Path Dependence and Change in Housing. A Theoretical Framework and an Application to the German and Swedish Housing Regimes

Bo Bengtsson
Institute for Housing and Urban Research
Trädgårdsgatan 18, 7521 Uppsala
bo.bengtsson@ibf.uu.se

Sebastian Kohl
Max Planck Institute for the Study of Societies
Paulstr. 3, 50676 Köln, Germany
kohl@mpifg.de

Abstract

Housing institutions and the durable structures of housing are often subject to long-term processes of decade- or even century-long incremental change. Nevertheless, housing studies have largely focused either on static analyses in the form of single case or comparative snapshots of policies, or, more recently, on the inertia of institutional path dependence, while processes of incremental change have been almost entirely neglected. Social scientists like Wolfgang Streeck, Kathleen Thelen and James Mahoney have proposed a typology of patterns of incremental institutional change, and this paper explores the applicability of this typology to housing provision. This is done, more specifically, by analysing two dominant processes of gradual change in recent decades: the slow but steady rise in homeownership and the gradual decline of public and social housing, taking as country cases the comparatively static and path dependent housing regimes of Germany and Sweden. With provisos, the typology is found to be helpful for analysing the different processes being at work in both countries. We conclude with some general observations on how to analyse gradual change in housing when compared to other policy domains.

Keywords: housing, homeownership, public housing, social housing, institutional change, path dependence, marketization

1 Corresponding author.
1 Housing and long-term change

Housing as a good is highly durable, and housing policies and practices are also typically difficult to change. It takes generations for new construction to overhaul the existing stock; housing implies long-term investments, and mortgage loan amortization can stretch over several decades; governments usually inherit subsidy programs and obligations from their predecessors; city systems are very stable, and within cities, city districts can keep their qualities over centuries; finally, individuals pass on housing wealth, and even housing preferences, to the next generation. All these durable features of housing do seem to support a path-dependence perspective which emphasizes continuity and reinforcing mechanisms and relegates change to external shocks and internal crises. Although housing with its specific characteristics of sluggishness may be expected to be particularly path dependent, housing studies have only recently made use of path-dependence approaches (Kleinman 1996; Kemeny et al. 2001; Bengtsson et al. 2006; Malpass 2011; Bengtsson and Ruonavaara 2010).

This is not to say that housing studies have neglected phenomena of change. Most studies in the field are arguably motivated by observations of change and the more immediate consequences that matter for societies. Much as in journalism, describing and explaining snapshots of visible change rather than the stable status quo is what challenges the observer. This research is largely economically oriented and hinges somewhat on housing's business cycle, as when rising house prices (‘the great housing boom’) or falling homeownership (‘generation rent’) make the headlines of research articles much as the ones of the general press. Many case studies are of that kind, and so are cross-sectional quantitative analyses which typically use conditional correlation for single years only.

Both the path dependence and the ‘snapshot’ approach are largely static and leave out of sight phenomena of long-term change (Stephens 2016; Blackwell and Kohl forthcoming). Not visible in the short-run, such changes become apparent in the long-run. On one hand they
typically remain under the radar of most studies focusing on change, while on the other hand their cumulative effects contradict the default expectation of path-dependence approaches which model change only through exogenous shocks producing ‘critical junctures’. Sometimes actors themselves may seem unaware of the incremental changes, while in other cases the public invisibility of cutbacks may even be used as part of a political strategy (Lindbom 2010).

The paper starts from the long-run perspective offered in path-dependence research on housing. However, in order to understand patterns of incremental change in such a general context of path dependence, it explores the applicability to housing of typologies developed in more general welfare state research. More precisely we make use of Streeck and Thelen's typology of institutional change that has been further developed by Mahoney and Thelen 2009, labelled the STM model from here on (Streeck and Thelen 2005; Mahoney and Thelen 2009). In previous research this model has rarely been applied to housing phenomena. In this paper we do this by analysing two crucial processes of gradual change in housing provision of recent decades: the slow but steady rise in homeownership and the gradual decline of public and social housing, both of which are tied to processes of increasing provision of housing through unregulated markets. For this purpose we take as country cases the housing regimes of Germany and Sweden, which both underwent considerable changes in recent decades, but

---

2 The concepts appear, though not centrally, in the following notable applications: to planning ideas (Sorensen 2015), to private renting after the financial crisis (Kemp 2015), to the decline of British social housing (Malpass 2011) and to Danish housing policy reforms (Nielsen 2010). The importance of gradual change in housing has in fact been implicitly acknowledged and demonstrated by three major social scientists who, interestingly, all started out by analysing housing politics in their early career but then became known for work in other domains. Thus, in analysing welfare retrenchment in housing in the UK and US in the 1980s, Paul Pierson remarks in his PhD thesis that the Thatcher government set the country on a steeper homeownership path by converting existing units and by creating parallel homeownership programs (a case of layering according to the STM model) (Pierson 1989). Gøsta Esping-Andersen in turn puts an emphasis on how the post-war displacement of many families in suburban single-family houses moved the electorate of even social democrats to shift housing-policy support in favour of homeownership (an STM case of conversion) (Esping-Andersen 1985). Finally, David Collier, in analysing the Peru squatter movement and legislation, draws on Hirschman’s ‘sorcerers’ apprentice dynamics’ (Collier 1976; Hirschman 1981) to explain the gradual layering of informal settlements around the Lima core: once the government made a permissive and supportive step towards informal squatters, the latter developed inflationary expectations behind which the successive governments were unable to fall (a critical juncture).
arguably incrementally so. In these cases, the proposed framework of gradual institutional change is obviously more relevant than, for instance, in cases of post-socialist countries that have experienced a rapid shock-like change. If the framework fails to describe the German and Swedish housing processes, then it would likely not work for other, less incremental, processes either. The purpose is thus to explore to what extent the lens borrowed from Streeck, Thelen and Mahoney can provide a better understanding of our two country cases.

We start off by presenting our general perspective on path dependence and go on to discuss the relevance and limitation of path dependence approaches to housing. We then introduce the STM typology of institutional change. The main section of the paper then applies this typology first to change in physical housing structures in general and then to the development of the institutional housing regimes of Germany and Sweden in particular. We conclude by discussing the research potential of further studies of developments in national housing regimes based on these models.

1.1. Path dependence and housing – a general perspective

The typical case of path dependence in politics is where actors more or less deliberately design institutions at point A, a critical juncture, institutions which at later point B serve as restraints to decision-making, and thus make some policy alternatives impossible or implausible. Bengtsson and Ruonavaara 2010 summarize the reinforcing mechanisms of path dependence as efficiency, legitimacy and power, implicating that events at point A make some alternatives appear more efficient, more legitimate or more powerful at point B (North 1990; Hall and Taylor 1996; Thelen 1999; Pierson 2000). Critics of path dependence have claimed that the concept is rather empty and says little more than “history matters.” To avoid this

---

3 Inspired by Mahoney 2000 who suggests a list of four: utilitarian, functional, power and legitimation mechanisms. We, however, see these as four alternative perspectives on path dependence, rather than competing mechanistic explanations within one perspective.
Mahoney has suggested that path dependence should be defined rather strictly as 'historical sequences in which contingent events set into motion institutional patterns or event chains that have deterministic properties' (Mahoney 2000, 507-8). Unfortunately, such a strong definition would make change virtually impossible and theories of path dependence less relevant to the study of real-life institutions. In this paper, where our interest is in gradual change, we take our departure in a more open-ended weak definition of path dependence as a historical pattern where a certain outcome can be traced back to a particular set of events on the basis of empirical observation and guided by some social theory (Crouch and Farrell 2004; Bengtsson and Ruonavaara 2010)

The specific “sticky” conditions of housing provision pointed out in the introduction of this paper would make one expect it to be fruitful to analyse housing institutions and policy in terms of path dependence. Nevertheless, analyses of housing provision framed in such terms have so far been rare – and some of them say little more than just “history matters” not analysing how history matters and what mechanisms keep the development on a certain path.

Although the specificities of housing compared to other commodities and welfare state sectors are to a large extent related to the sluggishness of physical and social structures, so far the majority of path dependence-oriented studies on housing focus on formal institutions, even though some works exist on path dependencies in building stock, quality and the regional housing distribution (Kohl 2016; Meen et al. 2016) or in social stratification orders (Kährik 2006). In this paper we will not only test the STM model of gradual change in relation to housing institutions but also discuss its applicability to the well-known sluggishness of physical housing structures.
1.2 Models of gradual institutional change

In a perspective of weak path dependence, our reinforcing mechanisms of path dependence inspired by Mahoney 2000 (efficiency, legitimacy and power) can in principle be turned upside down, because their disruption implies a moment of change. An interesting example from housing is how the universal Norwegian housing regime based on co-operative housing was successively transformed into a selective system in a process beginning in the 1970s. The price control on co-operative dwellings was successively abolished due to strong market pressure from owner-occupation and unregulated co-operative dwellings (Sørvoll 2013). This development was a consequence of inherent contradictions within the Norwegian housing regime, and when its efficiency, legitimacy and political support diminished, the system broke down.4 This paper has its main focus on the STM model and its mechanisms. The disruption of the mechanisms of efficiency, legitimacy and power can be seen as basic ingredients in the STM model and will be treated as such in the following.

The STM model was elaborated in studying the creeping liberalization that most Western nations have been undergoing since the 1970s. In the absence of dramatic critical junctures, the considerable changes by the 2000s were difficult to explain with theories of path dependence which would predict stable trajectories. Thus, the incremental change leading to discontinuity needed new theorization and a hands-on fivefold typology, mostly applied to pensions, health and other non-housing welfare state areas was the response to that need. The detailed typology as suggested by Streeck and Thelen is reproduced in Table 1.

---

4 This process may also be seen as a housing example for what Thelen (1999) has called “path-dependent change” due to internal tensions.
Table 1: Five types of gradual transformations

<table>
<thead>
<tr>
<th>Definition</th>
<th>Layering</th>
<th>Drift</th>
<th>Conversion</th>
<th>Exhaustion</th>
</tr>
</thead>
<tbody>
<tr>
<td>Slowly rising salience of subordinate relative to dominant institutions</td>
<td>New elements attached to existing institutions gradually change their status and structure</td>
<td>Neglect of institutional maintenance in spite of external change resulting in slippage in institutional practice on the ground</td>
<td>Redeployment of old institutions to new purposes; new purposes attached to old structures</td>
<td>Gradual breakdown (withering away) of institutions over time</td>
</tr>
<tr>
<td>Institutional incoherence opening space for deviant behavior</td>
<td>Differential growth</td>
<td>Deliberate neglect</td>
<td>Redirection, reinterpretation</td>
<td>Depletion</td>
</tr>
<tr>
<td>Active cultivation of a new ‘logic’ of action inside an existing institutional setting</td>
<td>Faster growth of new institutions created on the edges of old ones</td>
<td>Change in institutional outcomes effected by (strategically) neglecting adaptation to changing circumstances</td>
<td>Gaps between rules and enactment due to: (1) Lack of foresight; limits to (unintended consequences of) institutional design</td>
<td>Self-consumption: the normal working of an institution undermines its external preconditions</td>
</tr>
<tr>
<td>Rediscovery and activation of dormant or latent institutional resources</td>
<td>New fringe eats into old core</td>
<td>Enactment of institution changed, not by reform of rules, but by rules remaining unchanged in the face of evolving external conditions</td>
<td>(2) Intended ambiguity of institutional rules: Institutions are compromises</td>
<td>Decreasing returns: generalization changes cost-benefit relations</td>
</tr>
<tr>
<td>‘Invasion’ and assimilation of foreign practices</td>
<td>New institutional layer siphons off support for old layer</td>
<td>Presumed ‘fix’ destabilizing existing institutions</td>
<td>(3) Subversion: rules reinterpreted from below</td>
<td>Overextension: limits to growth</td>
</tr>
<tr>
<td></td>
<td>Presumed ‘fix’ destabilizing existing institutions</td>
<td>Compromise between old and new slowly turning into defeat of the old</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: Reproduced from (Streeck and Thelen 2005, 31)

Mahoney and Thelen 2009 take the model one step further by relating the different sources of institutional change to each other in a systematic way.5 According to them displacement means removal of old rules and introduction of new rules. In contrast, in the cases of layering, drift, and conversion the old rules are not formally removed: With layering new rules are attached to the old ones. With drift the old rules are kept but neglected and their impact and enactment are changed, and with conversion the old rules are also formally kept but interpreted and enacted in new ways. Streeck and Thelen’s fifth type, exhaustion, is not included in Mahoney and Thelen’s development of the model, but it could be defined as situations where existing rules are removed (and neglected) without any new rules being introduced.

Before we apply this model to the German and Swedish housing regimes a definitional comment is in place regarding “institutions.” Thelen and her colleagues only discuss

---

5 Mahoney and Thelen, p. 15-18; Table 1.1.
incremental change in formal institutions and not in informal institutions or in social or physical structures that are so crucial in housing provision. Due to the specificites of housing, we diverge from this narrower definition in two respects: first, we also include physical and social structures that housing is made of and embedded in. And second, we do not include the at times important facets of informal housing institutions. Mahoney and Thelen (2009, 4) see institutions as relatively enduring features of political and social life that cannot be changed easily or instantaneously. Like STM we focus our analysis mainly on legal and other formal rules. However, since the stabilizing function of formal rules to a large extent depends on shared social norms and practices – e.g. via the legitimacy mechanism – we also, like e.g. (Scott 1995), include such social institutions in our definition. In consequence our analysis must be based on a broad understanding of ‘housing regime’. Thus, we add the physical organization of both formal and informal housing provision, allocation and consumption to Kemeny’s definition of ‘housing regime’, i.e. ‘the social, political and economic organization of the provision, allocation and consumption of housing’ (Kemeny 1981, 13) and this broader understanding of housing regimes our starting point.

In the remaining part of the paper we will conduct an empirical testing of the relevance of the STM model to the field of housing, where it has hardly ever been applied. For this exercise we select the German and Swedish housing regimes as cases, focusing on the slow rise in homeownership and the gradual decline of public and social housing in recent decades. Germany and Sweden are often seen as pertaining to similar housing regimes (Kemeny 1995, 115-23). However, through a lens of theories of incremental institutional change, there have also been considerable divergences between these two countries, as we claim in the following.
2 Incremental change in housing: structures and institutions

Housing is not only about the set-up of formal institutions, but, much more than other welfare domains, it is tied to an underlying physical infrastructure of material buildings as well as to the social structure of their inhabitants. Changes in the underlying social and physical structures often, but not necessarily, go along with institutional changes. While housing institutions and their change can differ widely between countries – as we show for Swedish and German housing institutions below – incremental changes in physical and social housing structures are more often similar across countries.

2.1 Change in physical housing structures

In fact, the five metaphorical terms describing gradual change in the STM model can be used as almost literal description of the physical changes in housing structures. Change through layering is perhaps the most obvious example: Housing is literally structured in vertical layers of multiple stories or horizontal layers with tree-ring-like patterns encircling a city's core. When cities were still hampered by fortifications as horizontal growth restrictions (Blackwell and Kohl 2018), they grew vertically, while ever since horizontal layering has been more important, as documented by urban sprawl reports. Changing the existing housing stock with regard to, for instance, ownership form or quality stumbles not only upon the inertia of vested interests but also of building traditions. The addition of new layers in turn allows for the introduction of an element of change that leaves the existent stock virtually untouched. For example, without renovation of the existing stock, it will take generations to make the entire housing stock energy efficient; furthermore the ‘layering’ of new owner-occupied single-family suburbs in German-speaking countries increased the homeownership rate during the 20th century, while the core of multi-unit rentals which the new suburb layers encircled still kept the overall homeownership rate at its low international position. Though each small layer might leave the old stock untouched, the accumulation of many suburban layers will
eventually affect the city's core also in terms of declining population shares, selective migration and loss of tax money and political power. The concept of differential growth is important for understanding the dynamics of change through layering. In particular, the share of each housing form in new construction, together with the demolition rates, tells the story of slow changes over time.

Change through conversion can also adopt a physical meaning in the case of housing, as when material changes are undertaken in order to rededicate the use of existing housing structures. The conversion of existing military buildings or commercial areas for residential use, or the conversion of large apartments into separate housing units as after the Russian Revolution are obvious examples. Rapid material conversions of this kind may be found in times of housing shortages or technological change, as well as when developers are eager to have fast returns on their capital.

The most determining feature of change in housing is probably their in-built decay. Housing structures, through their physical make-up, are designed to depreciate over time. In the design phase, the longevity of housing is a crucial variable to program the life of a building. With relatively short programmed life-cycles of 20-30 years, for instance, the end of many social housing projects was basically written in stone (or rather a cheaper building material). Even though housing has low depreciation rates in comparison with other durables or investment goods, it is programmed to become obsolete after a certain number of years. This basic condition of housing structures can be described as gradual change through exhaustion.

The obsolescence of housing structures can even be exacerbated through deliberate neglect which is at the core of the gradual mode of change called drift. For specific buildings this means that not only are normal maintenance works neglected by strategic underinvestment or by not adopting a new building standard. It can also mean to deliberately exploit the existing housing stock in order to replace it. Slum landlords, for instance, deliberately overcrowd old
housing structures and drive out existing residents in order to be able to tear down structures, sell the land for construction and build anew (Desmond 2016).

Finally, displacement of housing structures requires the coexistence of various housing forms at a certain point, some possibly dominant, others dormant. A minor housing alternative can then be rediscovered and reactivated, endogenously or through importation of foreign ideas. Renovations of existing units at the onset of gentrification processes is an example of displacement as is the more radical urban redevelopment of entire districts: with depreciation built into existing housing, the complete displacement of older buildings and neighbourhoods is a permanent dormant alternative to existing housing, particularly when land values largely outpace the value of existing structures.

The modes of gradual change are thus already quite literally carved into the very material structures houses are made of, in principle independently of how housing is institutionally organized. De facto, of course, the material and institutional spheres of housing are often closely enmeshed and only analytically separable. This will be also become evident in our following discussion of gradual institutional change in the German and Swedish housing institutions.

**2.2 Changes in housing institutions**

Ever since Kemeny’s original work, Germany and Sweden have figured as two countries of similar “cost-renting” housing regimes, with an ‘integrated rental market’, where homeownership is only one form of tenure next to a rental market disciplined by public housing (Kemeny 1981, 1995). As comparison with ‘home owning societies’, with a ‘dualist rental market’ like the United States or Australia, this categorization has probably been valid. However, without this contrastive reference point and at a somewhat closer look, the countries have displayed considerable cross-country differences in their tenure regime:
particularly due to its owner cooperative tradition and tenancy-neutrality policies, Sweden has had a higher homeownership rate than Germany, while the Swedish public housing has remained more important than in Germany, where private rental is dominant.

There are two more fundamental institutional differences between Germany and Sweden when it comes to housing tenure, one related to rentals, the other to ownership. First, Germany, unlike Sweden, has a public housing circuit with means-testing, even though there has also been a state-supported non-profit association circuit without means-testing. In Sweden since the 1940s the essential distinction has been between private (market-oriented) and public (cost-based) ownership, where neither is means-tested. Second, the Swedish co-operative tenure, based on ‘tenant-ownership’ (bostadsrätt), where residents own the estate collectively and, since 1968, have the right to sell their individual flats at market price, exists only very rarely in Germany and is a main factor in explaining the different levels of owner-occupied housing rates between the two countries, which are depicted in Tables 2 and 3. But beyond these differences, both countries have seen a gradual increase in homeownership and a decrease in the different public provisions of rentals.
Table 2: Development of different tenures in Sweden in percent

<table>
<thead>
<tr>
<th>Sweden</th>
<th>Owner-occupied houses</th>
<th>Bostadsrätt</th>
<th>Public rent</th>
<th>Private rent</th>
</tr>
</thead>
<tbody>
<tr>
<td>1945</td>
<td>38</td>
<td>4</td>
<td>6</td>
<td>52</td>
</tr>
<tr>
<td>1960</td>
<td>34</td>
<td>9</td>
<td>14</td>
<td>43</td>
</tr>
<tr>
<td>1970</td>
<td>34</td>
<td>13</td>
<td>23</td>
<td>30</td>
</tr>
<tr>
<td>1980</td>
<td>41</td>
<td>14</td>
<td>24</td>
<td>21</td>
</tr>
<tr>
<td>1990</td>
<td>40</td>
<td>15</td>
<td>25</td>
<td>20</td>
</tr>
<tr>
<td>2000</td>
<td>39</td>
<td>17</td>
<td>23</td>
<td>21</td>
</tr>
<tr>
<td>2005</td>
<td>39</td>
<td>17</td>
<td>22</td>
<td>21</td>
</tr>
<tr>
<td>2011</td>
<td>41</td>
<td>22</td>
<td>18</td>
<td>19</td>
</tr>
<tr>
<td>2015</td>
<td>39</td>
<td>23</td>
<td>19</td>
<td>19</td>
</tr>
</tbody>
</table>

Source: Taken from (Bengtsson 2006) and SCB 2017

Table 3: Development of different tenures in Germany

<table>
<thead>
<tr>
<th>Germany</th>
<th>Homeownership</th>
<th>Rental (private, non-profit, public)</th>
<th>Public rental only</th>
</tr>
</thead>
<tbody>
<tr>
<td>1950</td>
<td>39</td>
<td>61</td>
<td></td>
</tr>
<tr>
<td>1961</td>
<td>34</td>
<td>66</td>
<td>33</td>
</tr>
<tr>
<td>1968</td>
<td>36</td>
<td>64</td>
<td></td>
</tr>
<tr>
<td>1972</td>
<td>36</td>
<td>64</td>
<td></td>
</tr>
<tr>
<td>1978</td>
<td>37</td>
<td>63</td>
<td></td>
</tr>
<tr>
<td>1980</td>
<td>39</td>
<td>61</td>
<td>15</td>
</tr>
<tr>
<td>1982</td>
<td>40</td>
<td>60</td>
<td>13</td>
</tr>
<tr>
<td>1987</td>
<td>39</td>
<td>61</td>
<td></td>
</tr>
<tr>
<td>1993</td>
<td>39</td>
<td>61</td>
<td></td>
</tr>
<tr>
<td>1998</td>
<td>41</td>
<td>59</td>
<td>16</td>
</tr>
<tr>
<td>2002</td>
<td>43</td>
<td>57</td>
<td>7</td>
</tr>
<tr>
<td>2006</td>
<td>42</td>
<td>58</td>
<td>7</td>
</tr>
<tr>
<td>2011</td>
<td>46</td>
<td>54</td>
<td>4</td>
</tr>
</tbody>
</table>

Source Germany: (Sensch 2010), Zensus 2011, public rental housing data are from ALLBUS, all rentals include also the non-profit one that is difficult to isolate
But the long-standing differences in tenure conceptions imply that that the long-term processes of homeownership increases and social-housing decreases – sometimes referred to as “marketization” – in the housing regimes of both countries had somewhat different starting-points and developed in somewhat different directions.

2.2.1 Germany: Marketization of Social Housing and Creation of Private Rental Markets

The German housing regime was largely pre-shaped by developments after the First World War and was extended in modified form after the Second World War (Schulz 1991). It has consisted of three pillars: first, subsidies for private rental construction accompanied by tenant protection and price corridors for market rents, second, state loans for social housing construction that tie low-interest rates to below-market rents and third, saving bonuses and tax incentives for homeowners. German housing has thus relied on the private rental market, a diminishing social rental sector with means-testing, a non-profit sector (private, municipal or cooperative) without means-testing and finally a homeownership circuit, much less developed than in comparative countries. From the 1970s, the institutions and structures characterizing this housing regime began to gradually shift, resulting in less social, and more private rental housing, and more owner-occupation. Two general processes and their respective mechanisms of gradual institutional change help to understand these tendencies: the marketization of social housing and the extension of a private rental market.

Marketization of social housing

The mechanisms behind the decline of social housing in Germany are various. A first one, clearly resembling exhaustion, lies in the declining numbers of new social housing construction after the post-war social housing construction boom was over. With the initial quantitative problem of housing shortage solved (Führer 1995), the considerable social housing subsidies were no longer seen as justifiable. In the 1980s, most social housing
construction was delegated to the level of the Länder, with the federal state almost completely retreating. The exhaustion of new social housing construction was further exacerbated by the delegitimisation of non-profit housing providers through the scandal and bankruptcy of the largest builder of social housing, the union-owned Neue Heimat (Kramper 2008). This provided sufficient political ground for abolishing in 1990 the privileged tax- and subsidy-status which non-profit associations had previously received in return for the promise to offer below-market market rents even beyond the amortization of state mortgages. Over the years, the provision of good-quality social housing had helped in building up a legitimate role of social housing providers in Germany's housing economy. As main recipients of social-housing subsidies, they acted as developers of entire new neighbourhoods and were the partners of municipalities in need to house lower-income people. Their non-profit status was ultimately among the causes for corruption and fraud scandals in the 1980s. As no profits were allowed despite considerable surpluses, staff was generously compensated and the management ultimately diverted funds into their own pockets (Kramper 2008). When these practices became public – further exploited by conservative opponents of the social-democratic non-profit association complex – the legitimacy of the non-profits was irremediably destroyed. With delegitimisation came a loss of power of the general social housing movement. Partly, this was due to the sector’s success in reducing the quantitative housing problem having made subsidies seem obsolete. Partly, this was due to the movements’ constituency outgrowing the physical structures built for them: as families and incomes of the working and middle classes grew, they outgrew the modern but economically built housing units of the post-war housing construction boom.

While these processes of exhaustion explain the declining share of social housing construction, it leaves the conversion of formerly social housing into private rental units untouched. In the German system, private landlords were also eligible for receiving social
housing subsidies. They have been obliged to charge below-market rents, but only for the
time of the mortgage's amortization. After these 10-30 years, however, they have been free to
set rents at market-levels. The social-housing tenure was thus programmed to last only
temporarily for the time of subsidized mortgages. As a consequence, several generations of
privately built social housing units have gradually passed from the social into the private
rental stock in a long process of conversion.

A final more rapid process of conversion has taken place in the 2000s for the municipally
owned segment of the social housing stock. As part of the tradition of municipal socialism,
the major municipalities traditionally held shares in local municipal companies. Faced with
rising costs and measures of austerity in the 2000s, many sold large shares of their housing
stock to private-equity firms in transactions amounting to several (ten) thousand units. While
municipal companies were committed to charging below-market rents, the new owners or
their private successors intended to make a profit on their housing investment. While the
former municipal companies often ceased to exist, the purpose of their former enterprise was
rededicated to profit-making.

The extension of a private rental market

While processes of exhaustion and conversion acted behind the marketization of social
housing, the creation of a parallel private rental market as dominant form of tenure in
Germany has different causes, including layering. The new layers of housing construction in
the owner-occupied and private-rental sector have been affected by a subsidy system that
supported private investment in private rentals and rather neglected the owner-occupied sector
(Kofner 2014). Thus, private landlords in Germany could not only tap the social-housing
subsidies, but also received special depreciation allowances and exemptions from taxes and
from rent-restrictions for new private rental constructions. Homeowners, in turn, general
income tax exemption subsidies excepted, could only count on contract-saving bonuses which were successively reduced and even abolished in 2005. Contrary to other countries’ subsidy system, no mortgage-interest payment subsidies are in place.

One particular aspect of the German subsidy system favouring private rental investments needs to be highlighted, namely subsidies which also favour the modernization of existing private dwellings because they allow landlords to pass on modernization costs through increased rents. Though criticized for their gentrification-promoting effects, these subsidies were part of the explanation of why investment in existing housing units began to exceed investment in new units in the 1980s (Euroconstruct data), thus maintaining the quality of a private rental stock and preventing this form of tenure from falling into the disrepute it fell into in other countries (Kofner 2014). Certain subsidy structures were thus responsible for different forms of layering through new construction, for creating drift in the owner-occupier sector and for halting processes of rental housing displacement.

While these processes explain the creation of a rental market as one of regulatory success – the compromise of tenant security, rent restrictions and support of new rental construction – one can also explain it as unsuccessful processes of displacement, as when political actors did not succeed to activate in time the dormant alternative institution of apartment ownership in Germany. While this legal institution had existed at least in certain regional states in Germany until the 19th century, the Civil Code of 1901 outlawed it because apartment ownership was seen as a breach of the notion of undivided, absolute property and as cause for permanent quarrels. When after World War II capital for reconstruction was urgently needed, conservatives reactivated this older legal tradition to mobilize more capital and to spread more homeownership in the unstable post-war times. But unlike Southern European countries, where this property form became dominant, the combination of legal problems, banks' concern about apartments as collateral and the dominance of single landlords in new social
housing construction left apartment ownership entirely marginal in the German housing stock until the 1970s. Then a second re-activation attempt, this time initiated by Social Democrats, showed more success: home acquisition subsidies were extended to include existing houses and apartments, and a procedure for the conversion of private rentals into separately owned apartments was designed. With the wave of single-family house suburbanization abating and almost overproduction of new housing in the 1970s, apartment ownership became a new housing form in many German cities. New housing construction for single landlords has ever since been decreasing, albeit until these days the share of owner-occupied apartments is still significantly lower in the German urban building stock, when compared to Southern Europe or the tenant-ownership cooperative housing in Sweden and Norway.

As many of the apartment units newly built for or converted into single-flat ownership are rented out, the belated rise of flat ownership does not help to make the rental market more fluid. Unsuccessful displacement when activating the flat-ownership institution and unsuccessful conversion of existing units into owner-occupied ones can thus help to explain the growth of the private rental market. At the same time, the successful conversion of existing social rentals and the exhaustion of institutions backing their growth, led to a declining share of social rental housing in the German housing stock.

2.2.2 The Swedish housing regime and mechanisms of change

The Swedish housing regime can be summarized in terms of four distinctive characteristics or pillars: (1) A universally oriented housing policy without any specific sector of ‘social housing’ based on individual means testing. This universal policy has also included, sometimes as an explicit political goal, sometimes more implicitly, an idea about ‘tenure neutrality’ according to which housing taxation and subsidies should be constructed in a way that does not favour any particular tenure form. (2) A public rental sector with municipal
housing companies (MHCs) professionally managed at arm’s length distance from political influence and providing housing for all types of households, not only those with special needs. (3) An integrated rental market with formal links between rent-setting in the public and private rental sectors – in contrast to so-called ’dualist’ rental markets where one part of the rental stock is allocated according to pure market principles and the other on the basis of needs testing (Kemeny 1995). (4) A ‘corporatist’ system of centralized rent negotiations between on one hand (public and private) landlords, on the other representatives of a strong and influential national tenant movement.

All these four pillars were established after WWII and fully institutionalized by the late 1960s. Recently they have come under pressure and been adjusted formally or changed informally. In the following we will analyse four interrelated processes of change affecting the role and status of the home ownership and public rental sectors in terms of the STM mechanisms of change.

Marketization of public housing (Bengtsson 2006)

The present role of the Swedish municipal housing companies was established as the mainstay of the new comprehensive housing policies introduced after WWII, including state loans to all tenure forms. Now MHCs were given the universal role of offering cost-based housing to all types of households, regardless of their economic resources. In accordance with the logic of an integrated rental market the intention was that the existence of cost-based MHCs would bring stability also to the, then much larger, private rental sector. The MHC share of the Swedish housing stock increased successively from 6 per cent in 1945 to 24 per cent in 1980. In particular the famous ‘Million Program’, when one million dwellings were produced in the years 1965-1974, contributed to this development. Today, after almost three
decades of sales and *conversion* to co-operatives, the MHC share of the housing stock is down to 18 per cent.

The MHCs have gone through two more or less critical junctures of institutional change since the 1940s. One was the dismantling of state loans and subsidies in the early 1990s, the other a new legislation on MHCs that was launched in 2011, according to which MHCs are to act ‘business-like’ instead of being cost-based.

Originally, the state finance system from the 1940s only included a small and provisional element of subsidies. However, from 1975 permanent subsidies were linked to the loans, and the amount of subsidies increased rapidly and finally came to threaten the Swedish economy. When a right-wing Government took office in 1991, a ‘system shift’ in housing policy was signalled, and in the following years state loans and housing subsidies were successively phased out.

The new legislation on MHCs launched in 2011 represents an institutional adaptation to the EU competition legislation. The law prescribes that MHCs are to be run on ‘business-like’ principles, however at the same time supporting housing provision in the municipalities – seemingly an institutional contradiction. In consequence, the implementation of the law has been complex. So far MHCs and their municipal owners have kept some room of manoeuvre within the new legislation, and in consequence differences between municipalities have increased and some have even sold out their MHCs.

We see the successive reduction of the MHC stock over the last decades as a soft form of *layering* and differential growth between tenures. Part of the development is, however, due to *conversion* to other tenures, primarily co-operatives and private rentals. The phasing out of state housing loans and subsidies in the early nineties is best seen as a reaction to the *drift* of the state institutions of housing finance that had come to threaten the economy. Focusing
more precisely on the MHCs, the abolishment of state loans meant new institutional conditions, in particular a growing need to build up equity within the companies to make new investments possible. This makes it a case of layering.

The recent legislation on MHCs can be seen as a critical juncture due to ‘external shock’ in the form of the need for adaptation to the EU. The consequences so far seem to be that households with limited resources are less eligible for MHC dwellings, and homelessness is increasing. Local and informal means-testing is now evolving in the form of ‘social contracts’ where the municipality guarantees the rent. In recent years, private ‘slum-lords’ offering housing of poor quality to households in need have also been observed in the Swedish rental market. We see these tendencies, as well as the cases when MHCs have been sold by their municipal owners, as a combination of layering and displacement.

Marketization of the rent-setting system

In the 1960s and 1970s a system of collective negotiations and use-value comparison of rents successively replaced the wartime rent regulation from 1942. Since the 1970s virtually all rents have been set within this system. It was somewhat modified after the legislation of 2011 but still dominates the Swedish rental sector.

Since 1990 some changes have taken place within the system allowing more market-like rent in particular cases, e.g. new-build rents in large cities. Recently second-hand rents in co-operative housing have also been liberalized. In STM terms these changes can be seen as elements in a process of layering within the rent-setting institutions. Direct rent negotiations and contracts between landlords and individual tenants (as an alternative to collective bargaining) have also increased in numbers in recent years. This can also be seen as layering and, if this development continues, in the long run conversion, and even exhaustion of the corporatist system of rent-setting.
Marketization of co-operative housing (Sørvoll 2009)

From the 1930s, co-operative housing, by the time largely organized within the national membership organizations HSB and Riksbyggen, was seen as part of the socially oriented housing sector. This was also confirmed in the post-war housing reforms, where co-operatives, together with public rentals, were given a privileged position in the new housing regime. This social and political role of co-operative housing came to a sudden halt in 1968, when the control of transfer prices from the war years was lifted, and co-operative members received the right to sell their dwellings at market price. When the market turned upwards in the 1980s, co-operative prices went up and the Swedish co-operative sector successively took up the market segment corresponding to condominiums in other countries.

Recently, the prices of co-operative housing have peaked, and the coop market share has also grown at the expense of rental housing, both private and public. As mentioned, we see this as a case of layering and differential growth between tenures.

From tenure neutrality to favouring home-ownership (Bengtsson, Ruonavaara, and Sørvoll 2017)

Tenure neutrality was an implicit element of the comprehensive post-war system of housing loans directed to all types of tenure. Over time, however, this neutrality was successively undermined by inflation and rising interest levels. In consequence, the right to deduct interest on housing loans from taxed incomes turned into a financial support to home owners. In 1975 a new system of permanent subsidies was introduced, explicitly aiming at economic neutrality between tenures, when interest subsidies and tax deduction together were to favour rentals, co-operatives and home ownership equally.

Up to the early 1990s, tenure neutrality was highlighted in the state budget when subsidies from tax deduction were presented alongside interest subsidies to housing production. When
this generous ‘neutrality’ developed into a threat to the economy, the right-wing Government that took office in 1991 initiated a ‘system shift’ when state loans and interest subsidies were successively phased out and replaced by a system of credit guarantees without subsidies. This also put an end to economic tenure neutrality, since tax deductions, the home ownership side of it, remained intact. In STM terms, this process can be analysed as drift and exhaustion of the system of state finance, followed by displacement with credit guarantees without production subsidies.

In 2014, tax deductions on housing loans were estimated to cost the Swedish state 1.8 billion Euros and the forecast for 2024 was 6 billion Euros. Today the indebtedness of Swedish home owners is high by international standards. A number of different measures have been suggested in order to avoid housing bubbles. Regardless, the idea of tenure neutrality seems to have lost most of its discursive power. This can be seen as drift of the ideational institution of tenure neutrality, with some form of layering (to avoid economic crisis) now on the political agenda.

3. Discussion and conclusion

Without major housing revolutions, both Sweden and Germany underwent considerable changes in their housing regimes, many of which can be described as processes of liberalization and marketization which the STM typology of gradual institutional change was originally designed for, only in other institutional domains than housing. In Germany, the developments can be described as the exhaustion of the social housing sector, its conversion into the private rental sector, the layering process by a differentiated subsidy system favouring rental construction and the absence of those displacement and conversion processes of rentals into owner-occupied units known from other countries. In Sweden, the dominant
STM mechanisms were *layering, drift* and *conversion*, but also the *exhaustion* of the system of state finance initiated in 1975, which led up to a critical juncture in Swedish housing in the early 1990s.

The application of the STM framework to housing thus allows revealing different modes of gradual change behind superficially similar developments across countries and they help to explain long-term trends of within-country change and across-country divergence. Overall, the application of the STM model to housing phenomena starts with the considerable advantage that its guiding metaphors have a natural playing field in the description of solid, material structures of which houses and buildings are a case. Thus, the notions of layering, displacement or drift can be literally understood and thus applied to the gradual changes occurring to buildings or their urban conglomerates.

When applied to housing *institutions*, however, the metaphorical and loosely defined descriptions come at the price of precision. Our analysis confirms what has been noted in one previous reference to STM in housing matters (Kemp 2015), that it is at times difficult to decide which of the modes of change and which of the mechanisms is exactly at work and which one is clearly not – or if they appear together. In particular it is sometimes difficult to draw the line in practice between drift, layering and conversion, where the old institutions are not formally removed. Furthermore, what is layering or drift in the short run may result in exhaustion in the long run, and it may sometimes be difficult to decide at what point in time one mechanism turns into the other. Finally, which mechanism best describes a certain development may sometimes depend on how the institutions are defined and demarcated. E.g. since an integrated rental market consists of two institutional parts, the private and public rental sectors, layering or drift within the public sector may result in conversion of the integrated system as a whole.
A second limitation is that quite some of the changes we observed in the country cases are of the abrupt nature of critical junctures and might thus be simply captured by more traditional path-dependence approaches: In the German case sudden scandals, and supply-shocks to the housing stock, in the Swedish case financial shocks and intervention from the EU.

The main strength of the STM model in relation to the path dependence approach, however, is that it exemplifies possible processes of change that are not triggered by external shocks. Even if we sometimes may have difficulties to decide which of two alternative mechanisms is applicable, the model could still function as a heuristic device to identify and understand processes of gradual change.

Moreover, the application of the STM framework produced many fruitful collateral observations worthy of mentioning. A first concluding observation is that all processes of change can be applied and found in both of our country cases. Most of the housing phenomena dealt with above are sufficiently complex to harbour processes underlying different and parallel modes of change. A second observation, however, is that the modes of change can be comparatively more or less pronounced. It is indeed a purpose of this paper to guide comparative research into institutional and structural changes in housing. One can thus imagine that countries display similar aggregate trends and results but different underlying logics. Both Great Britain and Sweden have similar ownership rates currently, but in Great Britain conversions of council into owner-occupied houses by the government represented a critical juncture. In Sweden, by contrast, the ownership gains came rather from the conversion of private and public rentals into owner-cooperatives and by the layering of more new construction of owner-occupied units. On the other hand, different modes of change can also explain dissimilar housing outcomes: while both the Netherlands and Germany had more than 30 percent social housing in their housing stock, the German rate fell to less than 5 percent versus still around 20 percent in the Netherlands. Based on existing literature on the two
separate cases, one could hypothesize that exhaustion and conversion drove the change in the German case, while Dutch social housing providers were much more adaptive (Aalbers, Loon, and Fernandez 2017).

A third observation is about the intermeshed processes of structural change and institutional change that is particularly applicable to housing. Housing structures are often closely tied to specific institutions: the private rental stock is tied to the institutions of tenancy and rent laws, to landlords and tenants organizations; the public and social housing stock is tied to municipal or social housing companies, to laws regulating social tenancy and subsidies etc. The cases easiest to analyse are those where the institutional and structural modes of change point in the same direction: in Germany, exhaustion in social housing implied both a decline of the social housing stock and the social housing institutions. The more complicated cases, however, are those where the modes of change for structures and institutions diverge or become decoupled: homeownership subsidies in Germany faded out, while the homeownership rate was still rising.

The STM framework has been applied mainly to policy areas other than housing and situated in the more classical welfare domains. It is worthwhile to ask which elements make housing and its institutions special with regard to long-term changes in comparison to these policy fields, e.g. the often-studied pensions, education or health. One distinction of these policy fields could be along the lines of how enduring their object matter is: most policy fields inherit longer-term structural rigidities because they are tied to relatively static populations and their slow changes over time. Baby boom effects can thus produce similar gradual changes over time in education, pension or housing. While the rigidity of demographic generations affects virtually all policy fields, the particularity of housing lies in the even longer-term material structures that it generates. Most houses survive the generation for which they were originally built. In that, gradual change in housing might resemble much more the
long-term investment cycles of infrastructural policies than the generation-cycles of welfare policies or the business-cycles of economic or industrial policy.

A second characteristic that sets housing apart from other policy fields is its potentially strong reliance on market provision. When compared to other welfare domains, housing, the welfare state’s notorious wobbly pillar, can be provided almost completely by private market actors even if there were moments of strong state interventions in the past. For the analysis of gradual change, this could imply that housing institutions, despite the stickiness of housing structures, can change more rapidly from state to market – and possibly back – than might be conceivable in other policy fields.

The question of applying the STM framework comparatively across policy fields, however, goes beyond what a single paper can do. This paper was meant to fill the gap, left by path-dependence and snapshot approaches, of studying gradual change phenomena in the field of housing. Housing regimes, even or particularly those of comparatively static nature as in Germany and Sweden, are subject to long-term changes which go under the radar of strong path-dependence approaches – which would expect a reproduction of the same – but also of more short-term oriented case- and cross-sectional studies. Among the many long-term changes, the slow rise of homeownership and the decline of social and public housing are among the most characteristic changes of the housing regimes under study, but one could think about many others, financialization possibly being the most recent. Our analysis indicates that the STM framework can be applied to housing phenomena, both institutions and structures, perhaps most fruitfully in combination with more general path-dependence approaches.
References


