GLOBAL OUTLOOK: HOW LOCAL GOVERNMENT AND MODERN DIRECT DEMOCRACY CAN MAKE US MORE HOUSING

Bruno Kaufmann

For seven long years, every Monday morning at 8 a.m., the first people I saw were my colleagues at the Falun City Government. While I would share stories about angry citizens and happy voters—I was in charge of democracy issues and elections in town—my colleagues would offer hard facts about education, health and infrastructure budgets, and figures on the number of new arrivals to this small city 250 kilometers north of Stockholm.

Every new inhabitant is very much welcomed here, as Sweden remains—outside the major cities at least—a very sparsely populated country.

There is an important incentive in Sweden to attract newcomers. It is local government. More people means more taxpayers. And as about 60 percent of the tax income is governed locally—and as especially the level of income tax is decided locally—a city government like mine in Falun had to have a rather good handle on arrivals in order to plan properly around housing.

Homes are important to Swedes. Very important. Not just because of our very cold winters, but also because homes are the places (especially outside the major urban centers) where most people spent most of their free time. And average Swedes have a fair amount of free time, especially compared to the poor fellows in the United States. Recently, many employers have shifted from eight-hour working days to six-hour days, with the declared goal of making their staffs happier and contributing to a better life-work-balance. This shift is complemented by one of the highest paid-leave schemes in the world (almost 40 days a year). And if you have kids, parents have the right to get additional 18 months paid leave to share within the first 8 years of their children’s lives.

All this contributes to sustainable birth rates and continuous population growth. A few weeks ago, Sweden welcomed its 10 millionth citizen to a nation that is, by area, five percent bigger than the state of California.

To summarize the Swedish housing pattern in positive terms, you just need to say one word—IKEA. As in most places around the world, where the Swedish furnishing company has branch shopping centers, IKEAs across Sweden are popular destinations, but not just on evening and weekends. You’ll find them busy even at 9 o’clock on a Wednesday morning.

But enough with storytelling about the niceties of Swedish housing. I just ended my career as a Swedish homeowner at the end of last year, as I concluded my service in city government. I’m now on a 200-day reporting tour around the world—as the Global Democracy Correspondent of the Swiss Broadcasting Company. Today is travel day number 170. Active traveling with the purpose of learning more about places you see is a great way to understand better and getting new insights. And as I’ve traveled, I’ve thought about California, to which I’ve been a frequent visitor over the decades, and its housing challenges as I’ve visited places like Rome, Auckland, Singapore, Tokyo, and most recently Bern and Berlin.
The most common denominator of all my talks on and around the housing issue is that the situation is bad. The phrase “housing crisis” is one of the most commonly used in media across the globe. One of the last headlines I took with me from Sweden was that the famous waiting lists for (mainly) young people to rent and contract an apartment in Sweden is now up to 50 years. At the same time, most municipalities—in fact 260 out of 290 Swedish municipalities including my home town—do have a severe housing shortage, driving prices levels upward in a path previously unseen.

A few months ago, Daniel Ek and Martin Lorentzon, the two Swedish founders of the world’s biggest streaming company, Spotify, wrote an open letter to the government, talking about the difficulties of being a global company in Stockholm, where the lack of affordable housing has become a giant hurdle to attracting employees and achieving further growth.

Almost 16,000 kilometers on the very other side of the globe, in Auckland, New Zealand, I heard very similar tunes, with predictions that median prices for a home in the future could reach the level of 20-times median household income. While some of the heat went away in the most expensive places early this year, most housing in most cities across New Zealand remained “severely unaffordable” according to international comparative studies by Demographia.

There are of course many reasons for this. On one side is the influx of wealthy foreigners (including California’s own billionaire Peter Thiel) buying property for financial investment purposes. On the other side is the so-called “compact cities cult”—cities that put heavy restrictions on developments in suburban areas.

But I also saw new approaches to the housing challenge in Auckland, the biggest city of New Zealand, home to more than one third of New Zealand’s 4.2 million people. There, a new apartment complex was opened while I was in town. Taking advantage of newly adopted local regulations, the complex refused to offer any carparks as developers pointed to the proximity of public transport. And there are now more radical plans in the pipeline to build even more compact apartments across the city with new technological solutions to kitchens and bathroom, increasing the numbers of people who can live in one complex.

These practical solutions, however, represent ways around the rules and regulations that remain the major factor when it comes to developing housing. Such regulations are in so many places of the world—especially where there are shortages and problems for affordability—too restrictive and complex. But regulations that are too relaxed create many other problems.

So some commentators praise the public top-down approach used by governments in places like Vienna, the Capital of Austria, Singapore, or even China. In these countries, strong governments provide and plan for most of the housing developments—in Singapore, 9 out of 10 developments are publicly governed. And there are generous state funds to help with financing as well. So there is usually enough housing, and if there isn’t, it’s clearly up to the government to fix the problem. While Vienna is a democratic place, where one political party, the Social Democrats, has been in charge for more than 100 years, Singapore is run by technocrats under a family regime—and China of course, has just taken another turn towards dictatorship.
What makes places like these so different from others in the Western world is the fact that in Vienna or Singapore, a clear majority of tenants and home owners are living in flats developed by the government. In markets without these strong centralistic traditions, it is very hard to develop a governance structure for housing powerful enough to make changes. In our time, housing has become a major investment for both individuals and companies. So in most places, you need a more citizen-centered and participatory approach to housing. An approach to bring demand and supply more in balance.

Let me name two countries I know fairly well, which to some extent have avoided housing crises like we see it in Stockholm, Auckland, or in California. Those two countries are Germany and Switzerland. In both countries, home ownership prices have been on the rise as well, but in a flatter and more stable way. In Germany private homes remain clearly affordable with a ratio of 2-4 times a median household in most places, while the Swiss tend to rent for most of their lives—with 8 out of 10 people not owning their home.

The key to reasonable housing policies in both countries can be found in the democratic systems of both Germany and Switzerland. Specifically, both places have strong local autonomies. This creates dynamic incentives for user-friendly and legitimate planning and development processes.

In Germany, planning processes are driven by the goal of allowing for affordable housing developments. Rezoning efforts may take several years and have several phases of citizens’ participation in order to balance various interests. Three aspects are critical to the German ability to provide affordable and good quality housing:

1. Protection of Property Rights by the Federal Basic Law (Germany’s de facto constitution), which implies that the state guarantees the right to build on private property.
2. Localism. Land-use plans shall safeguard sustainable urban development and a socially just utilization of land for the public good of the community, and they shall contribute to securing a humane environment and protect and develop the basic conditions for natural life.
3. Taxation. It gives revenue streams to local authorities that encourage development. The German constitution allows municipalities a guarantee to self-government and this self-government extends to its revenue bases. Both the local income and state grants are directly based on the number of inhabitants. Because of the limited ways to raise taxes at the local level, and because the local demands on authorities are always increasing, the only way to create forward-looking cities and regions is to adopt people-friendly and business-friendly policies.

This framework has created a healthy competitiveness and reliance on people and businesses. What works in Germany is even more true for Switzerland, where both federalization (autonomy by cities and states) and direct democracy (citizens involved in rule-making) are far more developed than in Germany.
In Switzerland—a country of just nine million people on an area less than the U.S. state Virginia—both cantons (states) and municipalities are very competitive as they have their very own taxation and regulation laws—most often directly approved by the citizens in popular votes. This creates incentives to deliver good quality housing at the best possible prices and comes with high public acceptance for political decisions and their consequences.

The following factors are instructive for the Swiss housing success:

1. houses are expensive to start with, fluctuating between 7 - 8.5 times the median income and
2. extensive rent controls and tax treatment of home ownership means renting is a more cost effective option for many and
3. a comparatively high building rate.

Switzerland is arguably the most highly devolved system of government in the Western world, and this structure contributes to a nation that consistently performs well on economic indicators—and offers its citizens good quality infrastructure at affordable levels, including houses.

Back in Sweden, in my own city government, I tried hard to share some of these experiences with my colleagues at the Monday morning gatherings. After a few years, and many more meetings with all kind of stakeholders, we had a debate over whether zoning and planning issues should become the subject of popular referendums in the future. While a first attempt to allow such referenda failed, new regulations of “citizens’ dialogue” were drawn up, bringing in the people not just on election day, but on all the days between elections for consultation. Eventually, a new zoning plan for the next 20 years was drawn up, and late last year development of new housing infrastructure started, bringing new and affordable housing to the people of Falun. A first step indeed.

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