Which is the appropriate administrative level to promote home ownership?

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1. INTRODUCTION

One striking feature of the Swiss housing market is the very low proportion of households that own their home. This proportion is the lowest in the OECD, at 31.3 per cent in 1990. It compares to owner-occupation rates of twice that size in many other OECD countries (Table 1). There is wide variation within Switzerland. The owner-occupation rates in primarily urban cantons such as Geneva (13.8 per cent), Basle-City (11.0), and Zurich (20.9) are much lower while two rural cantons have rates over 50 per cent. The owner-occupied sector has always been a relatively small part of the housing market (Table 2).[2]

Table 1: The size of the owner-occupied housing sector in OECD countries during or near 1990 (in percentage)

Greece	79	United States	64
Norway	78	Portugal	58
Ireland	76	France	56
Spain	75	Denmark	55
Italy	68	The Netherlands	45
Luxembourg	68	West Germany	42
United Kingdom	67	Sweden	41
Belgium	65	Switzerland	31

Sources: PRIEMUS (1993), Swiss statistical office.

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2. For more statistical detail, see FEDERAL HOUSING OFFICE (1996, sect. 3.1.5).

Table 2: The size of the owner-occupied housing sector in Switzerland 1950–1990 (in percentage)

1950[1]	1960	1970	1980	1990
37	33.7	28.1	29.9	31.3

Sources: Swiss statistical office, decennial censuses.
[1] The figure for 1950 is not fully comparable as it is not based on an exhaustive census.

The relatively small size of the owner-occupied housing stock is not at all a sign of poor housing conditions. Its complement is a private rental sector that provides comfortable housing to most households and adequate opportunities to private investors. In comparison to other countries, regulatory interference (e.g. rent control) is moderate and housing policy is favourable towards rental housing. Households are by no means forced to buy a home by lack of adequate rental housing. The provision of rental housing relies heavily on private initiative. On the other hand, little is done to promote home ownership, although the issue is one that is often on political agendas (sect. 2).

Because not promoting home ownership is so unusual in international comparison, this paper focuses on that element of housing policy. In a companion paper (THALMANN, 1997), I have addressed the following questions: Why should home ownership be encouraged? What are current policies towards home ownership in Switzerland? How can home ownership be encouraged efficiently? That other paper concludes that not promoting home ownership too actively may after-all be sound policy. Indeed, we have learned that housing investment is risky and that real-estate risks can have significant macro-economic consequences when they are borne by many households. That other paper suggests ways in which home ownership might be promoted and indicates precautions that need to be taken. The emphasis is on credit instruments and on federal policies.

In this paper, I wish to address the following question: if we accept that home ownership should be promoted more actively, at what administrative level should it be done? That question is currently on the political table of negotiation (sect. 3). In a joint paper by the federal ministry of finance and the cantonal finance directors on disentangling federal and cantonal activities, the promotion of housing construction and home ownership has been distinguished as a task to be left completely to the cantons. That conclusion was obtained on the basis of some general criteria, designed to be applicable to all public activities. This paper follows a different route: it first examines tenure choice and why so few Swiss households own their home (sect. 4), to deduct from those observations some policy recommendations, in particular which administrative level should promote home ownership (sect. 5).

2. CURRENT POLICIES

By Constitution, the federal government has to promote home ownership (art. 36^{sexies} of the Federal Constitution). It does so through a law entitled ‹Law encouraging housing construction and access to home ownership› (here referred to as the LCAO) which was implemented in 1975. It is the first law to give the federal government the means to promote explicitly home ownership. For the federal government to give up that activity, a modification of the Constitution is required, which can only be done through a referendum. Alternatively, the Confederation could delegate the execution of its constitutional mandate to the cantons.

The federal mandate does not preclude cantonal promotion of home ownership: the competencies are parallel. Eighteen of the twenty-six cantons and several large communes also promote housing, but they concentrate on rental housing. No statistic exists to describe the relative importance of federal, cantonal and communal support, but we can safely state that for households wishing to buy a home, federal support is most important (except possibly in the canton of Geneva). However, that statement is not quite true regarding the tax treatment of homeowners. Indeed, cantonal and communal income taxes are much more important than the federal income tax. The discussion of taxation (section) will therefore consider local taxes.

The instruments of home ownership promotion under the federal law LCAO are implemented with the help of cantonal housing offices. That makes it possible for the Federal housing office to execute federal housing policy with a staff of only 50 persons, many of them working part-time. It is a frequent feature of housing policy in European countries that it is set up and financed by central government and implemented by local authorities. The decentralisation examined in this paper is not one of merely local implementation of common programs. Rather, I examine whether subcentral authorities should be responsible for the promotion of home ownership.

2.1 National policies

The primary federal instrument for promoting home ownership is a schedule of loans («prime abatements») designed to lower the initial cost of new housing[3]. The annual loans are phased out and even reversed, so that the beneficiary pays them back with interest. The schedule is set up for 15 to 25 years with a view to making the financial charges actually paid by the beneficiary grow with the general trend of prices and incomes. Means-tested and non-refundable subsidies may further reduce charges. The homebuyer may also apply for federal credit guarantee separately from the loan and subsidies. It allows him to

3. For descriptions of Swiss housing market and policy, see BALCHIN (1996), KEMENY (1995), and LAWRENCE (1996).

borrow at a preferred rate with a smaller down payment. Support is available for the construction, the purchase and the renovation of owner-occupied housing.

The prime abatements are designed to offset the problem of high front-end charges. They are calculated as the difference between annual user cost and a target charge. The user cost is defined to include interest and amortisation, the opportunity cost of funds and an allowance for maintenance and management. The target charge is about 5 per cent of the purchase price in the first year. It is increased by about 5 per cent every second year (the rate depends on market interest rates)[4]. When the target charge exceeds the user cost, presumably after 10 to 15 years, the household begins to reimburse the loan with market-level interest, typically over 15 more years. The beneficiary may prepay the debt, which is advantageous when market interest rates decline. Reimbursing the debt is required before selling the apartment and permission is needed for renting the property. As the prime abatements involve no subsidy, they are not subject to fixed income or wealth ceilings, but the federal housing office (FHO) does not grant them if the target charge is either excessive (greater than ⅓) or low when compared to the applicant's income, nor if his net wealth exceeds ½ of the dwelling's price. There are limits on land and construction costs, but they are responsive to the quality of the dwelling and its location.

The loan guarantee covers second (junior) mortgages that extend the first mortgage, which covers usually 60 to 65 per cent of acquisition cost. While junior mortgages bring loan-to-value ratios up to 80 per cent, that ratio can be raised to 90 per cent of the purchase price with the guarantee. Thus, it allows a household to buy a home with only 10 per cent down payment. Since 1985, when the FHO introduced regulation limiting the interest rate on secured credits, borrowers also benefit from a lower interest rate. Before extending the guarantee, the FHO estimates the risks, but it does not verify whether the applicant needs it to qualify for credit.

The same forms of support and a few more are available for rental housing. In the past, the FHO supported roughly two rental apartments for one owner-occupied apartment, which reflects the relative size of the two markets. Thus, the FHO cannot be suspected to have favoured one tenure against the other. Between 1976 and 1981, fewer than 500 households per year took advantage of some form of federal support to buy a home. Between 1982 and 1990, they were approximately 1,000. In 1991, the number soared to 4,000, as Swiss interest rates attained levels never seen in the later half of the century[5]. Over that whole period, an average of 40,000 apartments was built every year. The statistics are not available to compute the proportion of home purchases that benefited from federal support, but it can be estimated to be well below 10 per cent, even if it may have

4. The biannual increase was just lowered to 3 per cent from 6 per cent to account for currently low inflation and interest rates and stable market rents. It has been as high as 9 per cent. Clearly the system works better with higher inflation.

5. The number of owner-occupied apartments benefiting from federal support has since come down to about 3,000 in 1994.

exceeded 20 per cent in recent years (SCHULZ *et al.*, 1993). Of the households benefiting from federal support, almost 90 per cent used the prime abatements and 60 per cent used the loan guarantee. The guarantee covered between 15 and 25 per cent of the loans.

SCHULZ *et al.* (1993) estimate that about one half of the households that received federal support needed it to buy a home. That suggests that a sizeable part of federal support is lost on households that do not need it. It does not prove that those households would have bought the same home without support. They may have used it to buy a larger home. The survey of SCHULZ *et al.* shows that home owners who benefited from federal support and those who did not all had ratios of financial charges to income close to 30 per cent in the first year, the maximum banks accept for extending credit. That ratio is stable through time, even though house prices have been rising and interest rates changed considerably. That suggests that households always buy the housing unit they can afford[6].

In short, federal support is a set of interesting instruments, which was not designed specifically to promote home ownership but rather to help rental housing. With its small financial endowment, it has had little effect, helping fewer than 10 per cent of buyers, and half of them did not need it. There exist plans for giving up the federal loan guarantee and prime abatements for homeowners. The promotion of owner-occupation that involves no subsidies would be handed over to mortgage guarantee co-operatives, which could obtain security backing from the federal government.

2.2 Local policies

The cantons and communes have an outstanding impact on the costs of ownership. They regulate land use and construction codes, and they levy more income, wealth and property taxes than the central government (which levies no taxes on personal wealth nor on property). Transfer taxes on the sale of property of up to 3.3 percent, added to mortgage registration fees of up to 2 percent, are particularly damaging. When the owner of a rental building sells it to a specialist who takes care of the conversion to property apartments, the tax is levied twice. In the late seventies, a federal commission set up to seek ways to promote home ownership more effectively had recommended that such taxes not exceed 1% of the purchasing price, i.e. a charge that can be justified by the costs of keeping the land register[7].

6. DURNING (1987) examined the behavioral responses of households obtaining housing credit at subsidized rates. He showed that they shop inefficiently, so that 10 to 14% of the subsidy is capitalized in higher house prices. The remainder of the subsidy is used by beneficiaries to buy better homes. Those results cannot readily be transposed to account for the increased spending by the beneficiaries of federal aid, as the latter includes only a small fraction of non-refundable subsidies.
7. Commission d'experts pour l'encouragement de l'accession à la propriété de logements, *Rapport remis au chef du Département fédéral de l'économie publique,* Berne, 1979

Of the twenty-six cantons, thirteen have legislation to offer housing aid independently or in combination with federal aid, only five complement federal aid and eight offer no significant aid. In reality, fewer than half the cantons have developed an active housing policy. Most merely augment the means-tested and non-refundable subsidies. Clearly the cantons prefer to help homeowners through tax advantages.

2.3 The tax treatment of home owners

It has long been held that personal income tax advantages can substantially favour ownership (e.g., ROSEN and ROSEN, 1980). Recent research has challenged that view, indicating that taxes are capitalised in house prices (CAPOZZA, GREEN, and HENDERSHOTT, 1997). Swiss tax authorities are less generous with homeowners than in other countries. Indeed, an implicit rent is imputed as income, from which they can however deduct all interest paid and maintenance expenses. The implicit rent is estimated by the cantons for the communal, cantonal and federal income taxes (the former two are heavier than the latter). Almost all cantons have tried to alleviate homeowner taxation by estimating the implicit rent conservatively. While the assessment may be quite accurate for new dwellings, it is not frequently adjusted to changes in market rents. As a result, the imputed net income is lowest for households who have owned their home for some time and who have taken advantage of the possibility not to amortise their first mortgage (typically sixty-percent of initial value). Their imputed net income from housing may actually be negative. In some cases, the federal tax authority corrects the cantons' assessment for its income tax, requiring that the imputed rent amount to at least 70 per cent of the comparable market rent. The Federal Court has cancelled one case of obvious under-assessment (more than 50 percent). It ruled that tax equity has precedence over the promotion of home ownership[8].

The reader may find a more thorough discussion of the taxation of homeowners in THALMANN (1997) and an assessment of their tax advantage in FAVARGER *et al.* (1997).

3. THE PLANNED NEW ALLOCATION OF TASKS

The federal administration is currently attempting to disentangle its activities from those of the cantons. Fifty areas have been identified, in which the Confederation and the can-

8. In the canton of Zurich, new assessments have brought imputed rents to an estimated 60 percent of markets rents on average, although the administrative court had required 70 percent in conformity with constitutional law. The difference is explained by the intention to encourage home ownership. In individual cases, the ratio of imputed to market rent may vary. The administrative court accepted variation between 60 and 90 percent. The federal tax authority requires that the imputed rent be increased by 15 percent for determining its own income tax. (*Neue Zürcher Zeitung*, 22./23.2.97)

tons share competencies (DFF et CONFÉRENCE DES DIRECTEURS CANTONAUX, 1996). Among them, twenty-nine could be completely attributed to a single level, in terms of planning, deciding, executing and financing. Eight tasks that fulfil the following conditions were designed as purely federal duties:

- demand for the task is the same all over
- uniformity of rules and standards is required over the whole of the country
- the task helps reduce disparities in welfare in the country
- the task helps increase national cohesion
- international commitments apply.

On the contrary, 21 tasks should be left altogether to the cantons. They satisfy the following conditions:

- services provided under that task are used only within some cantons
- the cantonal authorities are particularly close to the task and can manage by themselves
- knowledge of the users or beneficiaries and local conditions is of advantage
- responsibility can be left to local persons and administrations.

The promotion of housing construction and home ownership is distinguished as one of the tasks to be left completely to the cantons. That would not prevent the federal government from setting a general framework, under which that task would be executed by the cantons.

The federal department of finance and the conference of cantonal finance ministers made the aforementioned proposal. It was submitted, together with the full program, to the ordinary process of consulting interested and concerned parties, notably the cantonal administrations and the political parties. Most of them are favourable to the proposal. Two cantons, the social-democratic party and the Union of Swiss cities are opposed. They fear that the financial burden may become too heavy for some cantons and that housing aid may be reduced. Some also point at the unresolved question of the 8 billion francs of guarantees currently endorsed by the federal government. Several professional associations related to housing, which represent tenants, co-operatives or home owners, are also opposed to the cantonalisation of housing aid. They are satisfied with the current system, observe that most cantons lack the laws to promote home-ownership and the administrative resources necessary to manage housing aid in general. Associations that are active nation-wide fear the multitude of different laws.

4. WHAT PEOPLE WANT

4.1 The current situation

We performed a survey of 5000 households in 1996. Their addresses were drawn randomly from the national directory of telephone numbers, the only condition being that the cantons are represented in proportion of their populations[9]. Each household was sent a detailed questionnaire, which takes between 30 and 60 minutes to fill. After two months, a reminder was sent with a second copy of the questionnaire. That allowed us to obtain 1563 valid replies, which is a high return rate of 31 percent.

The sample of respondents is representative in terms of cantonal representation. There are biases, however, towards older, larger, better-educated households living in larger dwellings than the population at large. Foreigners are underrepresented (7% against 18%) and there are «too many» homeowners (47%). We corrected those biases by weighting the data according to housing tenure, family size and age, based on 1990 census data. For more detail, see FAVARGER *et al.* (1997).

The households were asked what tenure they would choose if they were free of financial constraints: 81 percent of them answer that they would choose to own their home absent any constraint, while only 33 percent actually own their home (weighted data). That question may seem naive, but it elicits information about aspirations and ambitions. More precise questions bring back reality. Only 42 percent of the tenants declare that they ever seriously considered becoming homeowners, only 20 percent are currently considering that possibility, and only 28 percent have ever taken steps with a view to buying a home. After all, 35 percent of all tenants declare themselves fully satisfied with their housing conditions and 46 percent indicate they are rather satisfied.

All households were also asked what type of housing they would choose if they were free of financial, professional and other constraints: 56 percent announce they would choose a single-family detached house. Adding the 12 percent who indicate they would choose a farm, and the 6 percent who indicate single-family contiguous houses, that makes 74 percent of all households that wish the type of housing that can almost only be found outside of the cities. Only 25 percent would choose an apartment, while 59 percent currently live in an apartment.

The questionnaire confirms that most households mix tenure choice with the choice of housing, both in their aspirations and when they buy a home. They move into larger, higher quality housing, preferably single-family detached houses outside the central cities. As a result, 56.7 per cent of owner-occupied housing is single-family houses (1990 census), even though such houses make only 21.3 of the housing stock (not counting second homes). Households feel that if they make the effort of saving the required equity, they should be rewarded with greater housing comfort. This aspect is another dis-

9. Tessin was left out for lack of resources to translate the questionnaire in Italian.

tinct feature of the Swiss housing market that explains why ownership is so rare in Swiss cities, even compared to higher-density foreign cities[10].

4.2 What is missing?

What is it that holds so many tenants back from even seriously looking into buying a dwelling, even though they dream of owning a home? In our survey, tenants were asked what incites them to remain tenants. They indicated the importance of different factors on a scale from 0 (no importance) to 4 (strong reason). Table 3 indicates the average weight given to some of the 19 factors we had proposed[11]. The most important factor is

Table 3: Reasons for remaining a tenant

How important are these factors for remaining tenants?	Average weight in sample of tenants (0 = no import., to 4 = strong reason)
Prices are too high to buy a home	3.1
Insufficient equity to become home owner	3.0
Insufficient income to cover expenses	2.7
Currently low rent	2.4
I would rather buy other commodities	2.4
The risk of rising interest rates	2.2
Maintenance cost	2.0
I can obtain a better return on other assets	1.6
The risk of loosing one's employment	1.5
Worries with maintenance	1.5
Lack of information	1.5
Transaction costs for the buyer	1.4
Complexity of procedure to buy a home	1.4
The risk of declining real-estate prices	1.4

10. In the cities of Geneva, Zurich and Basle, the proportions of homeowners were 5.0, 6.2 and 9.1 per cent respectively in 1990. In 1984, 29.5 per cent of all inhabitants of Manhattan owned their home. In the city of Paris, that proportion was 24.2 per cent, in Seoul 40.8 per cent (1985), and in the agglomeration of Tokyo 42.3 per cent (1983) (Choko, 1993).
11. Other factors were less important, such as the lack of time, the wish to buy a second home, the loss of mobility or hostility to the social status of an owner.

the high price of dwellings (remember that they predominantly wish to buy detached houses), closely followed by insufficient equity. Risk factors are not given much weight, even though the survey was performed after five years of declining real-estate prices (by about one fourth since 1991), a wide swing in interest rates and rising unemployment (from less than 1 percent to over 5 percent).

Several other Europeans countries obtained rapid increases in home ownership after the private rental market was stifled and funds were cut for social housing. The Swiss rental market is globally operating to the satisfaction of all participants. As indicated above, the vast majority of the tenants in our sample are satisfied or very satisfied with their housing conditions. A low rent ranks number four in table 3 as a factor for remaining a tenant. We asked homeowners and households that intend to buy a home what factors influenced that choice. On the same scale as above, they give a weight of 2.7 to an interesting proposal (attractive price-quality ratio), while a high rent, conflicts with the landlord and the sale of their rental apartment are given weights below 1.7. Even the risks of rising rental rates or cancellation of the lease are credited with weights of 2.8 and 2.5 as factors for becoming owners.

We also asked the respondents about their opinions concerning general statements, on a scale from 0 (total disagreement) to 4 (full agreement). They agree with an average of 2.4 to the statement that tenants are well protected by law. They are convinced with a weight of 3.4 that ownership is financially impossible for a majority of households. They do not believe (weight = 1.3) that in the long run tenancy is cheaper than ownership.

It appears, in sum, that Swiss households dream of buying a house, that they believe it would also be economically more advantageous than renting, that they accept that dream to be out of their reach for financial reasons, that they resign and content themselves with rental housing, which is quite bearable.

It is striking how few tenants (28%) ever took even the first steps towards buying a home. Their opinion seems to be made that ownership is impossible for them. Those who started the process were partly (62%) or fully (31%) satisfied with the information they could obtain; 47 percent oriented their research towards detached houses and 13 percent towards contiguous houses. Only 28 percent considered buying an apartment. Many stopped after examining advertisements and estimating the consequential charges. Half of them did not even contact a financial agent and less then one in twenty contacted the authorities with a view to obtain public support. We also asked them why they renounced buying a home: 55 percent indicate that they had too little equity, 45 percent that financial charges would have been excessive, 13 percent indicate that they found no adequate dwelling, and 15 percent that they could not obtain mortgage credit (they gave two reasons on average).

Homeowners may have a better knowledge of the procedure necessary to buy a home. In our survey, they indicate an average duration of search for their new home of 10 months, but three months were sufficient for 43 percent of them. When asked to assess that procedure, 57 percent find that it was fast, 49 percent that is was simple, but 43 percent declare that it was costly.

4.3. The effectiveness of current policies

Our survey indicates to what extent home owners benefited from public aid. Remember that federal aid has been available for 21 years. In our sample, 70 percent of the owners have owned their home for less than 21 years, but only 2 percent of the home owners indicate that they benefited from federal aid, 2 percent benefited from cantonal aid and 1 percent from communal aid. Considering that cumulation is possible, that makes very few home owners who benefited from any public help to buy their home.

Obviously, current policies were not very effective in boosting the share of home owners. Several factors contribute to that result:

- the paucity of means available to aid home owners: in favourable years, the available credits were rapidly exhausted
- in many cantons, it is practically impossible to satisfy the conditions for aid, namely the limits on costs and on the share of the land price
- our survey shows that 49 percent of the tenants do not know about the existence of federal aid to home ownership; the proportion is even higher – 82 percent – of those who do not know whether their canton and commune grant aid to home purchase.

5. POLICY RECOMMENDATIONS

5.1 Lessons for policy from the survey

We have learned from the survey presented in section that there exists a strong aspiration to own a home but that it concerns essentially single-family houses, that most tenants are pessimistic about their perspectives to realise that aspiration, and that few actually inform themselves about the possibilities. I would draw the following consequences from that situation:

1) It is debatable whether home ownership should be promoted

There is hardly any good economic reason to promote home ownership. Nevertheless, the citizens may very well decide which task they give their authority; no «objective» market imperfection is required. Our survey has confirmed that there exists a popular aspiration to be an owner, which is not satisfied by the market but which the population tries to satisfy collectively through the State, viz. by writing that task into the Constitution.

That aspiration may originate in the wish to escape inflation or dire terms on the rental market, to save taxes, etc. In that case, there may be better ways to deal with the problem that caused the «flight» into real estate than to promote home ownership.

2) It is debatable whether the ownership of single-family houses should be promoted

The fact that the vast majority of households does not wish to own any home but specifically single-family houses singularly complicates the promotion of home ownership. Indeed, it may require helping households to move to more expensive homes. It is not clear that the role of government is to subsidise that move at the expense of other goals in the national housing policy. That feature also forces the policy-maker who promotes ownership to consider the potential environmental and fiscal effects of suburbanisation and urban sprawl. It also raises the question whether it is reasonable to promote home ownership in city cantons

3) Perceptions play an important role in the choice of tenure

Households hold rather strong views about the financial (un-)feasibility of buying a home. At the same time, they seem to minimise the economic risks, or at least they have not yet learned from recent experience, particularly in other countries (e.g. negative equity in Great Britain and Scandinavian countries). Credit institutions and real-estate professionals spend much energy promoting a «can-do» message. If they become more successful, someone will have to remind lower-income households of the risks.

5.2 Cantonal responsibility

One way of thinking about policy in a federal setting is to define what instruments are most effective in attaining the common goal and then examine which administrative level can best implement those instruments. We could, for instance, conclude from the survey that credit must be facilitated and the required down payment lowered, which could best be handled at a national level in order to diversify credit risks (under the assumption that real-estate markets exhibit some regional independence).

In fact, the lessons drawn in section suggest that it would be too technocratic an approach. Indeed, the problem itself may differ substantially in different cantons, depending on objective and subjective factors. Objective factors are differences in land availability, housing prices and initial levels of home ownership. Where land is available and infrastructure dense, urban sprawl may be a lesser concern. The median price per square meter for condominium apartments is 2.5 times higher in the most expensive canton than in the cheapest canton. In the lowest decile of the price distribution the ratio is even of four (Tochterman *et al.*, 1996). Some cantons have already achieved high levels of ownership: see table 4[12]. Subjective differences between the cantons relate to perceptions and opinions about home ownership and its public promotion. These may be tied to local traditions and sensitivities, although the desire for owning one's home is expressed quite uniformly in our survey (table 4, last column). Textbooks on federalism teach that tasks that require geographically differentiated treatment should be left to local authorities (e.g. King, 1984).

12. Ferro-Luzzi (1996) attempted to explain the different rates of home ownership in the cantons.

Table 4: Proportions of home owners in Swiss cantons, in Census 1990, in survey and desired (weighted)

Canton	Census 1990	In sample	Desired
Bâle-Ville	11	8	77
Geneva	14	21	83
Zurich	21	44	86
Neuchâtel	25	34	83
Vaud	27	17	69
Lucerne	28	40	77
Zoug	29	64	91
Berne	33	25	78
Saint-Gall	34	33	75
Schaffouse	34	53	94
Nidwald	35	—[1]	—[1]
Bâle-Campagne	37	28	85
Tessin	37	—[2]	—[2]
Fribourg	39	20	72
Thurgovie	39	24	78
Schwytz	41	52	95
Appenzell-RE	42	—[1]	—[1]
Argovie	43	60	95
Grisons	43	28	89
Soleure	43	69	89
Uri	45	—[1]	—[1]
Glaris	46	—[1]	—[1]
Obwald	46	—[1]	—[1]
Jura	50	53	94
Appenzell-RI	55	—[1]	—[1]
Valais	59	46	93
Swiss/sample mean	31	33	87

[1] Fewer than ten households for this canton
[2] Canton not included in survey

Leaving the responsibility for promoting (or not) home ownership to the cantons would allow them to tailor the policy to their special needs and preferences. They already do so. Some cantons, such as Valais and Tessin, basically apply the LCAO. These two cantons grant non-refundable subsidies of 0.3%, respectively 0.6% on top of the 0.6% means-tested and non-refundable subsidy granted under LCAO. They impose lower limits on income (Valais: 45 000 SF + 2300 per child) to reduce their expenditures. Other cantons have decided not to take any explicit measures beyond those of the federal program. The canton of Vaud has a law that gives the government the right to promote home ownership through subsidies and assistance, but it has never enacted detailed legislation to do so. Still other cantons have set up their own program with specific conditions, tailored to their general policy. The canton of Geneva, for instance, restricts its aid to the purchase of apartments[13].

The latter example just makes explicit what is implicit in many other cantons. All the cantons, which are responsible for land planning, indirectly restrict home purchases by holding down the supply of land available for the construction of detached houses. In doing so, they must weigh the «good» of facilitating the majority's dream of owning a house against the «bad» of urban sprawl, a trade-off that should reflect the preferences of the local population directly concerned by both the «good» and the «bad». Today we see the central government help would-be homeowners pass the financial hurdle while the cantons restrict the supply of legalised land. The only winners in that game are the owners of legalised land.

The cantons also affect the prices and supply of dwellings through their regulation of construction. The starkest illustration is that of the five cantons that impose severe restrictions on the conversion of rental to owner-occupied housing, cantons that experienced particular housing market conditions and particular political sensitivities at some point in the 1980s. From the sole view of the promoting home ownership, the focus of aid should be such conversion, which increases the supply of property at lower prices, eludes urban sprawl, and avoids sinking even more capital into bricks and mortar in a country which is currently a world leader in housing construction but a laggard in economic growth. And yet, all recent attempts to only loosen the control in the cantons that have such legislation have been rejected massively in popular referenda. That is clearly the answer to another delicate trade-off, between the rental and the ownership markets. Other cantons have chosen not to give tenants that additional protection.

That is not the only way in which the cantons influence the terms of the choice of tenure. Taxes and fees have been mentioned in section . Lowering them in favour of new or all homeowners involves one more trade-off, tax equity against ownership promotion, which should also be left to the discretion of local populations.

13. During 4 years it grants the same subsidies as for social rental housing (HLM), then the subsidy is lowered by 1/9th every year. In 1996, only six accessions benefited from that aid.

5.3 The central government's role

Decentralisation of active promotion of home ownership does not remove all responsibility from the central government. To begin with, it levies a tax on income for which it needs an assessment of implicit rent. That tax is however sufficiently low that it should not affect tenure choice. Central government policies also affect housing costs through interest rates, inflation, banking regulation, and so forth. These instruments are far too gross to be modulated with the sole view of promoting home ownership.

All of that does not dispense the central government from seeking ways to remove barriers erected on the path to ownership. In 1988, the UN General Assembly approved the priority of «enabling strategies». According to Mayo and Angel (1993), the correct housing policy should be the reform of institutions and regulations to let housing markets and related markets function more efficiently. They discourage direct intervention by governments as it may only lead to a misallocation of resources and no fundamental improvements. I would not conclude so strongly against active promotion of home ownership, but that decision should be left to local populations. The federal government should take to its heart the UN's recommendation. Thalmann (1997) proposes measures akin to that philosophy, in particular on credit markets and on the rental market.

There may be one more role for the central government (or the Supreme Court), that of a referee in conflicts between cantons. Indeed, the promotion of home ownership might be abused by some cantons as an instrument to attract high-income taxpayers from neighbouring cantons. The federal government would then set limits to such incentives.

6. CONCLUSIONS

A survey of tenants and homeowners reveals a strong preference for home ownership, but not of any kind of dwelling: most dream of owning a single family home. That type of housing is expensive in a densely populated country that tries to protect its countryside. A first trade-off appears, between giving the great numbers a chance of materialising their dream and protecting the environment. More trade-offs have been identified in the text. They have in common that they have a better chance to be resolved at the local level, where preferences and physical factors are more homogeneous. I therefore conclude that active promotion of home ownership should be left to the cantons.

Twenty-four of the 26 cantons have expressed agreement with the recent proposal to decentralise housing aid, although they could not distinguish between aid to the construction of rental housing and aid to home ownership. That package should be broken up and the latter part should be left to the cantons. Those who wish to could then replace a lukewarm federal policy facing much resistance by an effective local policy gathering wide support. That would force those cantons to take clearly into account all the consequences of that policy (urban sprawl, tax inequity) and to reconsider all the channels through which they affect tenure choice.

Decentralisation would leave to the central government the task of lowering some barriers to home ownership that are uniform nation-wide, such as imperfections in capital markets and some elements of tenant protection. It could also provide technical support to cantons that wish to promote home-ownership but lack the qualified staff or fear that their housing authority would be prone to capture by particular interests.

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SUMMARY

The proportion of Swiss households that own their home has always been in the vicinity of 30 percent, the lowest proportion in the OECD. Clearly the existing, essentially federal, policy for promoting home ownership has not been very aggressive. A survey allows us to understand what households wish and why they are so few to own a home. Those observations, in particular the fact that households wish to buy a single family home rather than an apartment, have consequences for the optimal allocation of the responsibility for promoting home ownership. I conclude that the responsibility should be passed down to the cantons.

RESUME

La proportion des ménages suisses propriétaires de leur logement a toujours avoisiné 30%, soit la proportion la plus faible des pays de l'OCDE. Il est clair que la politique actuelle, essentiellement fédérale, d'encouragement de l'accès à la propriété n'a pas été très agressive. Une enquête nous permet de comprendre ce que les ménages souhaitent et pourquoi ils sont si rares à posséder leur logement. Ces observations, en particulier le fait que les ménages rêvent d'acheter une maison individuelle plutôt qu'un appartement, ont des conséquences pour l'allocation optimale de la responsabilité d'encourager l'accès à la propriété. J'en conclus que cette responsabilité devrait être rendue aux cantons.

ZUSAMMENFASSUNG

Der Anteil der Wohnungseigentümer in der Schweiz liegt schon lange bei 30%, was der niedrigste Anteil aller OECD-Länder ist. Es ist klar, dass die aktuellen Massnahmen, hauptsächlich durch den Bund, um das Wohneigentum zu fördern, nicht sehr aggressiv

sind. Mittels einer breiten Umfrage erfahren wir, was die Haushalte wünschen und warum so wenige ihr Heim besitzen. Diese Beobachtungen, insbesondere dass die Haushalte davon träumen, ein Einfamilienhaus statt einer Wohnung zu kaufen, haben Auswirkungen auf die optimale Zuteilung der Verantwortung für die Eigentumsförderung. Ich ziehe den Schluss, dass diese Verantwortung den Kantonen überlassen werden sollte.