

The Belgian housing policy, its adverse effect on labour mobility and the negative externalities of homeownership

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Housing policy is commonly in favour of homeownership. Throughout three extensive studies, we empirically analyse the relationship between housing tenure and labour market outcomes for Belgium. We validate the so-called Oswald hypothesis: a higher aggregate homeownership rate causes lower employment levels. Homeowners are less residentially mobile than tenants and are therefore expected to impede labour market flexibility. At the microeconomic level, however, no significant difference in unemployment duration is observed between homeowners and tenants. Instead, we reveal the importance of housing costs rather than housing tenure itself as the determining factor. This can explain the conflicting results in previous studies. The apparent contradiction between macro- and micro-level results can only be explained by the negative externalities of homeownership. Its unfavourable effects are not concentrated within the segment of homeowners themselves. With this knowledge, we are able to deduce a number of policy recommendations to counter the effect.

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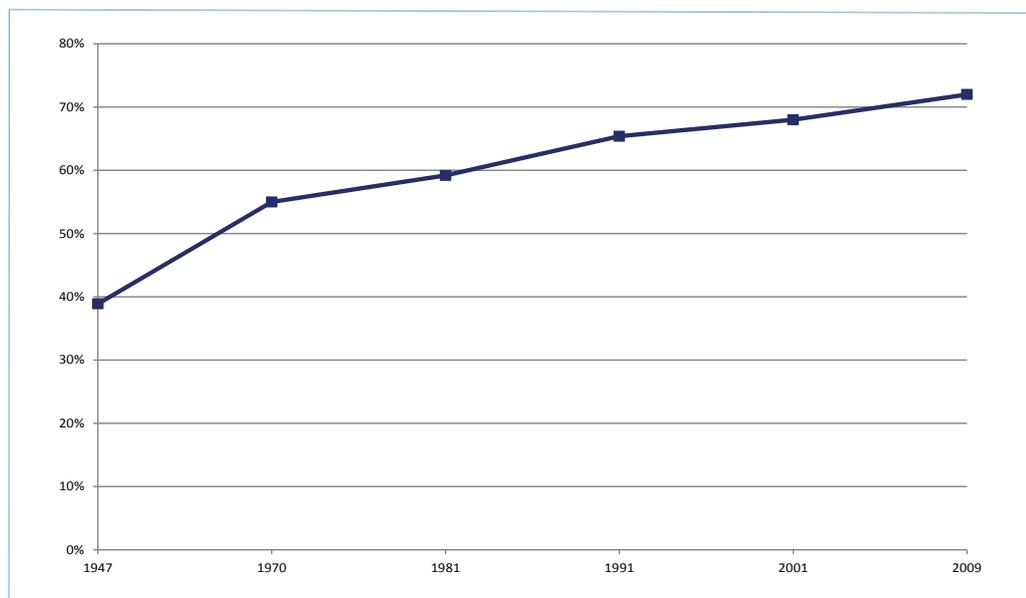
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1 Introduction

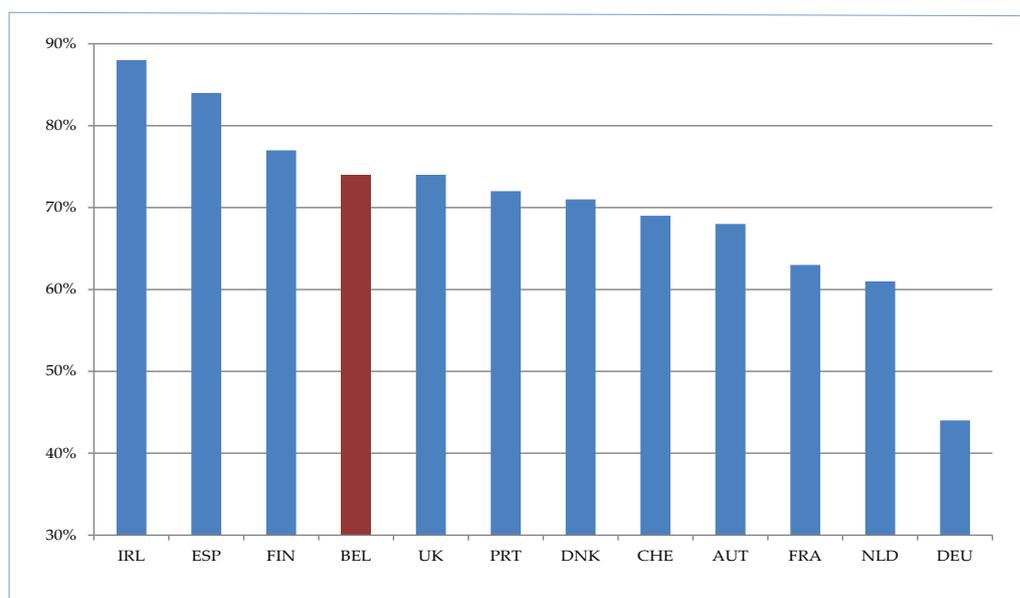
Throughout history, including today, the housing debate in Belgium has mainly been dominated in favour of promoting homeownership. Since the end of the Second World War, acquiring a property was rather accessible due to favourable legislation, subsidies and tax incentives. These policy measures are of course very popular with the public, even more so considering the positive civic attitude towards homeownership. Promoting homeownership is therefore a popular political act, making real estate acquisition yet more attractive. Figure 1 shows the resulting increase in homeownership rate, i.e. the fraction of households that own its residence. Currently, the rate exceeds 70%. Belgium is not an exception. Homeownership rates are on the rise in most countries. Nevertheless, as shown in Figure 2, Belgium leads the field. The contrast with neighbouring countries France, the Netherlands, and especially Germany is remarkable.

Figure 1: evolution of the Belgian homeownership rate



Source: Census 1947, 1970, 1981 and 1991 by NIS; Social-Economic Survey 2001 by NIS; EU-SILC 2009, FOD Economie, K.M.O., Middenstand en Energie.

Figure 2: homeownership rate across European countries in the period 1994-2001



Source: De Graaff et al. (2009).

A policy of homeownership promotion can be legitimized for several reasons. The most frequently used motive is that homeownership is a stable investment and, in case of a mortgage, a secure way to accumulate assets. As a result, housing costs are less of a burden on disposable income after retirement. For this reason, policy makers consider homeownership as a counterforce to poverty. Critics emphasize the lack of efficiency due to the divisibility of real estate and question the direction of causality in the poverty debate. Alternatively, homeownership is also considered to generate psychological and social benefits such as neighbourhood stability and improved social capital. This is due to the lower mobility of homeowners. Tenants have a smaller incentive to invest in local social capital. Although there is a consensus on the existence of these positive effects of homeownership, many empirical studies show that the effect is rather small and decreases as the rate of homeownership is higher (e.g. Brounen et al., 2010).

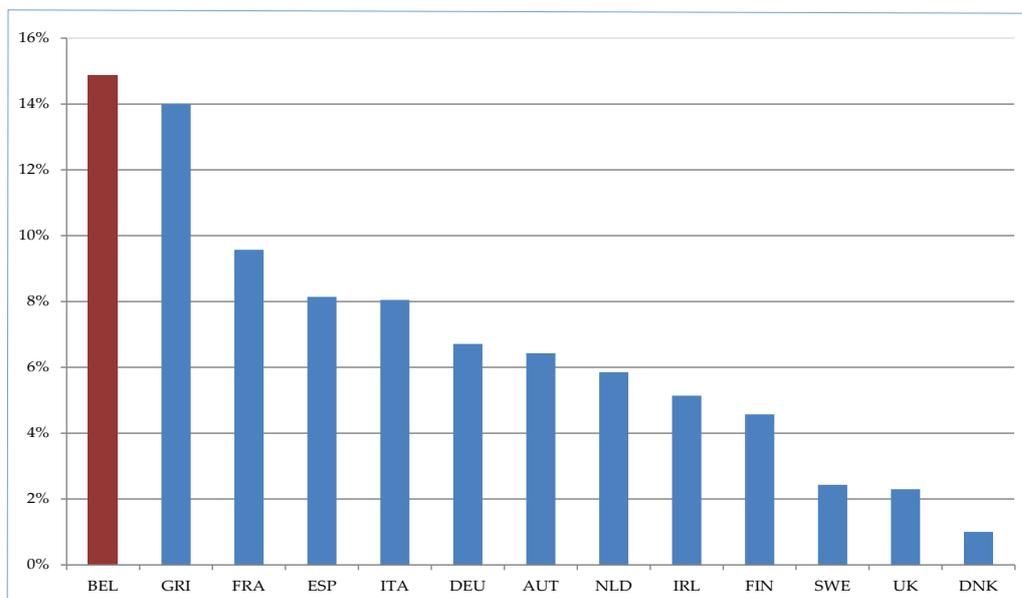
From a labour market perspective, the effects of a high fraction of homeowners are even more controversial. Oswald (1996, 1997) was among the first to elaborately study the relationship between housing tenure and the labour market. His theory explains the positive correlation between the unemployment rate and the homeownership rate, which he observed in several countries. A key element in his view is that high costs of buying and selling homes make homeowners less geographically mobile than tenants. The importance of mobility has been stressed by Blanchard and Katz (1992). They demonstrate that mobility is a key instrument for a well-functioning labour market. The source of flexibility contributes to avoiding mismatches in the labour market. When a region is hit by an adverse labour demand shock, it is expected that homeowners are less likely to move. The higher moving cost that they experience

causes higher reservation wages for distant jobs and lowers their search intensity for these jobs. At the aggregate level, a higher number of homeowners implies lower effective labour supply in each region and each labour market segment, with higher wages and lower employment as a result.

Since the mid-nineties, much research has been devoted to the topic. The empirical research that studied the relationship reveals a remarkable difference depending on whether they investigate the relationship between homeownership and labour market outcomes at the macro or the micro level. Most macro studies, with some exceptions, support the Oswald hypothesis that higher rates of homeownership in a region or country imply inferior labour market outcomes. A comprehensive overview of macro studies is provided by Isebaert et al. (2013). On the other hand, most micro studies find that homeowners have better labour market perspectives than tenants, certainly not worse. Given this apparent contradiction, we conduct three studies, analysing the topic from a variety of angles. The three papers are joined in a doctoral thesis (Isebaert, 2013a) and are discussed, one by one, in the next chapter. The first paper analyses the relationship at the aggregate level, more specifically the effect of the share of homeowners on the employment rate in Belgian districts. Second, we focus on the intermediary factor of the Oswald effect. We explain mobility at the individual household level as a function of housing tenure choice, amongst a range of control variables. Last, we analyse the effect of homeownership on unemployment duration at the microeconomic level. We test whether homeowners have shorter or longer unemployment spells. In a conclusive part, we attempt to formulate an explanation for the observed empirical ambiguity. All three papers use Belgian data.

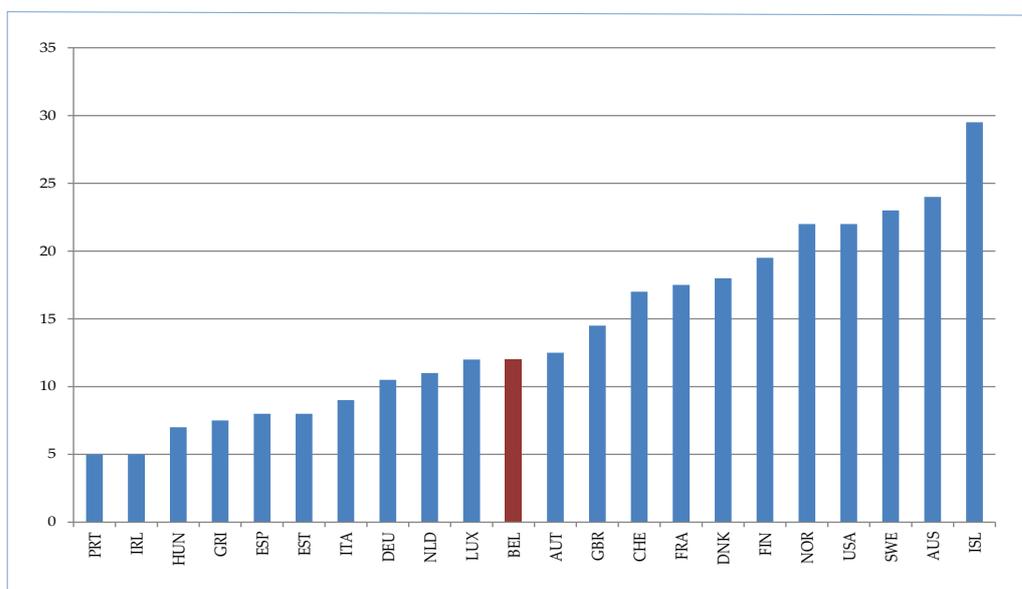
In this field of study, these papers are the first to deal with the case of Belgium. Nonetheless, it is a highly interesting subject for several reasons. First, as shown by Figure 2, Belgium has a relatively high degree of homeowners which makes it a likely victim of the effect described above. Second, Belgium is a very densely populated area with a severe congestion problem. This increases commuting costs. Third, transaction costs when buying a property are very high. Figure 3 shows that the average percentage of these taxes in Belgium are the highest in Europe. Fourth, according to a comparison of mobility rates in the OECD countries shown in Figure 4, only 12 % of Belgians move in a time interval of 2 years. Although this is not exceptionally low, we see much higher rates in the Scandinavian countries, the Anglo-Saxon countries and France. A lower mobility rate might be an indication of the Oswald effect. Last, labour market characteristics in Belgium significantly differ from the previously studied countries. For example, unemployment benefit lasts longer than in most countries (OECD, 2013). All of these elements facilitate a so-called Oswald effect.

Figure 3: transaction costs on buyer, 2009



Source: Caldera Sánchez and Andrews (2011).

Figure 4: percentage of households that changed residence within the last 2 years (OECD countries)



Source: Caldera Sánchez and Andrews (2011).

With the acquired knowledge from the empirical work as starting point, we shed some light on the current Belgian housing policy in Chapter 3. Based on our findings, we deduce a number of policy recommendations. Chapter 4 concludes.

2**Exploring the Oswald effect in Belgium****2.1 Ownership and the labour market in Belgian districts**

Isebaert et al. (2013) provide an empirical test for the Oswald hypothesis on a macro level. By using a panel of 42 Belgian districts (excluding the Brussels-Capital Region), the study reveals that a 1 percentage point rise in the rate of homeownership involves a statistically significant drop in employment rate of 0.35 percentage points. In other words, the results expose an Oswald effect in Belgium and its size is economically important.

The paper responds to three common shortcomings in the preceding empirical macro literature. First, a long time dimension (six periods over the period 1970-2005) enables us to include slowly evolving variables in the equation such as skill level, labour costs and productivity, a range of demographic variables and a dummy variable capturing the increased regional policy autonomy since the 1990's. Furthermore, many studies with no time dimension or a very limited one are not able to control for unobserved fixed effects. The additional estimation results provided in our paper, prove that a serious bias occurs when fixed regional and time effects are not included in the model. Second, the possibility of reverse causality is often neglected. If the potential effect of employment (and the corresponding permanent income) on homeownership is not taken into account, it might cause an endogeneity bias in the estimated coefficient of homeownership. Because of the positive effect of permanent income on the chance of property acquisition, an upward bias could occur. To overcome this issue we apply the 2SLS estimation method. The homeownership rate is not the only endogenous variable, schooling, productivity and labour cost might be too. As a result, instrumental variables are included for each one of these determinants. Third, the research does not cease after having validated Oswald's hypothesis. We extend the research question by considering factors that potentially determinate the size of the effect. The paper shows that the estimated Oswald effect becomes stronger if the skill level in the district is lower, supporting the theory described by Dohmen (2005). Mobility constraints caused by homeownership are less decisive if wage perspectives are better, which is on average the case for higher skilled workers. Other tested interaction terms suggest a weaker Oswald effect close to a major cities, and a stronger effect close to a border. Our main results survive various robustness checks.

2.2 Housing tenure and residential mobility

A second paper of the aforementioned doctoral manuscript handles the relationship between housing tenure and mobility on the micro level. Isebaert (2013b) directly questions the main driver of the Oswald effect: the restricted mobility

of homeowners. Using psbh data for the period 1994-2002 and eu-silc data for 2004-2009, the probability of moving house within the year is estimated as a function of housing tenure and a wide range of control variables, both on the individual as the aggregate level. The large sample size allows to accomplish a fourfold classification according to housing tenure. On the one hand, tenants can be categorized into social tenants and private market tenants. Hughes and McCormick (1981, 1987) demonstrate that the first category rather lacks residential mobility, especially over longer distances. Champion et al. (1998) explain that the demand for social housing often exceeds supply. Social tenants are therefore reluctant to migrate out of fear to end up on waiting lists or to lose benefits entirely. On the other hand, the homogeneity of the group of homeowners has been the centre of debate in the more recent literature on the topic. Homeowners with a mortgage experience higher transaction costs compared to outright owners comprising of bank fees for refinancing and supplementary solicitor's fees. Furthermore, those encumbered with a mortgage are more vulnerable for a negative equity trap, that is, when the market value of the real estate is less than the outstanding balance of the loan. A contradictory theoretical viewpoint is formulated by Caldera Sánchez & Andrews (2011): households doing monthly payments will have a higher search intensity to regain employment and avoid mortgage default. In order to achieve re-employment, one might consider residential mobility. Most empirical studies identify owners with a mortgage as the least mobile group (e.g. Böheim & Taylor, 2002; Rabe & Taylor, 2010). Caldera Sánchez and Andrews (2011) observe the opposite for most oecd countries. To the best of our knowledge, the latter paper is unique for including the Belgian case in this field of study. For Belgium however, no significant difference is found between homeowners with and without a mortgage.

Methodologically, we elaborate on previous research by adopting the method described by Wooldridge (2005) in order to treat the potential appearance of state-dependence. Neglecting this issue might bias the results because the probability of moving is also determined by past mobility. Our results confirm the necessity of applying this method. Our model specification is based on previous literature. Along with housing tenure, we include two broad categories of determinants. First, the list of socio-economic variables that is provided in the datasets allows us to control for a wide range of housing characteristics such as age, nationality, educational level, family structure, income and room stress. Second, we incorporate a number of area characteristics, such as the provincial unemployment rate, regional dummies and variables capturing housing supply.

Table 1 shows the main results for both samples. In order to enhance interpretation, the estimated regression coefficients are converted to marginal effects, i.e. the shift in probability when the dummy variable changes from 0 to 1. In a probit estimation, the size of the partial effect is subject to the different values of the other variables. To overcome this obstacle, the Average Partial Effects (APE's) are reported in the table. The estimated effect of housing tenure confirms the main expectations. Overall, homeowners are indeed less mobile

than tenants. Consistent with earlier research, private market tenants are more mobile than social tenants. On the other hand, confirming most empirical work but in contrast with earlier conclusions for Belgium by Caldera Sánchez and Andrews (2011), we do observe that owners with a mortgage are significantly less mobile than outright owners (the reference category). The difference in propensity is equal to 6.3 % for the PSBH panel and 5.2 % for the EU-SILC data. As to the tested area characteristics, Table 1 shows that only population density has a significant effect on residential mobility for both datasets. The larger housing liquidity eases mobility. Both other proxies for the housing market have insignificant APE's. Also the aggregate unemployment rate appears to have no significant effect, which is rather counterintuitive. Finally, the dummy variables capturing the region-specific effects only have significant estimates in the PSBH panel. It is uncertain what causes this discrepancy.

Table 1: probit estimation Average Partial Effects

	PSBH (1994-2002)	EU-SILC (2004-2009)
Housing tenure		
Owner with mortgage	-0.052(***) (0.019)	-0.063(***) (0.013)
Private tenant	0.181(***) (0.024)	0.118(***) (0.014)
Reduced rent	0.161(***) (0.027)	0.054(***) (0.018)
Area characteristics		
Provincial unemployment rate	-0.0029 (0.0044)	-0.004 (0.003)
Housing transactions/capita (t-1)	7.383 (5.173)	5.038 (7.128)
GVA Construction/capita (t-1)	0.101 (0.128)	0.019 (0.049)
Population density	0.00005(***) (0.00001)	0.00009(***) (0.00002)
Brussels	-0.003 (0.006)	-0.336(***) (0.119)
Wallonia	-0.002 (0.004)	0.035(***) (0.011)
Time dummies	Yes	Yes
Means of time-varying covariates	Yes	Yes
Number of years since last move	Yes	Yes
Rho	0.00001	0.000001
Log-likelihood	-2,221.00	-3,149.63
Number of observations	13,431	17,728

Source: Isebaert (2013); Data: Panel Study on Belgian Households (1992-2002), Universiteit Antwerpen, Université de Liège; EU-SILC (2004-2009), FOD Economie, K.M.O., Middenstand en Energie.

Note: * (**) (***) indicates statistical significance at 10 % (5 %) (1 %). Between brackets are estimated standard errors. The reference category represents: outright owner, employee, age 35-54, childless couple, higher secondary education, no foreign nationality, in the Region Flanders.

The conclusions of this paper do not necessarily prove the Oswald hypothesis. Nonetheless, the findings of the study justify the made assumptions in Oswald's theory and by extension, in most macroeconomic literature. The estimates also prove that the additional subdivision is meaningful. In addition, the exhaustive classification has the advantage of the results being better comparable with estimates from other countries because the divergence in weight within the categories of tenants and owners is neutralized. Especially the relative proportions of social renting and private market renting are expected to have a major influence on the estimated effect of renting.

2.3 Housing tenure and unemployment duration

In the introduction, we mentioned a series of empirical studies rejecting the Oswald hypothesis. Many of these use the individual as cross-sectional unit. In other words, on a micro level it is often, but not exclusively, found that homeowners have better labour market perspectives than tenants. This empirical ambiguity inspired economists to develop various explanations that counter Oswald's theoretical framework. Arguments for shorter unemployment spells for homeowners are the more developed social networks of this group (Coulson and Fisher, 2002) and the higher search intensity and lower reservation wages for local jobs in order to avoid the higher moving costs (Munch et al., 2006). Van Leuvensteijn and Koning (2004) and Munch et al. (2008) also expect longer employment duration for homeowners because they are willing to invest more in their local job in order to avoid losing it. Also, firms might benefit from longer employment duration and are therefore motivated to invest in firm-specific training for homeowners, further improving their labour market perspectives.

The last chapter of the doctoral manuscript (Baert et al., 2014) analyses the effect of housing tenure on the individual's unemployment duration for Belgium. Unlike the mobility literature described in the previous section, the subdivision between homeowners with and without a mortgage has been generally neglected in this field of study. As to the Oswald hypothesis itself, one would not expect large differences between both groups since mobility costs are only slightly different. Nonetheless, explicating the heterogeneity of the group of homeowners is desirable for a distinct reason, according to recent theoretical work. By providing a theoretical job search model, Munch et al. (2006) demonstrate the advance of making the distinction between local and nonlocal jobs. Although higher moving costs decrease the nonlocal job search, as described by Oswald (1996, 1997), they also increase local job search. According to Rouwendal and Nijkamp (2010), the latter phenomenon is dominant over the first. The model is further elaborated by introducing housing costs. When these are higher, as is the case for mortgagees, the budget for nondurable consumption will be smaller. Because of the decreasing marginal utility of consumption, search intensity will be higher when housing costs increase. Theoretically, owners with low housing costs might have a lower search intensity than tenants. In other words, the housing cost effect can overrule the Oswald effect.

A second stimulus to model outright owners and owners with a mortgage separately, can be deduced from the theoretical model of Rendon (2006). It points out the importance of wealth accumulation and access to credit for search behaviour of individuals. Having less wealth and experiencing more borrowing constraints, reduces the reservation wage and unemployment duration. If we project the model to housing, we can once more build the hypothesis that homeowners with a mortgage have shorter unemployment spells compared to outright homeowners. The latter have higher net wealth and experience less borrowing constraints.

In the empirical literature, the additional subdivision has been applied by Goss and Philips (1997) and Flatau et al. (2003). Both studies find shorter unemployment spells for homeowners with a mortgage, as predicted by the models of Rouwendal and Nijkamp (2010) and Rendon (2006). However, the methodology used in both papers has an important drawback. It does not adequately handle the potential endogeneity bias. Other unobservable factors, such as the preference for stability, might influence both housing tenure and labour mobility. One might falsely interpret the combination of these events as a causal relationship from housing tenure to unemployment. To resolve this issue, we simultaneously estimate a mixed multinomial logit model explaining housing tenure, along the a mixed proportional hazard model to estimate the effect of housing tenure on unemployment duration. We use instrumental variables (exclusion restrictions) to econometrically identify the housing tenure effect. These are variables that influence housing tenure but do not directly affect unemployment duration. As a first instrument, we adopt the aggregate fraction of homeowners from the study of van Leuvensteijn and Koning (2004), in our case at the provincial level. Second, we contribute to the existing literature by adding a new instrument, i.e. the relative price of buying the house versus renting in the year of purchase or contract.

Table 2 shows the main estimation results of the paper, based on the Belgian EU-SILC data for the period 2003-2008. The dataset provides detailed information of a person's activity status in each month. Although not deducible from the table, we control for a variety of determinants such as age, sex, nationality, education, etc. For the complete results, we refer to Baert et al. (2014). The first column of the table confirms our hypothesis. Higher housing costs do correspond with shorter unemployment duration, as formulated by Rouwendal and Nijkamp (2010). The monthly probability of leaving unemployment for outright homeowners is, *ceteris paribus*, 39 % lower compared to homeowners with a mortgage. Tenants take the intermediate position.

Table 2: unemployment duration and housing model – estimation results

Explanatory variables	(1) Benchmark model			(2) Restricted model	
Outright homeowners	-0.50	***	(0.18)		
Tenants	-0.24	**	(0.11)	-0.05	(0.12)
Log-likelihood	-2,645.44			-2,348.70	
Parameters	65			44	
Number of observations	1,013			1,013	

Source: Baert et al. (2014); Data: EU-SILC (2004-2009), FOD Economie, K.M.O., Middenstand en Energie.

Note: ***(**)(*) indicates significance at the 1 % (5 %) (10 %) significance level. Standard errors in parentheses. For the complete estimation results (including control variables and instruments) we refer to the original publication.

Column 2 shows the result of a restricted model in which we do not make the distinction. The difference is not statistically insignificant. This proves once more the relevance of the distinction between both groups of owners. Two important conclusions emerge from this. First, liquidity constraints and the induced reduction of consumption caused by housing costs, seem to play a more prominent role than mobility constraints. Second, our results suggest that the discrepancy between the findings of the preceding studies might be the result of a different composition of the group of homeowners in the respective countries that were studied. Munch et al. (2006) observed shorter unemployment spells for owners than for tenants in Denmark, a country characterized by a high fraction of mortgagees within the group of homeowners (73 %). On the other hand, Brunet and Lesueur (2009) observe the opposite in France, where only 33 % of homeowners have a mortgage. The more balanced composition of both groups in the United Kingdom and Belgium may explain the insignificant effect found in respectively Battu et al. (2008) and the results from the restricted model of our paper.

2.4 Disentangling the apparent contradiction

When using aggregate data on the level of Belgian districts, we support the Oswald hypothesis. In addition, our analysis of residential mobility in Section 2.2. proves that homeowners are indeed less residentially mobile than tenants. They face higher mobility costs which make them more vulnerable to unemployment. However, the previous section reveals no significant difference in unemployment duration between tenants and the average homeowner. The question remains how the at first sight contradictory macro and micro results can be reconciled. The answer lays in the external effects of homeownership. We sum up a number of considerations revealing that the negative effects are not necessarily concentrated within the segment of the homeowners. In these cases, being a homeowner does not directly harm the labour market outcomes of the homeowner himself. However, it generates negative effects on the labour market in general. First, as an alternative option to moving, one can commute over a longer distance to ameliorate labour market perspectives. At the individual

level, reservation wages increase with commuting distance. Nevertheless, it might still be more favourable than moving if the latter induces high costs. Indeed, as argued in a recent study of Kantor et al. (2012), homeowners accept longer commutes. When the rate of homeownership is high, traffic congestion will increase commuting costs for every individual worker and raise overall production costs for firms. This may further undermine employment. Second, the overall promotion of homeownership might undermine the development of a well-functioning rental market. This might increase moving costs for tenants and hamper the efficiency of the labour market. Third, Blanchflower and Oswald (2013) refer to the possibility of zoning restrictions and NIMBY effects, enforced by the group of homeowners. This might impede business activity and consequently employment. Last, Laamanen (2013) argues that the high search intensity and low reservation wages of homeowners for local jobs, might lead to displacement of other workers in the same region. The net effect for employment at the aggregate level depends on the ratio of the number of displaced workers to the number of homeowners who find new employment. The author provides arguments for the possibility of an increase in the unemployment rate with the fraction of homeownership, in both the short and the long run. These four negative externalities of homeownership explain the possibility that the Oswald effect is observed only at the aggregate level. When evaluating the social impact of housing policy, one should be well aware of this paradox. The social cost of supporting homeownership will not be primarily borne by the advantaged.

3

Analysis of the Belgian housing policy

In the previous chapter of this article, we demonstrated the large impact of housing on mobility and labour market perspectives. The scope of this section is to analyse housing policy in the light of this knowledge. Of course, and as mentioned in the introduction, many other possible motives should be taken into consideration. Nonetheless, we stated that the arguments for justifying the promotion of homeownership are often overrated, especially compared to the inadequately considered mobility debate. We acknowledge that the discussion in this article should be seen as a starting point for an all-encompassing analysis. Also, housing policy is not an isolated instrument in the government's budgetary policy. We make abstraction of the possible shifts between consumption, labour and capital taxes, of which the residential taxation is only a small segment. For example, the European Commission strongly recommends to shift the tax burden away from labour towards taxes which are less distortive for growth (European Commission, 2014). Before moving on to the policy recommendations, we give a brief summary of recent housing policy characteristics in Belgium.

Belgian housing policy is complex because of the multitude of policy measures, but also because of the various governmental levels that are authorized: the federal, regional and local government. The sixth Belgian state reform, operational since 1 July 2014, further transferred competences to the regions. Housing policy can be categorized into taxation and government's expenditures. For a detailed overview of current Belgian residential taxation, we refer to Van Reybrouck and Valenduc (2012). The taxation mainly consists of recurrent immovable property taxes and transaction taxes. The first is an annual tax, the latter is paid by homeowners at the moment of the purchase. Transaction taxes contain registration duties for purchases on the secondary market or value-added-tax for new real estate. Figure 3 showed that Belgian transaction costs are very high from an international perspective.

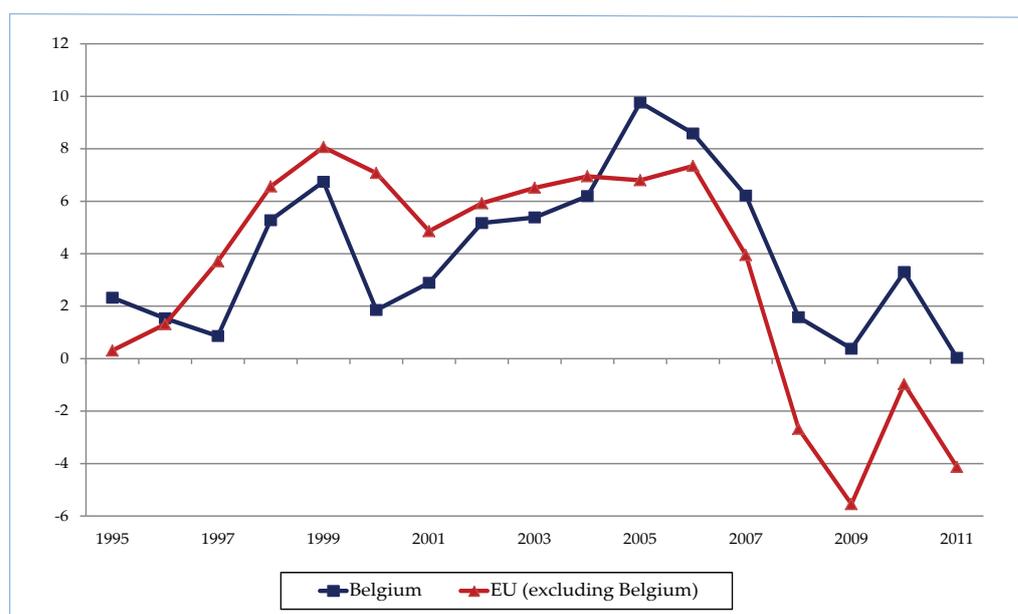
The government expenditures of the Flemish housing policy are analysed by Heylen and Winters (2012). They list the various policy measures and compare their respective burden on the government's budget. From their data, we can derive that a large extent of the budget is spent on demand-side policies, mainly encouraging homeownership. More specifically, they calculate that in 2012 the total budget to support homeowners was 5.6 times larger than the budget supporting tenants. The main expense is tax deductibility of mortgage payments which accounted for 1,400 million euro in 2012 (about 0.65 % of Flemish GDP), as opposed to 864 million for all other housing policies together. This tax incentive is one of the competences that was regionalized by the latest state reform.

Heylen and Winters (2012) also reveal that households with higher incomes receive the highest financial support in case of property acquisition, rendering a so-called Matthew effect. The argument of supporting homeownership as a

protection against poverty is therefore not consistent with today's policy. There are two reasons why this inequality emerges. First, it results from the nature of tax deductibility in a progressive tax system. The amount can be deducted from the highest tax bracket, resulting in a higher tax refund for high incomes. From 2015 onwards, new mortgages will no longer be tax deductible at the marginal rate but at a fixed rate. This will benefit the lower incomes equally. Second, the demand-side policies supporting ownership generate a strong incentive to buy a house instead of renting. People who can afford it, will be inclined to become a homeowner regardless of their preferences. This will push up the aggregate homeownership rate. Because the lowest income households benefit more from rent subsidies, this group will be inclined to be a tenant. To sum up, both sides of the income spectrum lack tenure neutrality.

We learned that the perceived Oswald effect in macroeconomic empirical work is most likely the result of the negative external effects caused by homeowners. In our opinion, there are two major remedies to mitigate the Oswald effect. On the one hand, one can lower the rate of homeowners and on the other hand, one can remove the underlying determinant, the restricted geographical mobility of homeowners. First, how and to what extent can the rate of homeownership be reduced to a more moderate fraction? For example, policy makers can facilitate supply in qualitative rental housing using subsidies and regulation. However, as long as the incentives to becoming a homeowner are sustained, the effect might be limited for the simple reason that owners of rental houses may sell them. The rental house may then turn into an owner-occupied house. A more effective path is restoring tenure neutrality. Without doubt, the most conspicuous market distortion is the tax deductibility of mortgage payments. We would recommend to eliminate this disproportional stimulus for becoming a homeowner, for four reasons. First, it is prohibitively expensive for the government and the burden on the government's budget increases every year as more and more households are eligible. The funds could be used for more alternative expenditures or tax relief. Second, the only incentive of the tax deduction is (leveraged) homeownership. A more targeted tax deduction (or subsidy) benefitting homeowners could simultaneously achieve other policy goals like for example eco-friendly housing, urban planning, social equity, housing quality, etc. Third, the tax deduction mainly favours high- and middle-income households, as shown above. For some people (and politicians) this might even be considered to be a positive feature because it encourages work. We refute this argument as it is an argument in favour of income tax cuts, not in favour of a tax deduction to promote homeownership. Last, the tax deduction leads to a number of perverse effects, as has been argued by a recent report of the Flemish Council of Housing (2012). In addition to the infringement of tenure neutrality, households are encouraged to borrow a larger amount, and over a longer term. Although this is a perfectly rational choice, on a larger scale it will push up house prices. Figure 5 shows the annual evolution of the average house price in Belgium and the European Union. In 2005, the year in which the tax deduction system was substantially expanded, the annual increase transcends the European average for several years. Of course, further research is needed to prove causality. A modest indication is provided by Caldera Sánchez and Johansson (2011), reporting a very low price elasticity of housing supply in Belgium. In other words, we can expect that demand-side policies will have a strong impact on prices.

Figure 5: yearly growth rate of real house prices in Belgium and the EU (%)



Source: OECD, Economic Outlook

However the arguments against maintaining the tax incentives are numerous, some caution is certainly required. For two reasons, we advise to retain the benefits granted for existing mortgages, at least to some level or for a certain amount of time. First, the households that bought a house have taken into account the current and future benefits they are entitled to, while making a budget. The unexpected loss of these benefits might disrupt the household's budget. Second, the elimination of the tax deductibility is likely to have a negative impact on house prices. The inelastic supply can also trigger strong downward house price fluctuations. Although this might seem beneficial for future buyers, it is very harmful for current mortgage holders. The negative equity causes so-called lock-in effects. These imply a strong restraint on mobility of this group of homeowners. Also on a larger scale, a strong decline in the average house price can be detrimental for an economy. Therefore, caution is needed. Achieving tenure neutrality is an indispensable objective. Nevertheless, it will only slowly affect the aggregate rate of homeownership.

As to the second option to mitigate the Oswald effect, we should explore the possibilities to increase residential mobility. Higher mobility is not only desirable from a labour market perspective but also to achieve a more efficient matching of housing according to household (life cycle related) needs. We distinguish 3 possibilities. First, governments can directly encourage mobility by financially compensating the costs that the unemployed experience when moving closer to a new employer. This type of subsidizing can be a complementary tool in the context of activation programs. Within housing policy today, a similar subsidy exists when a household moves to a more adequate residence. It may be useful to implement it for moves to a more adequate labour market as well. Second, public policy should counter the negative external effects caused by traffic congestion by extending the possibilities for more efficient commuting

and imposing a Pigovian tax for commuter traffic. Third, a more straightforward policy instrument to stimulate mobility is directly decreasing the cost of residential mobility. In 2002, the government of the Flemish region introduced the portability of the transaction taxes. In particular, if an owner-occupier buys a new residence, the transaction taxes paid for the initial residence are deducted from the new transaction taxes. A useful policy measure, because moving costs for the typically immobile homeowners decrease. We recommend to increase the maximum portability and further ease its conditions. Today, the maximum time period between the sale of a former residence and the purchase of a new residence is restricted to two years. This is a strong incentive to remain a homeowner and prevents tenure neutrality. Additionally, we would recommend reducing overall transfer taxes, which further decreases mobility costs. This will generate the appropriate mobility incentives, as has been empirically proven by van Ommeren and van Leuvensteijn (2005), in the case of the Netherlands.

Housing policy attracts a lot of attention from the public opinion. This is not surprising because housing expenses take a large part of the household's budget. Moreover, owning a house is often a very substantial part of the household's total wealth. Changes in housing policy are therefore a very sensitive subject matter for the vast majority. From the five policy recommendations, two are likely to have the largest financial impact on households: eliminating tax deductibility of mortgage payments and reducing transaction costs. We believe that these two measures are complementary for four reasons. First, only lowering transaction costs would further encourage homeownership. This effect will be outweighed by the dissuasive effect of the ceased tax deductibility. Second, the expected drop in house prices caused by the latter, will be counterbalanced to some extent by the first. As described above, a very strong correction in house prices is harmful for mortgage holders. Furthermore, it can impair the economic system. Third, both policy measures are compatible for the government's budget. As shown above, the tax deduction is a heavy burden on the budget. Ending it will generate room to cut transaction taxes and imply other measures improving the quality and sustainability of the housing stock. The European Commission (2014) also recommends a second potential tax shift in order to maintain budget neutrality. Lower transaction costs can be compensated by an equivalent increase of recurrent property tax. Nevertheless, before increasing the tax rate, an update of the tax base to current property values is required. The valuation of imputed rent is terribly outdated in Belgium. Last, the momentum is just right. As the tax deductibility for mortgage payments was recently decentralized, it offers the new regional governments the opportunity to rethink their respective housing policy. Choices have to be made because budget constraints force the policy makers to do so. Ceasing the tax deductibility will require political decisiveness. Cutting transaction costs may support its political feasibility.

4 Conclusions

Belgian homeowners are less residentially mobile than tenants. In line with the expectations, this conclusion emerges from our model explaining the probability of moving house. Isebaert (2013b) estimates this probability, using 2 datasets consisting of respectively 18,262 and 13,434 household-years. Although we recognized that the lack of mobility of homeowners has positive effects as well, the proof of the detrimental effect for the Belgian labour market is strong. Isebaert et al. (2013) find that a 1 percentage point increase of the rate of homeownership implies a fall in employment rate of 0.35 percentage points. The magnitude indicates that the Oswald effect is an economically important issue in Belgium. A significant interaction effect with the skill level in the districts validates the hypothesis in Dohmen (2005). If reservation wages differ less from expected wages, moving costs play a more determining role.

On the microeconomic level, the story seems somewhat different. Baert et al. (2014) observe no significant difference between homeowners and tenants. By adding information to the model on whether the individual has a mortgage or not, we revealed a much richer dynamic. Homeowners with a mortgage have, *ceteris paribus*, much shorter unemployment intervals than outright homeowners. Tenants take an intermediary position. The empirical prove is in line with the theoretical frameworks of Rouwendal and Nijkamp (2010) and Rendon (2006). The rather neutral labour market outcomes on a micro level seem in contrast with the macroeconomic research. The observed empirical ambiguity for Belgium reflects a generally perceived paradox in the literature. With the knowledge that the negative effects of homeownership are not particularly concentrated in the segment of owners, we can deduce that they are caused by negative effects for the labour market in general. More traffic congestion, a declining market of rental housing, NIMBY effects and a displacement of other workers caused by lower reservation for local jobs are the examples of external effects discussed in Chapter 2.

In Chapter 3, we evaluated Belgian housing policy characteristics. Our comments contribute to the broader housing debate. With the Oswald hypothesis as a starting point, we deduce five concrete policy recommendations that could ameliorate the Belgian labour market: (1) Implement supply-side policies to support the rental market; (2) End tax deductibility of mortgage payments for new mortgages; (3) Implement active labour market policies that directly stimulate residential mobility; (4) Improve commuting efficiency and (5) Decrease transaction costs for buying and selling a house. We substantiate the complementarity of recommendations (2) and (5) in a number of ways.

After the Belgian 25 May 2014 election, new regional governments have been formed but at the time of writing, detailed information on future housing policy is not yet provided. In the Brussels-Capital Region tax incentives will probably stay intact. The Walloon and Flemish governments have announced a reform for new mortgages intending a government spending cut. Current contracts are

not targeted (as yet). The Flemish Coalition Agreement 2014-2019 announces to initiate a study that analyses the possibilities of allowing the new owner to choose between tax deduction and lower transaction taxes. Although these intentions are still vague, we acclaim the announced reforms and the exploration of the shift from tax deductibility to reduced transaction taxes. We hope that in the further process of elaborating housing policy, this article may serve as a source of inspiration.

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