Critical Housing Analysis Volume 4 | Issue 2 | 2017 | 19-28
Available online at www.housing-critical.com
http://dx.doi.org/10.13060/23362839.2017.4.2.383

A Tale of two Busts (and a Boom): Irish Social Housing before and after the Global Financial Crisis

Michelle Norris (corresponding author)

School of Social Policy, Social Work and Social Justice, University College Dublin, Ireland
michelle.norris@ucd.ie

Michael Byrne

School of Social Policy, Social Work and Social Justice, University College Dublin, Ireland
michael.byrne@ucd.ie

Abstract: *This article examines the marked decline in Irish social housing's traditional role as the main source of accommodation for low-income households. We argue that although this policy redirection has become clearly apparent in the context of the Global Financial Crisis; its roots are, in fact, much older. They lie, not in Ireland's most recent fiscal crisis, but in the last one which occurred between the late 1970s and mid-1980s. Changes made to arrangements for funding social housing during this time effected a long-term contraction in the social housing's contribution to total housing output which, in turn, precipitated growing reliance on housing allowance subsidised private rented housing to accommodate this group. The post-GFC austerity merely accelerated this long-term trend rather than signalled a new policy direction.*

Keywords: social housing; housing allowances; Ireland.

Critical Housing Analysis Volume 4 | Issue 2 | 2017 | 19-28
Available online at www.housing-critical.com
http://dx.doi.org/10.13060/23362839.2017.4.2.383

Introduction

The Republic of Ireland is among the European Union countries which were most severely affected by the Global Economic Crisis. Irish GDP, which had expanded at an unprecedented rate during the late 1990s and early 2000, contracted at an unprecedented rate after the GFC (by 15.2 % in 2009 alone) and the resultant collapse in tax revenue, employment and house prices precipitated a banking and fiscal crisis which forced the Irish government to enter an IMF and EU sponsored emergency stability programme in 2010 (Norris, Coates 2014). The austerity programme which was implemented concurrently was one of the most severe in the EU and, among the different sectors of the Irish welfare state, social housing was the most affected by the associated retrenchment of public spending (Dukelow, Considine 2017). Exchequer capital grants for social housing provision (which provided almost all capital funding for the sector) fell by 88% between 2008 and 2014 and output contracted by slightly more. In the context of marked population growth both before and after the GFC this development was associated with a significant increase in reliance on housing allowance subsidised private rented dwellings to house low-income households and a decline in mainstream social housing's traditional role as the main source of accommodation for this cohort (Byrne, Norris 2017).

In what follows we review this marked redirection in Irish social housing policy and in the role of this sector in the wider housing system. We argue that although this policy redirection has become clearly apparent in the context of the GFC; in fact its roots are much older. They lie, not in Ireland's most recent fiscal crisis, but in the last one which occurred between the late 1970s and mid-1980s. Changes made to arrangements for funding social housing during this time effected a long-term contraction in the role of social housing as the key source of accommodation for low-income households. The post-GFC austerity merely accelerated this long-term trend rather than signalled a new policy direction.

As its title suggests, the remainder of this article is organised into three sections. The first of these examines the economic crisis of the late 1970s and 1980s, the next section looks at developments during the 'Celtic tiger' boom which followed and the last one focusses on the GFC and the housing policy reforms which followed. The conclusions reflect on the future of social housing in Ireland.

Bust One: late 1970s to Mid-1980s

The Irish economy was hit hard by the oil crises of the 1970s and failed to rebound afterwards and it alternated between recession and stagnation during the late 1970s and 1980s. By the middle of the latter decade these economic problems had triggered a fiscal and public borrowing crisis and a programme of tax increases and spending cuts was initiated in response (Dukelow 2011; Norris 2016).

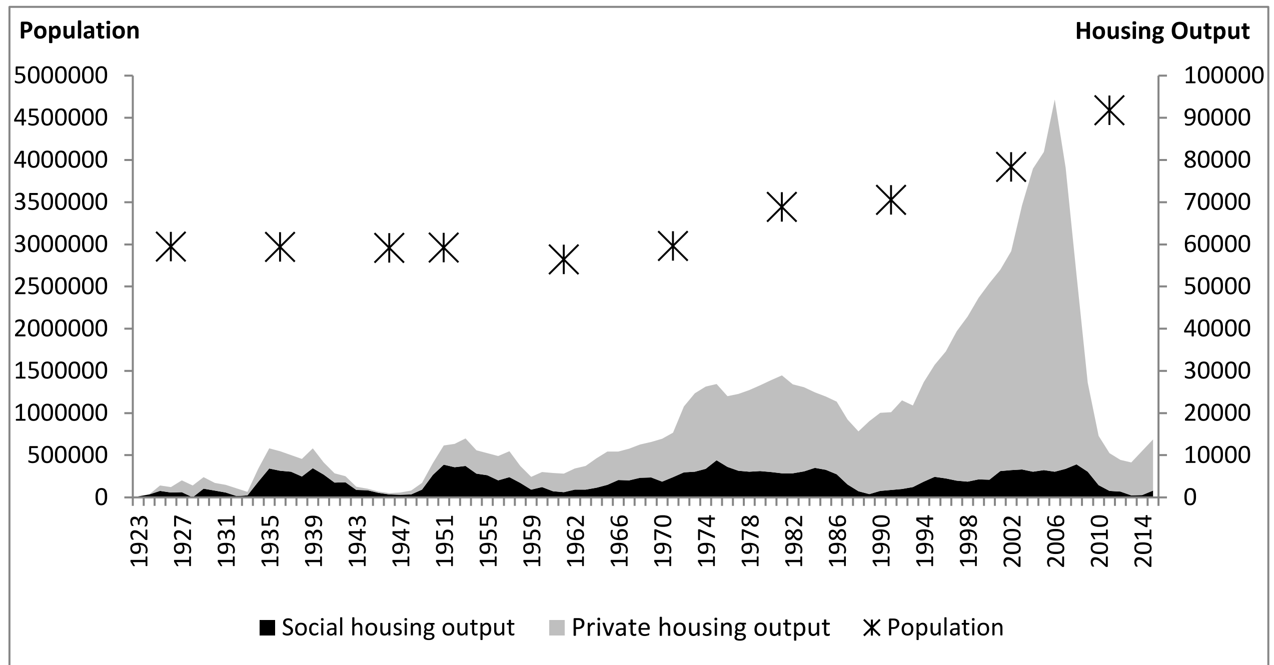
Reforms to arrangements for the provision and funding of social housing, which at this time was almost entirely provided by local government, came in 1987 and ostensibly did not appear to involve significant public spending retrenchment. These reforms replaced the century old arrangement for funding the building or purchase of new social housing by means of borrowing

by local authorities (which provided almost all social housing until this time) with central government capital grants which covered the full cost of housing provision. The finance minister who announced this effective 'nationalisation' of social housing finance explained that the rationale was to bolster the financial sustainability of the sector which had been steadily eroded during the preceding three decades. This is because social housing development loans were traditionally serviced using a combination of rents (which reflected the cost of housing provision) and local property taxes but income from the former declined when 'cost rents' were replaced with income related rents from the mid-1960s and the latter revenue was eroded by repeated cuts to this unpopular tax throughout the mid-20th Century and finally by its abolition in 1979 (Daly 1997). This funding system was further weakened by the introduction of sales to tenants at below market value (in the 1930s in rural areas and 1960s in cities) because the sale price was often inadequate to cover the outstanding loan. On this basis, the minister argued that local authorities could no longer afford to service their housing development loans by the mid-1980s, so their replacement with capital grants was a logical response. He also assured members of parliament that these reforms would have "no adverse effect on the amount of funds available" for social housing provision (MacSharry in Dáil Éireann 1987, Vol. 374, No. 2, Col. 344).

Figure 1 which compares social and private housing output in Ireland from the foundation of this State in 1922 to 2014, demonstrates that in the short-term this prophecy proved incorrect. Social housing funding and therefore output declined sharply in the years immediately following the reforms to funding mechanisms (from 6,523 dwellings in 1985 to just 768 in 1989). This is not surprising in view of the fact that the economy and public finances remained very weak by the latter date and capital grants were funded entirely from central taxation. Reliance on exchequer funding also meant that social housing had to compete for funding with all other public services, which are almost entirely central government funded in Ireland. Whereas prior to the 1980s local authorities could (and regularly did) raise local property taxes to fund additional social house building if this was a local priority and before the introduction of income related rents the sector was mainly self-funded in any case because rents reflected the cost of housing provision (Daly 1997; Norris 2017). Nationalisation of social housing finance also centralised control over investment decisions which historically has been associated with retrenchment of this sector. Daly's (1997) history of the housing ministry highlights consistent, but usually unsuccessful, efforts by civil servants to control 'reckless' borrowing by local authorities for social house building prior to the advent of grant finance. From the early 1980s government began to encourage non-profit sector housing associations to provide more social housing, but these were also funded almost entirely by central government capital grants and therefore subject to the same central controls on investment as local government social housing provision.

Critical Housing Analysis
Volume 4 | Issue 2 | 2017 | 19-28
Available online at www.housing-critical.com
http://dx.doi.org/10.13060/23362839.2017.4.2.383

Figure 1: Population and Social and Private Housing Output in Ireland, 1923-2014



Source: Central Statistics Office (various years); Department of Housing, Planning, Community and Local Government, (various years); Department of Local Government (various years).

The Boom: early 1990s-2007

Between the mid-1990 and mid-2000s the Irish economy experienced a boom of unprecedented scale as Irish GDP per capita increased from 14.8% below the EU15 average in 1995, to 48% above in 2006. This so-called 'Celtic tiger' boom enabled a significant increase in public spending particularly after 2000 (Norris, Coates 2014).

Figure 1 reveals that social housing output increased steadily as the economy and public finances improved again (from 1,503 dwellings in 1990 to 6,806 in 2007) due to an enormous concurrent increase in government spending on the sector (from €52.6 million in 1990 to €1.4 billion in 2007) (Department of Public Expenditure and Reform, various years). In absolute terms, this meant that social housing output rates during the first half of the 2000s surpassed the previous highs achieved during the sector's 'golden age' in the 1930s, 1950s and 1970s (see Figure 1).

However, when assessed in relative terms, these recent output rates appear less impressive. Social housing accounted for 54.8% of total housing output in the 1930s and 51.7% in the 1950s but (due to a marked rise in private house building from the 1970s) its contribution to contracted to 11.0% of total in the 1990s and 8.7% during the first half of the 2000s (see Figure 1). Social housing output per 1,000 inhabitants in the 1990s and early 2000s averaged between one third and two thirds of the rate seen in the 1930s and 1950s which reflects the very strong population growth seen in the former period compared to the population decline seen in the latter (see

Volume 4 | Issue 2 | 2017 | 19-28
Available online at www.housing-critical.com
http://dx.doi.org/10.13060/23362839.2017.4.2.383

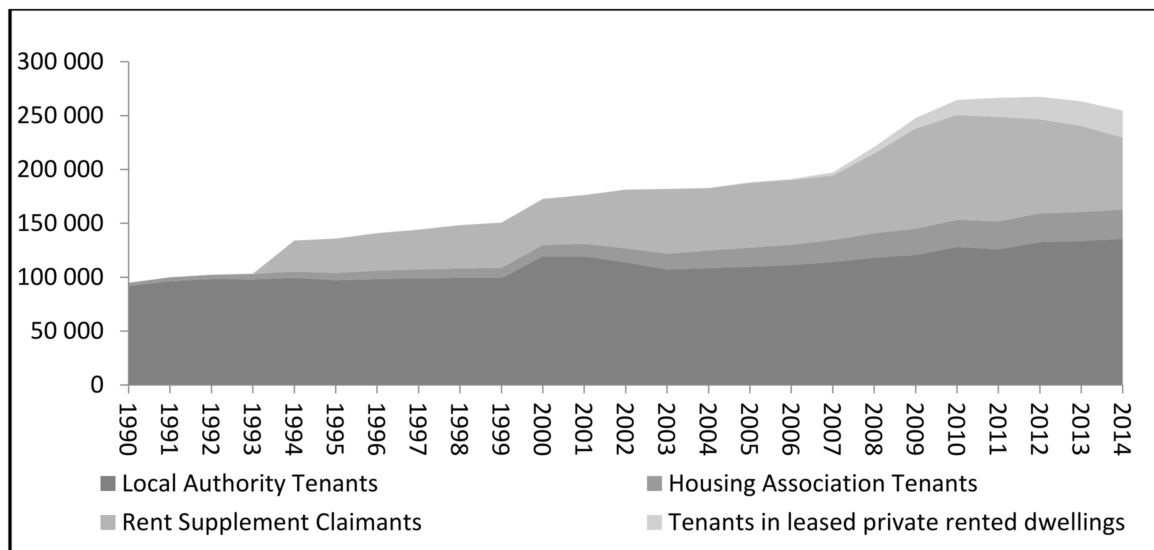
Figure 1). The combination of this relative decline in social housing output and loss of dwellings due to sales effected a contraction in the proportion of households accommodated in this tenure. This peaked at 18.4% of households in 1961 but declined to 7.1% in 2002 before expanding marginally again to 9.7% by 2011 (Central Statistics Office, various years).

This relative decline in social housing provision, in the context of an unprecedented economic boom, overflowing exchequer coffers and a largely ideologically sympathetic context (certainly compared to the UK) in part reflects the impact of the aforementioned changes made to arrangements for financing the sector in the 1980s (Byrne, Norris 2017). At practical level the use of capital grant funding was significant in this regard because social housing is, like all capital projects, a 'lumpy good' meaning that the vast majority of investment must be provided 'up front' during the construction or purchase phase. Raising loans or bonds which are repaid in small instalments enables social landlords to distribute these costs over the long-term and thereby renders them more affordable (which why loans are used to finance this sector in most European countries) (Whitehead 2014). Grant funding has the opposite effect – by paying most social housing provision costs up-front this arrangement naturally restrained output rates. The fact that centralisation of funding for social housing pitted this sector in competition with other services was also significant during the boom, because there was significant hunger for additional investment in the (by Western European standards) underdeveloped Irish welfare state to catch up with the European norm which limited the potential for funding social housing (Norris 2016; Powell 2017).

The extent of social housing undersupply is also evidenced by increased reliance on housing allowances to enable low-income households meet the costs of renting private housing. These supports date back to the birth of the Irish welfare state – they originated in the system of *ad hoc* 'home assistance' payments introduced as part of the 19th Century Poor Law system and were formalised into a benefit called Rent Supplement in 1977. Rent Supplement provides a cash subsidy towards the cost of benefit dependant, private renting households' rent and is subject to a limit which varies regionally and also according to household size and dwelling type. Take-up of Rent Supplement was initially very low, but it increased radically from the mid 1990s as social housing output failed to keep pace with population growth. Figure 2 reveals that between 1994 and the peak of the boom in 2006, the numbers of Rent Supplement claimant households increased by 108%, whereas the number of mainstream social housing tenants (accommodated by local authorities and housing associations) increased by just 23.6%. Notably by the early 2000s the primary driver of rising Rent Supplement claims wasn't new claimants but rather falling rates of exit due to lengthening duration of existing claims (by 2005 55% of claimants had received Rent Supplement for eighteen months +) (Norris, Coates 2010). Thus, rather than the short-term housing subsidy it was designed to be, this benefit had morphed into a long-term housing support or a *de facto* or quasi social housing sector – but without the lifetime security of tenure and guaranteed public subsidy enjoyed by mainstream social housing tenants (Hearne, Murphy 2017).

Critical Housing Analysis
Volume 4 | Issue 2 | 2017 | 19-28
Available online at www.housing-critical.com
http://dx.doi.org/10.13060/23362839.2017.4.2.383

Figure 2: Households in Local Authority and Housing Association Provided Social Housing, Private Rented Housing Leased by Government and in Receipt of Rent Supplement, 1990-2014



Note: social housing includes local authority and housing association tenants. Tenants in leased dwellings include private rented tenants in dwellings subsidised by the Rental Accommodation Scheme, Housing Assistance Payment and Social Housing Current Expenditure Programme.
Source: authors' own calculations of data from the Department of Housing, Planning, Community and Local Government (various years) and the Department of Social Protection (various years).

Rent Supplement's status as quasi social housing support was officially confirmed by the establishment of the Rental Accommodation Scheme (RAS) in 2004 and subsequently of other similar schemes to long-term lease dwellings from private landlords to re-let them to Rent Supplement recipients and applicants for social housing. These measures were intended to address problems with Rent Supplement such as claimants' difficulty in finding landlords willing to accept the supplement and the strong unemployment trap created because Rent Supplement is withdrawn completely when claimants enter full time employment. RAS targets long-term Rent Supplement recipients (of 18 months+) and enables local authorities to long-term lease private rented dwellings (typically for 5-10 years) for subletting to these tenants who (like mainstream social housing tenants) pay an income-related rent and continue to live in the RAS subsidised housing if they gain employment (Norris, Coates 2010) (see Figure 2).

Bust Two: 2007-date

As mentioned above the Irish economy experienced an unprecedented contraction in the wake of the GFC and the resultant housing market crash and fiscal and banking crisis forced the country into an EU/IMF sponsored 'bailout' and austerity programme. Exchequer capital grants for mainstream social housing provision fell by 88% between 2008 and 2014 (from €1.4 billion

to €167 million) and output contracted from 7,588 units in 2008 to just 642 units in 2014. (see Figure 1) (Department of Public Expenditure and Reform, various years).

Dukelow (2014) argues convincingly that the retrenchment imposed during the most recent recession reinforced the dominant neo-liberal policy paradigm (Murphy, Mercille (2015) echo this analysis). However, in addition to ideological factors there is also significant evidence that the nationalisation and centralisation of social housing finance rendered the sector particularly vulnerable to austerity during fiscal crises. This is evidenced by the scale of reductions in all categories of capital spending which were far greater than current spending cuts during both the fiscal crisis of the 1980s and the GFC. Honohan (1992) points out that this retrenchment pattern reflects political and practical imperatives because 'deferring' capital spending is politically more palatable than cutting revenue spending by making public servants redundant and more practicable than reducing spending on social security benefits during a recession when unemployment is likely to be rising.

In the context of the marked decline in mainstream social housing output reliance on Rent Supplement and RAS increased significantly in the during the severe recession which followed the GFC and the increased importance of these subsidies in housing low-income households was reinforced by the introduction of additional measures of this type and legislative action. In 2009 a programme similar to RAS was established called the Social Housing Current Expenditure Programme (SHCEP). It funds local authorities to lease empty properties for re-letting to households on the waiting list for mainstream social housing. Leases are generally longer that those negotiated for RAS properties (10-20 years) and landlords are also compensated at below market rent (typically 20% below) (Department of Public Expenditure and Reform 2017). The Housing Assistance Payment (HAP) was also established in 2014 to address the unemployment trap inherent in Rent Supplement. Like Rent Supplement claimants, HAP claimants must secure their own accommodation - it is not leased for them – but unlike Rent Supplement under HAP the rent is paid directly to the landlord by the local authority and in return the HAP recipients pay an income related rent and continue to receive a HAP subsidy if they enter employment. In addition, the Housing (Miscellaneous Provisions) Act, 2009 defined Rent Supplement and the other housing allowances and leasing arrangements for private rented tenants described above as legally equivalent to mainstream social housing and enabled recipients of RAS, HAP and SHCEP are removed from the waiting list for access to mainstream social housing because their 'long term housing need' has been met. Thus this legislation legally formalised the replacement of mainstream social housing with housing allowances and leasing arrangements for private renters.

Conclusions

This article has examined developments in social housing policy and financing arrangements in Ireland since the 1980s. It has revealed that the marked reduction in funding for this sector and in social housing output which followed the GFC was an acceleration of a long-term trend rather than a new policy direction. Social housing's traditional role as the primary source of accommodation for low-income households has been in decline since funding for this sector was reformed in the mid-1980s, while the contribution of the private rented sector to housing this group has expanded. Thus while the proportion of households accommodated in social

Volume 4 | Issue 2 | 2017 | 19-28
Available online at www.housing-critical.com
http://dx.doi.org/10.13060/23362839.2017.4.2.383

housing or government supported private rented housing has remained static since the 1980s (at 14-16% of total), the proportion of these living in former tenure declined, while the latter expanded (Central Statistics Office, various years).

Since the Irish economy has begun to recover from the GFC, the government has made some efforts to increase mainstream social housing investment. In 2010 subsidies were introduced to enable housing associations to borrow for social housing development and government guarantees were used to reduce the cost of this borrowing. This was inspired by concerns about growing house prices, private rents and homelessness and that Rent Supplement and government leasing of private rented accommodation were acerbating these problems by driving private rent inflation (Byrne, Norris 2017; Hearne, Murphy 2017). However, to date this new source of social housing finance has had limited impact because housing associations only provided 25% of social housing output before the GFC and many are too small to be able to secure and manage borrowing. Furthermore because local authorities' borrowings are part of the national debt (which spiralled during the GFC) they were not allowed to borrow. Government has recently announced increased capital grants for social housing provision but the restrictions on public spending and borrowing imposed by the IMF/EU emergency stability programme and Eurozone membership will limit the potential for any significant increase in this investment. Thus, it is difficult to see the restructuring of the Irish social housing sector which commenced during the recession of the 1980s and accelerated during the GFC being reversed in the short or medium-term.

References

Byrne, M., M. Norris 2017. 'Procyclical Social Housing and the Crisis of Irish Housing Policy: Marketization, Social Housing, and the Property Boom and Bust.' *Housing Policy Debate* 28 (1): 50–63. DOI: 10.1080/10511482.2016.1257999.

Dáil Éireann 1987. *Dail Debates*. Dublin: Stationery Office. Retrieved September 9, 2017, from https://beta.oireachtas.ie/en/debates/find/.

Daly, M. 1997. *The Buffer State: The Historical Roots of the Department of the Environment*. Dublin: Institute of Public Administration.

Department of Public Expenditure and Reform (various years). *Revised Estimates for Public Services.* Dublin: DPER.

Dukelow, F. 2011. 'Economic crisis and welfare retrenchment: Comparing Irish policy responses in the 1970s and 1980s with the present.' *Social Policy and Administration* 45 (4): 408–429. DOI: 10.1111/j.1467-9515.2011.00782.x.

Dukelow, F. 2014. '"Pushing against an open door": Reinforcing the neo-liberal policy paradigm in Ireland and the impact of EU intrusion.'*Comparative European Politics* 13 (1): 93–111. DOI: 10.1057/cep.2014.43.

Dukelow, F., C. Considine 2017. *Irish social policy A critical introduction*. Bristol: Policy Press.

Department of Housing, Planning, Community and Local Government (various years). *Annual Housing Statistics Bulletin*. Dublin: DHPCLG.

Department of Local Government (various years). *Report/Tuarascáil*. Dublin: Stationery Office.

Hearne, R., M. Murphy 2017. *Investing in the Right to a Home: Housing, HAPs and Hubs.* Maynooth: Maynoth University.

Honohan, P. 1992 'Fiscal Adjustment in Ireland in the 1980s.' *Economic and Social Review* 23 (3): 258–314.

Murphy, E., J. Mercille 2015. *Deepening Neoliberalism, Austerity, and Crisis: Europe's Treasure Ireland*. Basingstoke: Palgrave MacMillan.

Norris, M. 2016. *Property, Family and the Irish Welfare State*. Basingstoke: Palgrave Macmillan.

Norris, M., D. Coates 2010. 'Private sector provision of social housing: An assessment of recent Irish experiments.' *Public Money and Management* 30 (1): 19–26. DOI: 10.1080/09540960903492307

Norris, M., D. Coates 2014. 'How housing killed the Celtic tiger: Anatomy and consequences of Ireland's housing boom and bust.' *Journal of Housing and the Built Environment* 29 (2): 299–314. DOI: 10.1007/s10901-013-9384-z

Central Statistics Office (various years). *Census of Population of Ireland*. Dublin: Stationery Office.

Powell, F. 2017. *The Political Economy of the Irish Welfare State*. Bristol: Policy Press.

Department of Public Expenditure and Reform 2017. *Spending Review 2017 Analysis of Current Expenditure on Housing Supports*. Dublin: DPER.

Whitehead, C. 2014. 'Financing Social Rented Housing in Europe.' Pp. 315–330 in K. Scanlon, Ch. Whitehead, M. Fernández Arrigotia (eds.) *Social Housing in Europe*. Oxford: Wiley Blackwell.