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Housing Market and Family Relations in a Welfare State

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Abstract: *One idea widespread in current discourse on the ageing population speaks of the 'intergenerational inequity' between the elderly and the young. This assumption overlooks the extensive lifetime financial transfers from older to younger generations that occur within families. Housing wealth may reinforce inequalities over generations, but this wealth also provides an opportunity to assist offspring in entering the housing market. The increase in house prices in recent years has put parents in an even better position to provide financial support. Instead of following the distributional principles that guides redistribution within the welfare state, this distribution may reproduce or even increase social inequalities. Intergenerational inequalities in economic prosperity may therefore also lead to intragenerational inequalities between those who have parents that can help and those who do not. However, this type of inequality may strengthen rather than weaken family solidarity.*

Keywords: housing wealth; intergenerational transfers; family solidarity; social inequality.

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Introduction

Housing, with its dual capital-cum-service nature, has a special position within the welfare state (Fahey and Norris 2010). On the one hand, housing provides a service (accommodation) but, on the other hand, an owner-occupied dwelling is also a capital asset. As an asset, housing provides an important means of saving or allocating resources within the family. Facilitated through a growing number of financial products, housing wealth provides a welfare resource that can be accessible across different stages of the life course. Thus wealth accumulation through homeownership deserves more attention, as it represents an increasingly important source of economic wellbeing and prosperity and challenges the design of the traditional welfare state. Traditionally, the welfare state provides insurance against health risks and individual income risks, and the tax and social security system redistributes income, both over the individual's life course and between individuals at the same stage of the life course. While a significant part of the public transfers go from adult wage earners to the elderly, financial transfers within the family normally take the opposite direction from older to younger family members. Such family insurance may lead to greater inequality. Consequently, the growth of homeownership in many nations raises questions about the role of housing as an important welfare resource for its residents and the possibilities it offers for intergenerational transfers of financial resources within families.

As a counterargument to the popular idea that today's elderly will spend their children's inheritance, our main argument is that the growing housing wealth has provided new opportunities for transfers between adult family generations and strengthened family relations. The increase in house prices in some countries, for instance Norway, has put parents in an even better position to provide financial support, but has at the same time increased their offspring's need for such support. Internationally, the size of yearly inheritance relative to national income has been rising in the recent past in many developed countries and is expected to rise further in the next decades (Piketty 2014). This has led to concerns that received inheritances may become a stronger determinant of life chances. Long periods of capital gain in the housing market may lead to substantial inheritances in the near future unless current and future elderly households behave egoistically and spend most of their accumulated housing wealth on themselves.

In this paper we ask the simple questions: How will current and future generations of elderly deal with their housing wealth? Will they consume the capital on 'high days and holidays' or transfer financial resources to their descendants? We will take Norway as the model case. A key goal of the Norwegian welfare state has been to secure homeownership for all. This has been achieved by regulation and by allowing mortgage-financed housing to be a tax-favoured asset in the income and wealth systems. We will start by giving a brief presentation of the development in Norwegian house prices in recent decades and then summarise how the literature on intergenerational relations and transfers can offer insight into the meaning of this wealth accumulation for family relationships and solidarity.

Intergenerational inequity on the housing market

In Norway, as in many other countries, increasing house prices have raised the profile of housing and housing wealth on the political agenda. There is an increasing amount of rhetoric devoted to the generational conflict between 'housing poor' young people and the 'housing

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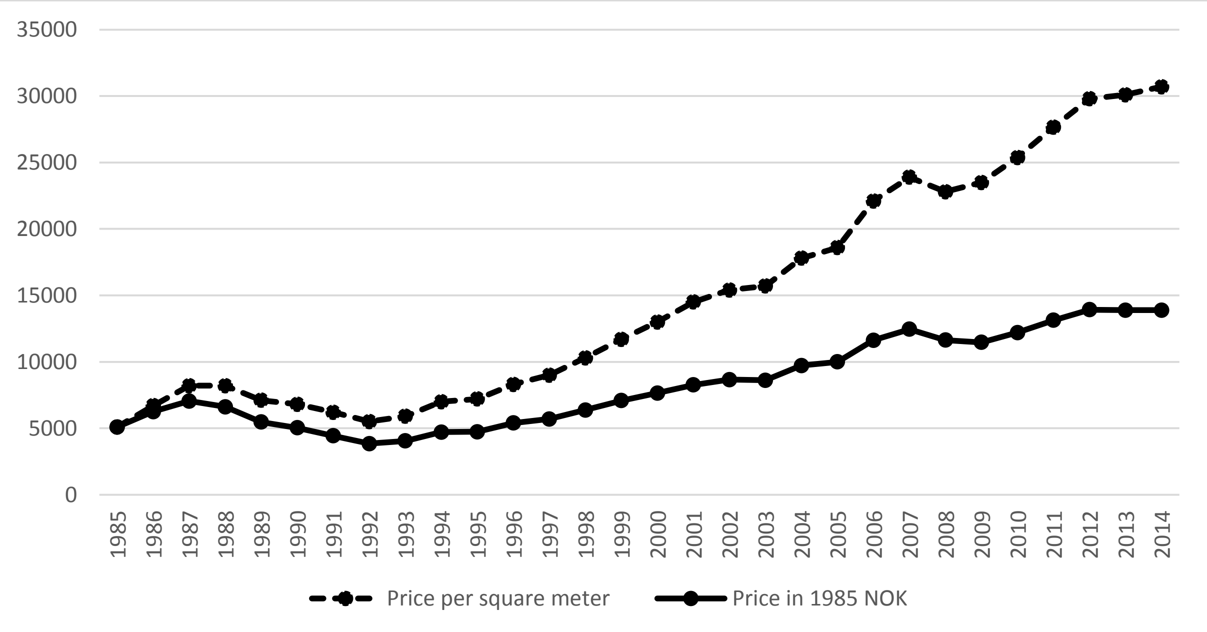
rich' middle aged and elderly. Despite the fact that homeownership has been promoted as a policy instrument to fight poverty and encourage social mobility, it may also play a central role in driving inequalities – probably more so within than across generations. Consequently, there may be an increase in inequalities of access to homeownership and in benefits from ownership for both younger and older generations.

In the past two decades or so house prices in Norway have been on the rise. Figure 1 shows the development in prices as reported by the Association of Real Estate Agents and for the last couple of years by Eiendom Norge (a Norwegian property broker). The chart shows the development both in nominal and real prices. We present the mean price for each year and in addition the mean price for the years when the prices turned. Over the past 20 years (from the low point in 1992), house prices in Norway have increased 5.5-fold in nominal prices and more than tripled in real prices. The global financial crises in 2008 and 2012 have so far had a very modest effect on the Norwegian housing market. Figures presented so far in 2014 indicate that house prices are still increasing.

Figure 1: House price fluctuation in Norway (1985-2014). Price per square meter in NOK (1 Euro = approx. 8.50 NOK)



The consequences of high and increasing house prices are that all homeowners become richer and richer while the threshold for first-home buyers continues to rise. One idea prevalent in current discourse on an ageing population speaks of the 'intergenerational inequity' between old and young people (cf. Thane 2012). Older cohorts have had the opportunity to accumulate wealth, especially that which resides in the value of their homes, while the barriers to housing market entry have become higher and higher for today's youth. High and increasing wealth among the elderly has led to the assumption that they are seizing the resources for themselves. Instead of saving money as a form of family insurance against various types of negative shocks or leaving it to their children as a precautionary buffer, the expectation is that the elderly will expend the money on their own comfort and leisure. Accordingly, today's elderly are labelled 'the greediest generation'. This assumption presents a risk of intergenerational conflict based on intergenerational inequality. An important premise, however, is that the

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elderly will behave in an egoistic way. If they instead take care of the welfare of their younger descendants, the inequality may result in greater solidarity between the generations within each family.

Crowding out family solidarity?

The popularity of the idea of the elderly spending their children's inheritance is in many ways related to the 'crowding out' hypothesis. This hypothesis predicts that generous welfare systems will not only reduce the actual exchanges of support within families but also undermine feelings of responsibility and solidarity between family members (Künemund and Rein (1999). In this context, housing wealth can be a supplementary pension. Both paying off one's mortgage and increasing house prices can create room for the adjustment of spending and consumption patterns. Assuming the existence of institutional arrangements able to turn such real assets into liquid assets, housing wealth may affect the homeowners' economy, either by enabling people to spend more of their assets when house prices are rising or by inhibiting consumption when house prices are falling. The combination of substantial public pensions and growing housing wealth make it possible for the elderly to enjoy their post-retirement life by consuming housing capital on 'high days and holidays'. On this basis, we can ask the two following questions: Does the combination of high housing wealth and the provision of public pensions for the elderly 'crowd out' family solidarity in general? Does increasing housing wealth also increase the willingness of the elderly to spend their money?

Results from previous research lend little support to the 'crowding out' hypothesis. On the contrary, these studies point to the opposite conclusions (Kohli 1999; Attias-Donfut and Wolff 2000; Kohli et al 2000; Attias-Donfut et.al. 2005): Transfers between adult generations in the family still occur, and both practical and financial resources flow from the elderly to their adult children. Furthermore, this family support has been stimulated and empowered by welfare state provisions. Public pension incomes and health coverage are what make it possible for elderly parents to provide their adult descendants with financial support. Therefore, these intergenerational resource flows in the family in many ways depend on and are 'crowded in' by public support (Künemund and Rein 1999; Albertini et al 2007).

On the second question, previous research also shows little evidence in support of the assumption that the elderly are spending their housing wealth on comfort and leisure. In the UK, Smith and Searle (2008) found a large increase in the number of people who were remortgaging or taking further advances against an existing mortgage account. They found a strong inclination among respondents to reinvest their extracted housing equity in their homes. Grouped together, home improvements and home extensions were still the reasons most often mentioned for equity extraction, clearly ahead of other specified reasons. Respondents less often mentioned the desire to purchase cars and other consumer goods as reasons. Therefore, depleting housing wealth on 'high days and holidays' seems to be the exception rather than the rule. This is consistent with the findings of Lauridsen and Skak (2009) concerning middle-aged and elderly citizens in ten EU countries. They found that the rate of mortgage to house value was very low; it was only above ten in Sweden and the Netherlands and was close to zero in Southern Europe. Haffner (2008) has concluded that for the elderly in the Netherlands housing wealth still functions as unused savings.

In Norway, the banks quite often offer flexible loan arrangements that allow elderly homeowners gradually to consume substantial parts of their housing wealth. In the past few

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years a steadily increasing proportion of Norwegian homeowners have taken the opportunity to borrow money with their net housing capital as collateral (Gulbrandsen and Sandlie 2014). Like other international studies, we observe no change in their attitudes as regards egoistic spending. In keeping with the 'crowding in' hypothesis, we find that the middle aged and elderly use some of the banks' financial products to help their children and grandchildren in becoming homeowners.

The private pillar of the generational contract

The 'generational contract' is a crucial dimension of contemporary European welfare systems: protecting the old and investing in the young within a balance between financial sustainability and the principles of social justice and fairness (Albertini et al. 2007). This contract has both a 'public' (state- and market-provided) and a 'private' (family) dimension, and it is important to know how these two dimensions interact. Based on the recent trend where the distribution of housing is less regulated by the state and more dependent on the market, it seems reasonable to ask the questions (cf. Kohli et al 2010): Can intergenerational family support compensate for the retreat of the welfare state and act as informal insurance against life-course risks? Can intergenerational support from parents to their adult children help the latter to enter the housing market (e.g. through financial support)? The simple answer to these questions is yes. In response to harsh market conditions, parents may, for example, donate wealth to children to facilitate a home purchase (Cirman 2008). There is empirical support for this in the Norwegian case.

As shown in Figure 1, Norwegian house prices have been increasing since the start of the 1990s. However, the rate of home ownership among young families has not decreased in this period. At first sight this is something of a surprise. Alongside the increase in house prices, the housing finance system has become more rigorous in recent years. The award criteria for a public start-up loan are more stringent, and the Financial Supervisory Authority of Norway has introduced new rules for equity in connection with house purchases. These rules prevent banks from financing more than 80% of the purchase price. In the absence of personal savings, buyers have to raise money through other channels. It seems that the family functions as such a source of support. Table 1 shows the results from six nationwide surveys in which Norstat on behalf of Finance Norway asked homeowners below the age of 40 if they had received any financial support from other family members. As we can see, the tendency is a strong increase in the receipt of family support for home purchase.

Table 1: Percentage of young people who received financial assistance from the family in connection with house purchase - homeowners under 40

2008	2009	2010	2011	2012	2013
24 %	15 %	21 %	29 %	35 %	41 %

Source: Norstat on behalf of Finance Norway.

These surveys from Finance Norway also contain questions on the type of financial assistance young people have received. The most common type of assistance was that the family had provided surety for the mortgage. In 2013, a slight majority of those who had received assistance mentioned this type of support. This type of support has also been increasing since 2008. Almost one-third had received an advance on their inheritance. About one-fifth had given a younger family member a loan, while one in ten of the donors had taken out a loan in

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their own name. One-fifth had received an amount of money, while one in ten had received help to cover the running costs of housing and living. Providing assistance to strengthen a young person's position in the credit market is rather more common than direct financial support.

Instead of spending their housing wealth on themselves, it seems more frequently to be the case that the elderly use this capital as a kind of family insurance, both as a precaution against negative shocks and as an opportunity to carry out home improvements and home extensions, but also to support children and grandchildren embarking on homeownership. This form of family insurance can provide effective protection against general inequalities in the housing market, and it may be more effective than social insurance provided by the welfare state since families have more exact information about the needs to be met.

Conclusion

The background to this paper is the vast increase in house prices seen over the past couple of decades. For homeowners, the increase in house prices implies massive growth in housing wealth. An important question in the wake of this development is how current and future generations will deal with their wealth in retirement. In this paper, we have discussed how middle-aged and elderly homeowners dispose of their housing wealth. In contrast to popular descriptions of the elderly as selfish and greedy, we argue that intergenerational transfers in the family remain widespread and substantial. The combination of increasing house prices and substantial public pensions makes it possible for the elderly to use their housing wealth as a family insurance against negative shocks or to support descendants in embarking on homeownership. This may have implications not only for family solidarity as such, how the family distributes its resources among and assures the wellbeing of its members, but also for the broader issues of social policy, social inequality, and social integration (Attias-Donfut 1995 in Kohli 1999). Intergenerational transfers challenge the design of the traditional welfare state. Public transfers may increase the possibilities for private intergenerational transfers. However, private transfers often flow in the opposite direction to public transfers. Private transfers will potentially lead to social inequality, and received family support may become a stronger determinant of life chances.

In recent years, economic development in the Nordic welfare state and Norway has been quite unlike the rest of Europe. The impact of the crisis has been less marked in the Nordic region than in the rest of Europe. However, we believe that family solidarity and support will be important independently of economic conditions. The role of family support has always been important in Southern Europe, not least in housing. The financial crisis has not changed this. On the contrary, the impact and importance of family support has probably increased during the crisis. The same appears to be the case in countries with more favourable economic conditions. A consequence of economic growth is increasing house prices and increased inequality between generations. Increasing housing wealth has provided greater opportunity to support descendants while increasing house prices have amplified the need for such assistance. On this basis, growth in the national economy also increases the importance of the family and family support.

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