing.

A crucial indication of the retrenchment of housing policy was the deregulation of the rental housing market in the early 1990s (see Kettunen, Ruonavaara 2015). Before that Finland had a rent regulation system representing 'soft' rent regulation, which attempted at the same time to guarantee the tenants an affordable rent level and the landlords a modest but stable rate of return to the investment. After that deregulation rent levels started to diverge so that rents in the private rental sector were clearly higher than in the social rental sector. Apart from price regulation another factor that was considered to contribute to the stagnation of the private rental supply was the legislation guaranteeing rather good security of tenure for the tenants. The deregulation concerned also the terms of the rental contract. After deregulation private renting started to increase its share.

In my earlier work on the history of Finnish housing policy I considered the public housing finance system ARAVA as the flagship of Finnish housing policy (Ruonavaara 2013). It was established in 1949 as a temporary measure to revive housing production after the war. It was also the first extensive system of government support for financing the production of both rental and owner-occupied housing. The public financing of housing for owner-occupation through ARAVA loans used to be one of the special characteristics of the Finnish housing regime in the past. However, since 1997 ARAVA loans were granted only for the construction of social rental housing. In 2008 the granting of new ARAVA loans ceased altogether. The justification for the change was that the demand for state-subsidised housing loans was so low that sustaining the system was unnecessary. Interest subsidies were considered to be enough.

State support is nowadays channelled primarily through interest-subsidy loans for new construction, renovation, and the purchase of housing. The government organisation that

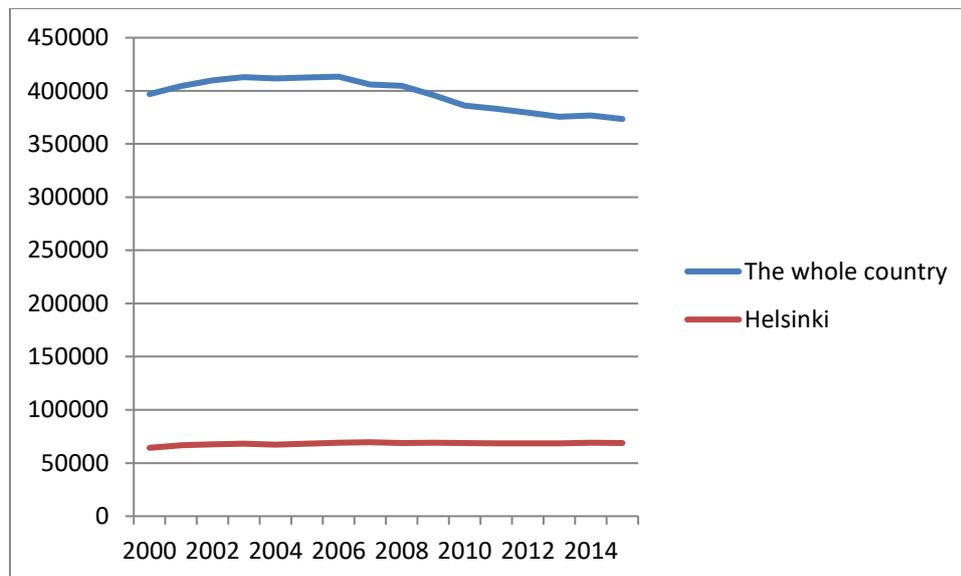


administers this kind of public support is the Housing Finance and Development Centre of Finland, ARA. The housing loans themselves are provided by private banks or other financial institutions, and what ARA does is to grant the loans the state guarantees and the interest subsidies. The loans can cover 90-95 per cent of the production costs of new housing. Legitimate applicants for this kind of housing finance have been municipalities and municipal companies as well as various kinds of non-profit housing developers (from student housing foundations to non-profit developer companies). Recently also other developers have been accepted as recipients of public support.<sup>2</sup>

## Social rental housing in retrenchment

The share of households in social rental housing has fallen from 15 per cent in 2010 to 12 per cent in 2015. This is for two reasons: the stock of existing government-regulated rental housing is diminishing (see figure 1) and the new production of such housing has not been able to compensate for the loss.

**Figure 1: Rental dwellings under regulation in the country as a whole and in Helsinki, 2000-2015**



Source: Statistics from ARA, 2017.

Since the mid-2000s the number of ARA rental housing under regulation has been diminishing in the whole country. There are two kinds of ARA rental housing: ‘regular rental dwellings’ are accessible to any applicant conforming to the general allocation criteria, whereas ‘dwellings for special groups’ are reserved for certain categories of people (elderly, students, and other ‘special groups’). The decline of the stock has taken place in regular rental dwellings.

<sup>2</sup> See ARA home page: [http://www.ara.fi/en-US/Housing\\_finance/Loans](http://www.ara.fi/en-US/Housing_finance/Loans).



In Finland there has not been any large-scale Right-to-Buy programme to convert social housing to owner-occupied housing. The rental housing stock under regulation has diminished mainly because owners of such housing have been freed of regulations after paying off their public housing loans. As long as the loans remain unpaid the owner is under obligation to conform to the rules laid out by ARA. When the loans are paid back, the owner is freed from the regulations. Paying back the housing loan is not the only way to become free from the regulations. Since the 1990s there has been a problem of vacant social rental dwellings in municipalities losing population. Owners of social housing in such localities can be granted a removal of controls on use and disposition. Due to the long repayment times of state housing loans the possible diminishing of the social rental housing stock was not been a concern until the 2000s.

A research report from 2010 investigated what happened to the 73,000 social rental dwellings freed from government regulations between 1994 and 2009. Mäki-Fränti and Laukkanen studied whether the dwellings had remained *rental* dwellings (and were not converted to owner-occupation). The researchers were interested in whether the development was different a) between housing deregulated because of the owner's application for deregulation and housing deregulated due to the housing loan having been repaid, and b) between housing owned by non-profit developers and others. They found that half of those dwellings that had been deregulated as a result of the owner's request and one-fifth of those deregulated due to repayment had been converted to owner-occupied dwellings. All rental dwellings owned by non-profit developer organisations had been preserved as rental dwellings (Mäki-Fränti, Laukkanen 2010, 52).

The new production of social rental housing has not been able to compensate for the loss of stock. Since the mid-1990s state-subsidised housing production has been on a much lower level than before. However, the lack of public finance for building housing has not been the only reason for low production figures, as not all of the funds available for such production have been used. In 2005 about 62 per cent of subsidised rental housing was owned by municipalities directly or through municipal companies. The municipal decision-makers' policy plays a role. They can decide to zone land, have applications made for ARA support, and create partnerships for social housing production or they can decline to do so.

The willingness to produce social housing has declined especially among non-profit developer organisations, the second-largest category of owners of regular social rental housing.<sup>3</sup> Like in many other countries, these companies have developed into *hybrid* organisations that not only focus on producing social rental housing but also engage in commercial activities (see, e.g., Czischke 2009). One reason for the declining interest in social housing production is that the government subsidy has not for a long time been a significant. There is low-interest housing finance available in the private financial market. When the financing comes entirely from a private financial institution and without public loan guarantees the owners are completely free from the restrictions concerning the use and disposition of social housing. The two largest social housing organisations, VVO and SATO, have increasingly focused on commercial activities.

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<sup>3</sup>I am excluding here the owners of rental housing for special groups like students and the elderly. These are far larger owners than non-profit developers.



## Social rental housing since 2008

The difficult Finnish recession since 2008 was not caused by a collapse of the domestic financial system, like in Iceland, but rather of global economic crisis coupled with structural problems of domestic economy. Domestic economic problems caused by the fall of Nokia as one of the world leaders in mobile technology and the sanctions and counter-sanctions linked to the Ukrainian conflict have contributed to the continuing economic recession, which the country started to recover from in 2017. However, the recession in Finland did not have as dramatic an impact on the housing market as it did in some other countries. For example, at first there was no significant fall in housing prices, which would have been expected with increasing unemployment and the decreasing purchasing power of households. And the retrenchment of Finnish housing policy was not a consequence of the most recent recession but was a more long-term process dating back to the 1990s.

In fact, the recession temporarily reversed the withdrawal of the state from financing housing production. Financial support for housing production was increased for the years 2009-2010: 26,000 new state-supported dwellings were built in those years. This meant that 61 per cent of the yearly housing production in 2009 and 36 percent in 2010 was state-supported. The figures for state-supported production in the previous years were around 3,000-4,000 dwellings per year. The increase of government support for housing production was a part of the government's counter-cyclical policy to boost economic activity and employment in the country. Since 2010 state-supported production has fluctuated between six and eight-and-a-half thousand units per year – a significantly higher level than before the GFC but also significantly lower than in the years 2009-2010.

One of the key policies of current Prime Minister Juha Sipilä's government has been *deregulation*, the dismantling of regulations considered harmful to entrepreneurship, the labour market, retail trade, land-use planning, et cetera. One of the government's key projects is promoting housing construction.<sup>4</sup> Deregulation is also one of the guiding ideas behind the current government's social rental housing policy. According to previous legislation, ARA housing finance was available only to non-profit owners and developer organisations. In the new legislation this regulation has been removed, and now housing loans for new production can be granted also to other developers. This is intended to increase developers' interest in social housing production. Some restrictions on the use and disposition of ARA-financed housing have also been removed. However, there has only been partial deregulation. Regulations are now project-based (not based on general criteria) – and at the same time they have also been made tighter in order 'to emphasize the long-term and social nature of state-supported housing production' (as is stated in the proposal for the new law). For example, the amount of permitted 'reasonable return' to the owner for the investment was cut, and the monitoring powers of ARA were expanded.

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<sup>4</sup>The government programme's English translation:

[http://valtioneuvosto.fi/documents/10184/1427398/Ratkaisujen+Suomi\\_EN\\_YHDISTETTY\\_netti.pdf/8d2e1a66-e24a-4073-8303-ee3127fbfcac](http://valtioneuvosto.fi/documents/10184/1427398/Ratkaisujen+Suomi_EN_YHDISTETTY_netti.pdf/8d2e1a66-e24a-4073-8303-ee3127fbfcac)



In 2008 the income limit for eligibility in the allocation of social rental housing was abolished so that anyone was in principle eligible to apply for social rental housing. An applicant's housing need and wealth were the primary criteria in allocation; nevertheless, incomes were taken into account in making the priority list of eligible applicants. In recent years there has been quite a lot of public concern about people who originally acquired social rental housing due to poor economic resources but have subsequently become well-off and yet continue to live in affordable social rental housing. To remedy this problem the government re-introduced income limits for eligibility for social rental housing in the Helsinki Region. As of 2017 the eligibility of new applicants as well as residents changing dwellings in the social rental stock is tested in the Helsinki Region.

This concern about some people benefitting from affordable rental housing without being low-income reflects a change in the discourse on social rental housing that has also been observed elsewhere. Mee's analysis of media reports concerning public housing in Sydney in the 1990's describes how the image of public housing changed from a 'necessary welfare measure' to 'failed housing estates that simultaneously created a class of privileged tenants' (Mee 2004, 136). Something similar has happened in Finland. The social rental housing, especially that owned by municipalities in large cities, has the image of being 'problem estates', often quite exaggeratedly. However, a new strand of critique of social rental housing is that it unjustly favours people who have been lucky enough to get an affordable social rental dwelling over those who have been forced to rent in the private sector – a policy proposal is that the government should focus more on housing subsidies than on subsidised housing (e.g. Eerola, Saarimaa 2015). These arguments are backed by calculations of the size of the transfer of income from taxpayers to social tenants.

From 2014 to 2015 the number of asylum seekers in Finland rose from 3,651 to 32,476 persons just to drop in 2016 to 5,651 persons.<sup>5</sup> In 2015 there was concern in the social media that asylum-seekers would be filling the queues for social rental housing and would be prioritised over the native Finns because of their pressing need for housing. However, this has not happened. This is partly because large numbers of applications for asylum and a residence permit have either been withdrawn or rejected. But this is not the only reason. A recent housing market review notes that the pressure these new immigrants have placed on social rental housing queues has been surprisingly low and supposes that these people have sought housing in the private rental market (ARA 2017). The housing market behaviour of new immigrants has not yet been researched so the reasons for their preference for private renting are not really known.

## Is there cause for concern about social housing?

Researchers in many European countries have been concerned about the fate of the social housing sector in a period of retrenchment of housing policy (see e.g. Elsinga et al 2008; Fitzpatrick, Watts 2017; Grander 2017; Lévy-Vroelant 2014). There is reason for such concern also in Finland. There are declining numbers of rental dwellings under state

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<sup>5</sup>See Statistics Finland home page: [http://www.tilastokeskus.fi/tup/suoluk/suoluk\\_vaesto\\_en.html](http://www.tilastokeskus.fi/tup/suoluk/suoluk_vaesto_en.html) (retrieved November 14, 2017).



regulation, especially when it comes to rental housing for households that do not belong in any 'special group'. What we know about these dwellings is that they are not regulated, but we have no fresh information about tenure conversions or changes in the operating principles of the remaining rental housing.

The present state of affairs has not been brought about by any special privatisation policy but rather by an increasing focus on selective housing policies: the public subsidy should benefit only those who need it most. Therefore, it gives rise to the issue of well-to-do social tenants and the need to introduce income limits and repeated income testing. Though there is a pressing need for more housing in growth areas, especially in the Helsinki Region, there is no political will to expand social housing production by increasing the amount of budget funding allocate do it and making the public subsidy more generous. Expansion has been sought through deregulation, which in its present form has failed to satisfy those developers that wanted it.

Retrenchment means government withdrawal and deregulation. However, we saw that in the Finnish case the government's withdrawal was temporarily reversed (housing finance) and regulation reintroduced (income limits). Perhaps there is a lesson here about thinking in terms of periods. Ideas about periods are abstractions from a flow of events that is more complex than our conceptualisations suggest.



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