Housing Markets and Policies under Fiscal Austerity

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Housing Subsidies in a Period of Restraint: The Canadian Experience

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Abstract. This chapter documents the shifting pattern of Canadian housing subsidies and their distributional impact during a period of restraint that began in the early 1970s. While subsidies on social housing were held to a minimum, private-sector subsidies increased dramatically. As a result, higher-income home owners as well as investors in private rental housing are found to have gained the greatest benefits from "restraint." In addition, households in the highest two income quintiles made substantial gains in home ownership rates whereas the households in the two lowest quintiles increasingly became tenants. A much greater polarization of households by tenure and income has resulted and Canada's rental sector is increasingly becoming a residual one, the domain of the bottom 40 or 50 percent of the income scale.

INTRODUCTION

From 1973 to 1984 Canada had three official recessions accompanied by policies of monetary and fiscal restraint (Canada, Department of Finance 1984a, 9). During that period (the Trudeau years), housing expenditures, in contrast to other social programs, fared rather well owing to the small size of government housing programs, the negative impact of high interest rates on housing starts, the political impact of affordability problems, and the increased use of tax expenditures. In theory, Canadian restraint measures were intended to be directed in such a way that those who were most in need would be helped by social housing programs. In reality, the social and private housing sectors were treated quite differently. Contrary to popular belief, subsidies on social housing were held to a minimum while private-sector assistance fluctuated dramatically depending upon market conditions. In addition, while much of private-sector support was provided in the form of relatively hidden tax expenditures, nonmarket social housing subsidies were provided up front through direct public expenditures. The net distributional effect of the changes increased the bias of Canada's complex set of housing subsidies toward home ownership and private rentals over various forms of social housing.

In general, the affordability of accommodation and profitability of the housing sector have been a major preoccupation of governments in most Organization for Economic Cooperation and Development (OECD) countries during the past decade (Burke et al. 1981; Howenstine 1983, 119ff; Stone 1983, 99ff). What has made the Canadian response distinct is not the recession, which has parallels in other countries, but the particular nature of the Canadian economy. Canada is among those few countries that have been classified as dominion capitalist (Ehrensaft 1981, 99ff). A defining characteristic of a dominion capitalist country is that while it enjoys an advanced standard of living similar to metropolitan nations such as the United States or West Germany, it is also economically truncated. Hence it is very vulnerable to major structural changes in the world economy and dependent on metropolitan countries to provide the initiative in overcoming recessionary tendencies. Some features that have circumscribed the economic truncation of Canada are export dependency on primary products, a small highly sheltered manufacturing sector, a plethora of foreign-based multinationals, and trade domination by the United States (Pesando 1983; Laxer 1973; Rotstein 1984, Canada, Department of Finance 1984b). In housing, as in other areas, economic truncation means that Canada not only is fiscally restrained by its southern neighbor but also restricted in the policy options that are considered politically acceptable. As in the United States, reliance on private-sector housing is greater than in most countries of Europe. Similarly, home ownership is ideologically espoused more than rental accommodation. Therefore, intervention in the housing market is more restricted than in most other OECD nations except the United States.

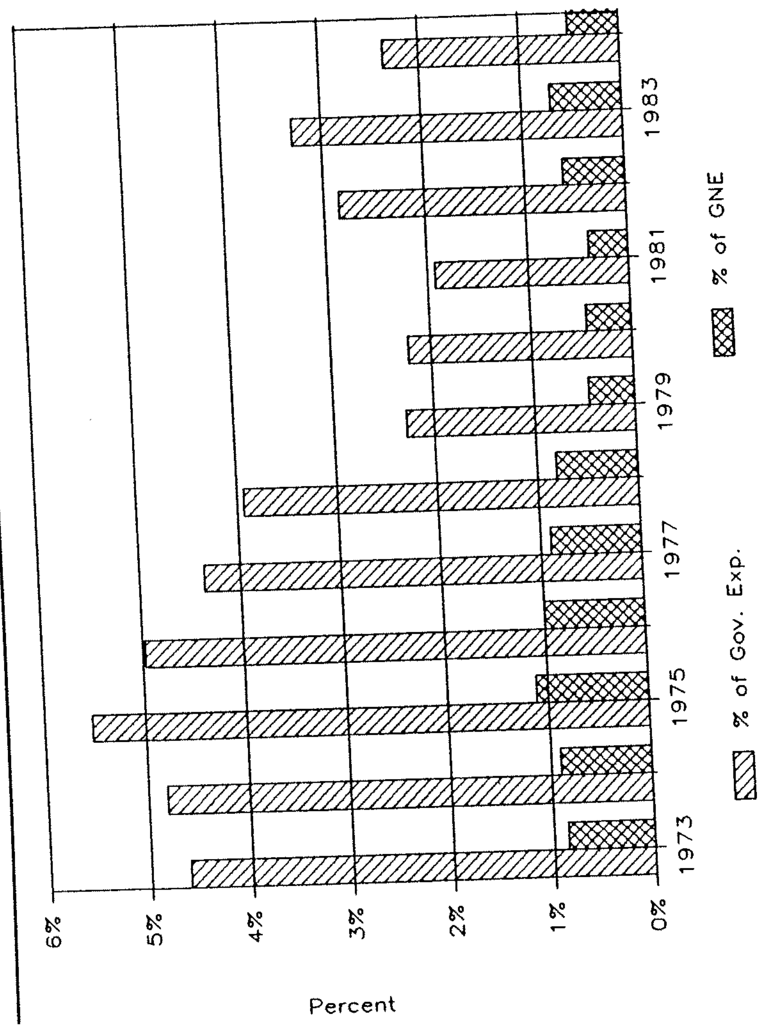
The response of the Trudeau government to the recessionary challenge was a mixture of restrictive monetary policies and compensating fiscal policies. The restrictive monetary policies were initiated in 1975 following the worldwide inflation that began to accelerate following the increases in oil prices by Organization of Petroleum Exporting Countries (OPEC) nations (1973) and wheat prices in the United States (1972). They have only begun to ease off during the past few years. Normally Canada has had a high interest rate policy to assure the inflow of capital from the United States. With two exceptions (1973 and 1975), high interest rates were maintained during the recession (C. D. Howe Institute 1983). As a consequence, the unemployment rate also tended to be higher than in most OECD countries and Canadian mortgage prices were high relative to those in the United States.

Prior to the 1973–84 period of restraint, monetary policies were offset, to some degree, by fiscal initiatives. Since 1973, that practice has continued with one major difference. Because of restraint, high interest rates and a tight money supply have been associated with a loss in government revenue and increased tax expenditures. Hence, there was a rapid increase in the government debt. The increase was particularly dramatic in the past four years (Canada, Department of Finance 1985a). Social housing expenditures were controlled during the period but, significantly, restraint in direct expenditures was offset by tax expenditures for private-sector housing. One reason for the difference in treatment was the necessity to offset the rising problem of affordability for the middle classes in the context of recessionary pressures. Still another was the degree of freedom allowed by the relatively low level of overall public expenditure in the Canadian housing market. Throughout the recessionary period, direct housing expenditures—that is, the annual budget of the Canada Mortgage and Housing Corporation (CMHC)—accounted for less than 1 percent of gross national expenditures (GNE) and only 2–5 percent of total government expenditures. As Figure 4.1 indicates, the peak in direct housing expenditures occurred in 1975, the year in which the program initiated in response to the economic instability of 1973/74 began to be implemented. After 1975, however, government restraint measures came into play, limiting the size of direct housing expenditures relative to the rest of the budget. Overall social expenditures of government were not primarily responsible for growth in the deficit during the restraint period (Statistics Canada 1984). Comparative data show that from 1973 to 1984 Canada spent less than all the countries of continental northern Europe except Switzerland. Expenditures exceeded only those of the United States and Britain (OECD 1984).

The modesty of the Canadian welfare state is important to keep in perspective as we turn to an examination of housing subsidies. Unlike social welfare developments in Europe, which already had been initiated prior to World War II, Canadian welfare measures were not consolidated until the 1960s. The wartime apparatus that gave the Canadian state extensive involvement in most aspects of the economic sphere was systematically dismantled after 1945 to be replaced by private enterprise. Rent control, price and supply controls, and social programs were transferred from the federal government to provincial jurisdictions or ended. Wartime Housing, a major state developer and landlord during the war, was replaced by the Canada Mortgage and Housing Corporation, a mortgage bank primarily for financial institutions. The large stock of public housing during and immediately after the war was sold off (Wade 1986). The period from 1945 to 1963 saw few changes.

The 1964 amendments to the National Housing Act (NHA) introduced, for the first time, an effective public housing construction program and a nonprofit housing program for the elderly. Between 1949, when public housing was first introduced, and the 1964 NHA, only 12,140 public housing units had been built. In contrast, about 40,000 private-sector rental units were subsidized as of 1964. The entire emphasis of Canada's National Housing Act was on increasing access to mortgages for individual home ownership and on subsidizing private-sector rental starts. By the mid–1960s, this attempt to leave housing totally within the private sector had failed. However, the social housing programs introduced in 1964 were carefully designed to supplement, not replace, private-sector housing activities and subsidies. The new nonmarket housing programs were designed

Figure 4.1
CMHC Expenditures, 1973–84 (As Percentage of Government Expenditures and GNE)



Source: CMHC, *Annual Report* and *Canadian Housing Statistics*, various years.

to be very narrowly targeted and relatively small in scale so as not to compete with the private sector. As a result, the federal and provincial governments began jointly financing nonmarket housing for certain categories of "worthy poor," generally single-parent families on welfare and the elderly. About 170,000 public housing units and about 19,000 senior citizen housing units were built under the 1964 NHA (Dennis and Fish 1972; Rose 1980).

The election of a majority Liberal government in 1968 and a minority government in 1972 combined with economic prosperity and growing demands for social reform to create major new government initiatives in the 1970s. The 1973 NHA (approved just before the 1974 recession) introduced public, private, and cooperative nonprofit housing programs, a rural and native housing program, and a public land banking program for assisted housing. These expanded the potential scope of Canada's nonmarket housing programs. The targeted group was expanded to include low- and moderate-income households so as to achieve a broader social mix within housing projects. The cooperative housing program was a major innovation for Canada, allowing the residents jointly to co-own and manage their housing on a nonprofit, nonequity basis. Funding for these programs, however, was never very substantial and they have continually been under attack from the housing industry lobby. About 180,000 nonprofit and cooperative housing units have been built since 1973. The total size of Canada's nonmarket housing sector is, nonetheless, still very small. The public housing and nonprofit housing programs have resulted in about 380,000 new or rehabilitated units, representing only about 4 percent of Canada's housing stock (CMHC, *Canadian Housing Statistics*, various years).

HOUSING SUBSIDIES 1973 TO 1984: FAVORING PROFITABILITY

The years of restraint from 1973 to 1984 were essentially a period of conflict over the spoils of the newly created welfare state. More specifically they were a struggle over state expenditures to promote private capital accumulation and federal social initiatives. Prior to 1963, the postwar compromise between capital and labor, extracted at a high cost in Europe, required little more of the Canadian government than a few transfer programs. From 1963 to 1973, the expansion of federal social programs was a principal factor in the rapid growth of state expenditures. After 1973, pressures to support private capital accumulation again took the ascendancy (Drover and Moscovitch 1981). Wage controls, cutbacks in public expenditures, changes in unemployment insurance, the erosion of health insurance, the expansion of the prison system, the promotion of private sector housing, and the stimulation of tax expenditures were all fostered to right the imbalances of the previous decade. Housing was also singled out as a cause for concern.

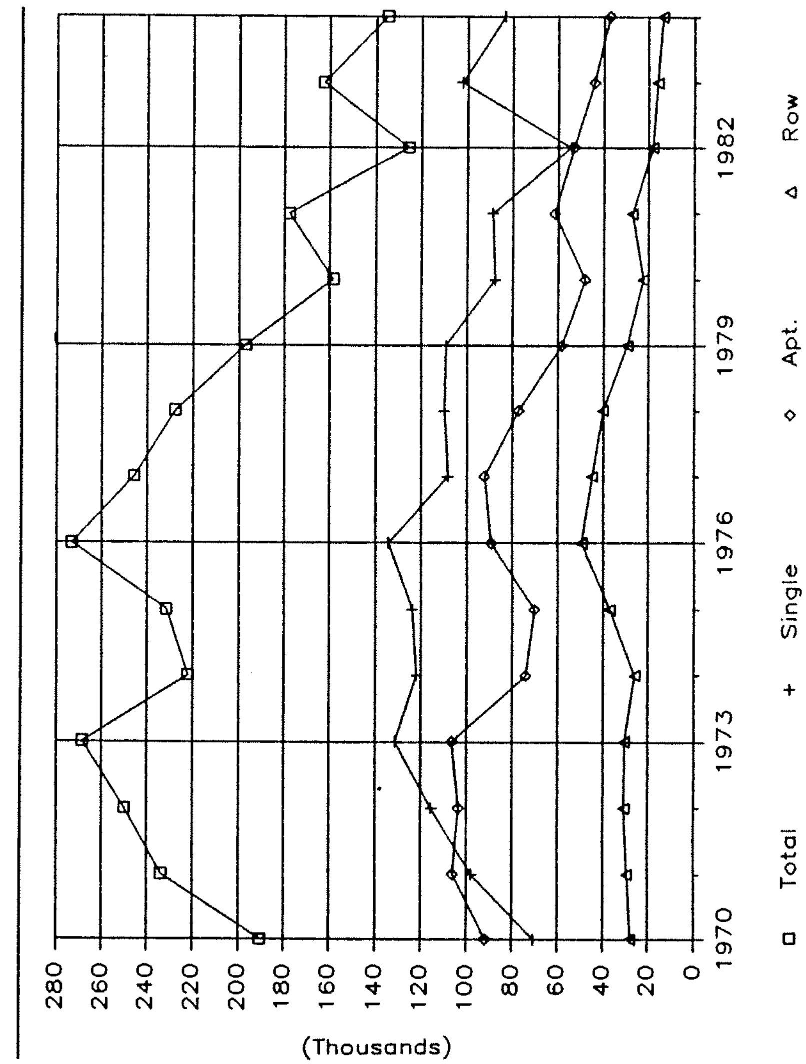
The years following 1973 were volatile owing to the highly unfavorable macroeconomic conditions noted above combined with rapid increases in the cost of housing and the failure of the private rental supply sector. Hence there were dramatic swings in housing expenditures and rapid turnover in the establishment and abandonment of housing subsidies. Virtually all the activity has focused on the private housing market because of pressure from developers to stimulate housing production through tax expenditures. The nonprofit and cooperative housing programs, which had been poised for takeoff after the 1973 NHA revisions, depended extensively on direct public expenditures. They increased initially, as a result of the new legislation, but social housing expenditures, contrary to earlier expectations, continued to comprise a very small portion of Canada's housing subsidies.

In response to political pressure and economic necessity, the government introduced a range of subsidies to meet rapid changes in the housing market. Social housing subsidies (nonprofit and cooperative) usually involved direct subsidies and loans. The entrepreneurial programs were more variable. In addition to direct subsidies and loans, home ownership and private rental housing were subsidized by tax expenditures, such as the Registered Home Ownership Savings Plan (RHOSP) and the Multiple Unit Residential Building (MURB) program. RHOSP was continued throughout the period of restraint while the much more expensive MURB program was turned on and off. The MURB program allowed wealthy individuals to shelter income from other sources by investing in apartment projects. The initial attempt by restraint-minded finance ministers to discontinue MURBs brought protest from the investment and development lobbies. Direct subsidy programs, such as the Assisted Home Ownership Program (AHOP) and the Assisted Rental Program (ARP), accounted for a smaller portion of these expenditures. Both direct and indirect approaches to stimulating private-sector housing investments also spawned additional subsidy initiatives, particularly in the dramatic downturn of economic activity after 1981 (Hulchanski and Grieve 1984). In general, subsidies were modified in response to three policy initiatives during the 1973–84 period. We call them Keynesianism (1973 to 1978), Keynesianism in retreat (1978 to 1981), and Keynesianism in disguise (1981 to 1984).

THE KEYNESIAN RESPONSE: 1973 TO 1978

The period from 1973 to 1978 was a period of dramatic expansion in government housing subsidies. It was a response to the political pressures caused by rapid increases in the cost of housing and to the economic pressures caused by a significant fall in housing starts. Housing starts, both ownership and apartment, dropped dramatically in 1973, at the beginning of the recession, and did not pick up until 1975 when several programs aimed at stimulating housing investment came on stream (Figure 4.2). Job maintenance and job creation became important considerations when the unemployment rate began to rise in 1974 and continued to rise each year until leveling off in 1978. In response to the rising inflation rate, wage and price controls were introduced in 1975. The

Figure 4.2
Housing Starts in Canada (By Type of Unit, 1970 to 1984)



Source: CMHC, *Canadian Housing Statistics* housing sector was dramatically affected by these initial years of economic instability. The rules of the housing investment game, which worked so well during the prosperous 1960s and early 1970s, no longer applied. Canada's largest development corporations, responsible for the 1960s apartment construction boom, had all made the same investment decision by the mid–1970s: to abandon the residential sector. It was no longer as profitable and the risks were much greater. The impact of this decision was mainly felt in the rental sector. The single-family housing sector continued to be dominated by smaller builders.

The federal response to this situation was to have the government spend its way out on the assumption that the problem was only temporary. Though restraint measures were introduced in most key sectors with the imposition of national wage and price controls, and social expenditures were contained, the federal government could not allow housing starts to fall even further (Canada, Department of Finance 1974). The middle class was increasingly vocal about house prices and tenants about rising rents and the residential construction firms were increasingly vocal about their survival. A quick response, therefore, was necessary for reasons of legitimation and accumulation. As a result, an unprecedented range of federal housing activity was initiated, expanding existing programs and introducing several new home ownership and rental supply programs. Virtually all the new expenditures were directed to the private housing market. On the other hand, the government had no intention of expanding its role in social housing. It was seeking a temporary "quick fix" for the slump in private housing investment.

For the ownership sector, AHOP was expanded and RHOSP was introduced "in order to assist young people in accumulating the capital required for a down payment on a house" and as a means of providing "an important new source of mortgage funds to finance the construction of the new housing we require" (Canada, Department of Finance 1974, 18). For the private rental sector the ARP was initiated and the MURB tax provision introduced, creating a tax shelter for wealthy investors by permitting capital allowances on new rental projects to be written off against other income. In addition, because of tenant concerns over rising rents and as part of wage and price controls, all provinces adopted rent controls by 1976. No new social housing programs were introduced and funding levels for the 1973 NHA's nonprofit and cooperative housing programs remained very low. The changing macroeconomic conditions brought about by the 1973 recession focused federal housing activity solely on the private housing market.

The action by the federal government did have its impact on housing expenditures and housing starts. Housing expenditures increased sharply. As Table 4.1 indicates, total CMHC expenditures, which include all the federal government's direct housing subsidies and loans, increased from $1 billion in 1973 to $1.85 billion in 1975. CMHC expenditures remained close to the $2.0 billion level until 1978. *Not* included in CMHC's budget are the housing subsidies provided through the tax system. RHOSP and MURB, for example, cost the federal government an average of $60 million and $110 million annually during

Table 4.1
CMHC Social Housing and Market Housing Expenditures, 1973–84 (Millions of Canadian Dollars)

	Total CMHC Expenditures	Total Social Housing	Social Housing as a % of Total CMHC Expenditures	Total Market Housing	Market Housing as a % of Total CMHC Expenditures
1973	$ 1,062.6	$ 477.8	45.0%	$ 175.8	16.5%
1974	1,339.9	498.9	37.2%	484.2	36.1%
1975	1,846.0	937.5	50.8%	526.2	28.5%
1976	1,907.9	930.1	48.7%	351.1	18.4%
1977	1,889.8	678.4	35.9%	511.3	27.1%
1978	1,879.3	696.8	37.1%	276.2	14.7%
1979	1,190.3	458.2	38.5%	113.7	9.6%
1980	1,323.6	476.8	36.0%	82.1	6.2%
1981	1,333.2	557.9	41.8%	101.1	7.6%
1982	2,214.4	747.7	33.8%	885.8	40.0%
1983	2,767.8	920.8	33.3%	1,029.4	37.2%
1984	2,140.1	1,107.3	51.7%	178.2	8.3%
Total	$ 20,894.9	$ 8,488.2	40.6%	$ 4,715.1	22.6%
Annual Average	$1,741.2	$ 707.4	40.6%	$ 392.9	22.6%

Source: CMHC 1982, 1984.

this period (Dowler 1983). Unlike the United States, Canada does not publish annual tax expenditure accounts. The only reliable estimates are from 1979 when estimates were published for the first time. In response to growing public concern over corporate tax breaks, some tax expenditure information was published in 1985 (Canada, Department of Finance 1985b). Data for the housing sector, however, were incomplete.

It is important to note that these annual federal housing expenditure levels do not reflect total new spending commitments. Many housing programs were structured in such a way so as to pass the costs onto future budgets. The stream of subsidies was dispensed over a number of years and federal accounting methods did not provide an estimate of the total being committed in each year. ARP, for example, subsidized 122,600 units between 1975 and 1978 but cost CMHC only $31.7 million in those four years. From 1979 to 1984, however, another $184.2 million in ARP subsidies were paid out by CMHC (CMHC 1984). This type of subsidy will continue for many years. Furthermore, rental investors were permitted to stack the ARP subsidy with the MURB tax incentive. The MURB subsidy is also dispersed over a number of years, with only a small portion of the cost of the program delivered in the year the project was built.

The Keynesian response did have an impact on housing starts. As Figure 4.2 indicates, both single-family and apartment starts increased in 1976, though they began to fall thereafter. There would have been no increase and the fall would have been much more dramatic if the government had not intervened. Most purchasers of new single-family houses received one or more forms of subsidies. Virtually all the rental starts after 1974 were subsidized. Only a minority of these subsidized starts were in the nonmarket social housing sector. The majority of the rental subsidies were investment incentives to private developers. This helped maintain the fiction that there was indeed a viable private rental sector. This rental sector, however, was no longer responding to supply and demand signals in the marketplace. It was responding to the very lucrative government subsidy programs. The government was, in effect, bribing private rental investors. If the bribe offered was substantial enough, rental investment would take place. Once ARP ended in 1978, apartment starts slumped to the lowest levels in 20 years in spite of tremendous demand and even though a major private rental tax subsidy program continued to exist (MURBs). Vacancy rates across the country were at their lowest levels in the postwar period. With a growing federal deficit and the growing realization among policy makers that the slump was not a temporary aberration, the Keynesian response was abandoned and restraint, or at least the appearance of restraint, was introduced.

KEYNESIANISM IN RETREAT: 1978 TO 1981

The second period represents an attempt by the federal government to further restrain its spending. The need for restraint in the growth of government expenditures was discussed in the March 1977 budget and became a major theme thereafter. In terms of total housing expenditures, however, the restraint was limited and largely cosmetic. The reason for this was the relatively small size of housing expenditures. Though direct housing expenditures and the indirect housing-related tax expenditures had increased significantly since 1973, housing still comprised one of the relatively small categories of government spending. Because of this and because of the continuing need to play a role in both legitimation and accumulation with respect to housing, the impact of federal restraint on housing was both small and temporary.

By examining CMHC's budget, it would appear that significant cuts were made in housing programs because in 1979 the total budget fell to $1.2 billion from $1.9 billion the year before, a 37 percent decrease in just one year. A number of programs were indeed cut, but they accounted for only a part of the decline in CMHC's budget. In 1978, as part of its restraint program, the federal government also decided to minimize its direct mortgage lending activity. Prior to that, the social housing programs, as well as some of the market housing programs, had been receiving full or partial mortgages directly from CMHC. After 1978, a new formula required these programs to obtain their mortgages from private lenders, thereby permitting the government's role in direct lending to decline while increasing the role of the private sector—a major objective of restraint.

This shift from government to private lending accounted for a great deal of the "decline" in CMHC expenditures between 1979 and 1981 (see Table 4.1), but the decline was partly illusory. It allowed for the appearance that federal spending as well as the government's role in the housing sector were being cut in response to restraint measures when in fact it simply passed on even greater costs to future budgets. Because the government borrows money at a better interest rate than is obtainable by social housing agencies in the private mortgage market, the subsidies provided to social housing had to be increased to cover the difference. These additional subsidies, however, did not benefit low- and moderate-income groups since they were used to pay the additional costs involved in using private mortgage lenders. Financial institutions became the primary beneficiary of this budgetary maneuver.

Another way in which the impact of restraint on housing was more illusion than fact relates to the proportionate increase of housing-related tax expenditures. RHOSP was maintained and MURB, though discontinued for a year, was also reintroduced in 1980 to "reduce shortages of rental accommodation and provide a needed stimulus for the construction industry" (Canada, Department of Finance 1980, 104). Because of the continuing failure of the private rental sector to supply units on a nonsubsidized basis, the government gave in to the tremendous pressure from the housing industry and the tax shelter investment industry and reintroduced the lucrative MURB tax incentives. By maintaining RHOSP and MURB, future middle-class home owners and wealthy individuals in the 50 percent tax bracket retained their respective housing investment subsidies in spite of restraint. Since these did not show up in the federal budget they were easier to retain than the direct spending programs. The federal government thereby benefited politically by maintaining these programs and it assisted private accumulation in both the troubled ownership and rental sectors. RHOSP helped address the high cost of becoming a home owner and MURB addressed the lack of profitability in the private rental sector.

The housing measures introduced during this second period were totally in keeping with the growing neoconservative approach to government budgets that was emerging under the Liberal government at the time. Measures were taken to reduce the growth in the size of direct expenditures and to increase the reliance on the private sector wherever possible. This political agenda, combined with the unstable macroeconomic conditions, had its impact on the housing policy-making process within CMHC. By the late 1970s, the national office of CMHC became a virtual lobby organization for the housing industry. The perennial struggle within the CMHC bureaucracy between the social housing people and the market-oriented people was won by advocates of the private market. CMHC's research activity and policy advocacy shifted to the promotion of measures aimed at promoting and assisting the "efficient" private housing supply sector and at attacking nonprofit and cooperative housing programs as being "inefficient and poorly targeted."

By 1980, both CMHC and the housing industry lobby began advocating the replacement of social housing programs with a national shelter allowance scheme (Hulchanski 1983; Clayton Research Associates 1984; Steele 1985). Shelter allowances were favored because they provided low-income households a monthly check to help them obtain housing from the private sector, rather than rely on government social housing supply programs. The private commodity nature of the rental stock would thereby be maintained. The debate was no longer one of whether or not there would be large-scale housing subsidy programs. The debate had become one of whether the housing subsidies would be provided on a market or nonmarket basis.

By the early 1980s, the housing debate in Canada, which was generally phrased in terms of improving efficiency of government subsidies by targeting programs only at the "truly needy," became a surface manifestation of a much deeper clash, best characterized as the "market-welfare" and "social-welfare" housing options. Owing to the inability of the private housing sector to supply moderate-cost housing without substantial subsidies to investors, the fundamental policy issue was whether public funds should be used to maintain the private housing supply sector, the commodity form of housing, or whether the government should improve and expand its nonmarket social housing supply programs. The series of ad hoc programs during the 1973–78 period were largely based on the assumption that the problem was temporary and that the "market-welfare" programs would be temporary. When some of the key programs were withdrawn in 1978, however, housing supply slipped into further decline and prices in the existing stock dramatically increased. After a few years, it was more than apparent that something had to be done, and pressure was placed on the government by the early 1980s to introduce new subsidy programs.

KEYNESIANISM IN DISGUISE: 1982 TO 1984

The attempt to minimize housing expenditures did not last very long. Mortgage interest rates began to rise dramatically, moving from 11 percent in late 1979, to a peak of 21 percent in August and September of 1981, and leveling off in the 12–13 percent range during 1983 (CMHC 1983, 65). A housing crisis of major proportions was created by the addition of these highest ever mortgage interest rates to the already troubled housing sector. In addition to the low vacancy rates, the lack of unsubsidized private rental construction, and the high cost of single-family housing, many home owners were facing foreclosure when they renewed their mortgages. All the ownership subsidy programs of the previous eight years were aimed at inducing moderate-income tenants to become home owners. The normal mortgage at that time was for a five-year period. The five years came due when interest rates were at their highest in the early 1980s. Many simply could not afford to carry the new, much higher monthly cost of the mortgage.

The mortgage crisis became a political crisis for the government at a time when the ruling Liberals were already highly unpopular. Middle-class home owners began forming organizations to resist foreclosure and to lobby for reductions in interest rates. The housing industry also became a very active lobby, owing to the impact of interest rates on housing starts. In spite of its restraint program, new housing initiatives were announced in both the November 1981 and the June 1982 federal budgets. In a period when Keynesian fiscal policy was supposed to have been discarded, the federal government went on a spending spree in order to create jobs (Canada, Department of Finance, 1982). A new program, the Canada Home Ownership Stimulation Plan (CHOSP), gave $3,000 grants to all purchasers of new housing and to first-time home buyers who purchased an existing house. Spending on the Canada Home Renovation Plan was doubled as were the number of units subsidized by the Canada Mortgage Renewal Plan which was expanded to include a larger number of households. Funding for 2,500 more social housing units was also provided. This was the first time since the 1973 introduction of the social housing programs that the federal budget made a special additional allocation to nonmarket housing.

The problem was deeper than housing. In a fashion similar to the previous 30 years, the government used spending on the housing sector in a countercyclical fashion even though the economic circumstances were totally different from the high-growth period of the 1950s and 1960s. A Keynesian policy was being implemented in a non-Keynesian period. None of the new housing programs represented an attempt to stabilize or improve the operation of the housing market. In fact they resulted in the opposite. Nor were they designed to help the housing situation of low- and moderate-income Canadians. They were simply an immediate response to an immediate economic and political crisis. Middle-class home owners and real estate investors were the primary beneficiaries. Some 250,000 home owners received the $3,000 CHOSP grants and rental investors received Canada Rental Supply Plan (CRSP) subsidies for construction of 33,000 rental units in addition to the on-going MURB tax incentive, which was subsidizing about 20,000 rental units per year. In comparison, there was only an additional allocation of 2,500 social housing units.

IMPACT: POLARIZATION BY TENURE AND REGRESSIVE DISTRIBUTION OF SUBSIDIES

One impact of housing subsidies during a period of restraint was the polarization of households by tenure. This trend has become common to most advanced Western nations (Hamnett 1984; Harloe 1985; Paris 1984). In addition, the system of housing subsidies and incentives has been one of the more regressive categories of social expenditure in Canada in terms of assistance to lower-income individuals, a trend Canada shares with the United States (Dolbeare 1985).

Table 4.2
Average Dollar Benefits per Tax Filer from Federal Housing Tax Expenditures, 1979

Total Income Group	Average $ Benefit from Housing Tax Expenditures
Under $ 5,000	$ 32
5,000 - 10,000	171
10,000 - 15,000	314
15,000 - 20,000	619
20,000 - 25,000	964
25,000 - 30,000	1,312
30,000 - 50,000	1,994
50,000 -100,000	3,670
$100,000 & over	6,753

Source: Canada, Department of Finance 1981.

Expenditures on social housing programs, in particular, have been one of the smaller spending items in the system of direct and indirect housing subsidies. Larger benefits to middle- and high-income Canadians have been extended through housing-related tax expenditures. The $125 million annual cost of RHOSP, for example, has been available only to those who could afford to defer expenditures of $1,000 a year. The MURB program, in similar fashion, led to over $1.5 billion in foregone revenue in eight of the past eleven years. MURB, like RHOSP, benefited higher income groups.

Table 4.2 provides a summary of who benefited from housing-related tax expenditures. For every $100 spent directly, $30 to $50 was spent indirectly by way of tax expenditures. Tax expenditures in general, and housing tax expenditures in particular, mainly benefited the higher-income households (see Table 4.2). The greater one's income, the greater the housing tax expenditure benefits received (Canada, Department of Finance, 1981). Moreover, it is not only the regressive nature of housing tax expenditures that is at issue, but also their size relative to direct housing expenditures. Housing tax expenditures are two to three times greater than direct spending programs on housing. In most other budgetary categories, the relationship between the two types of spending is just the opposite—tax expenditures are less, between 30 and 50 percent according to the Auditor General, than the direct expenditures. This means that in housing, for every $100 in direct total expenditures, some $200 to $300 are spent in tax expenditures.

Table 4.3
Changes in Home Ownership Rates Within and Between Income Quintiles, 1967, 1973, 1977, 1981

	% of Households Owning Their Unit				Change
	1967	1973	1977	1981	1967-1981
Lowest Quintile	62.0	50.0	47.4	43.0	-19.0
Second Quintile	55.5	53.6	53.3	52.4	- 3.1
Middle Quintile	58.6	57.5	63.2	62.7	+ 4.1
Fourth Quintile	64.2	69.8	73.2	75.0	+10.8
Highest Quintile	73.4	81.2	82.3	83.5	+10.1
Total	62.7	62.4	63.9	63.3	+ 0.6

Source: Statistics Canada 1983.

Another indicator of the distributional impact of housing subsidy programs was obtained by examining trends in the distribution of home ownership among income groups. Table 4.3 demonstrates that there were gains among the top two quintiles and declines in the bottom two. The percent of households owning their own units remained virtually the same during the period. What was dramatic was the change in *who* were home owners. During a period in which a great deal of direct and indirect subsidies were provided to the ownership sector and to first-time home buyers, households in the highest two income quintiles made substantial gains in home ownership rates (up by 10 percent each) whereas the households in the two lowest quintiles increasingly became tenants. The middle quintile household remained about the same. Since 1973, however, the home ownership rate of the second quintile also declined, from 53.3 to 52.4 percent. In short, fewer households in the lower 60 percent of the income range were home owners in 1981 than they were back in 1967. The temporary programs introduced since that time have not been able to outpace the tide of rising house prices and mortgage interest rates. This trend, of course, was not due solely to the regressive nature of housing program subsidies. Macroeconomic trends, as we have seen, continued to work against lower-income households. The 1967 data are included to allow for comparison after the onslaught of recession in the mid–1970s.

The increasing rates of home ownership among the upper income groups also indicate an equally significant and very troubling trend for the rental housing sector. The rental sector was becoming an increasingly residual one, containing virtually all lower-income Canadians and very few higher-income Canadians. This had not always been the case. Table 4.4 indicates that as recently as 1967 the tenant population was divided almost equally between each of the income quintiles. The only exception was the highest quintile. By 1982, however, the number of higher-income tenants (in the fourth and fifth quintiles) declined while the number of lower-income tenants (in the first and second quintiles) increased, both significantly. This means that those households able to take advantage of the home ownership option did so, leaving virtually all those who had no choice in the rental sector. In general, then, the private-sector programs were supply incentives without providing direct benefits to lower-income households. By contrast, about 80 percent of the residents in nonprofit and cooperative housing projects were low- and moderate-income households. Nevertheless, through the period of restraint, the private-sector subsidies were much larger than the nonprofit and cooperative subsidies. MURB tax benefits were especially costly.

CONCLUSION

More analysis needs to be done on the effectiveness of these past programs. The federal government, in the period since 1973, appeared to have taken the easy way out by assuming that housing problems were temporary and that minor, temporary programs would help improve the situation. This was much easier

Table 4.4
Renter Households by Income Quintile, Canada, 1967, 1973, 1977, 1981

Income Quintile	1967	1973	1977	1981	Change 1967–1981
Lowest Quintile	20.4	26.6	29.1	31.1	+10.7
Second Quintile	23.9	24.7	25.9	26.0	+ 2.1
Middle Quintile	22.2	22.6	20.4	20.3	− 1.9
Fourth Quintile	19.2	16.1	14.8	13.6	− 5.6
Highest Quintile	14.3	10.0	9.8	9.0	− 5.3
Total	100.0	100.0	100.0	100.0	

Source: Statistics Canada 1983.

than attempting to develop a longer-term policy framework. It also appears that these programs did not really address the affordability problem. Only the small-scale nonprofit and cooperative housing programs contributed to increasing the stock of affordable housing. The units subsidized by ARP, MURB, CRSP, AHOP, and CHOSP were subject to inflation in the speculative real estate markets.

As for the immediate future, there appears to be a relatively clean slate. Most of the housing programs introduced by federal budgets since 1973 had been discontinued by mid-1984. The election of a Conservative government in September 1984 overturned the liberal legacy of Trudeau and resulted in the elimination of housing programs and significant budget cuts. In the government's November 1984 "economic statement," spending on social housing and housing rehabilitation programs was cut significantly and the last phase of the private rental supply program (CRSP) was cut entirely (Canada, Department of Finance 1984c). In its May 1985 Budget the Conservative government eliminated one home ownership tax expenditure program, the Registered Home Owner Savings Plan. However, the budget provided individuals with an exemption from capital gains taxes to a lifetime maximum of $500,000. This was in addition to the already existing exemption of capital gains taxes on the sale of the primary residence. Though the intent was to stimulate new job creation, no distinction was made between capital gains accumulated from past investments versus new investments. One result may be that long-term owners of the existing rental stock will cash in on their buildings and for wealthy individuals to begin buying second and third houses as speculative investments. The new capital-gain exemption, therefore, is likely to have serious ramifications on the affordability of both rental and ownership housing in Canada.

A period of rather severe restraint in government housing expenditures began in 1984. This restraint is not only due to the market housing orientation of the new government, but also, and probably mainly, to the relatively low and stable mortgage interest rates. Whether, however, the new government pursues the same line of policy as its Liberal predecessors remains to be seen. A sharp drop in housing starts or an increase in interest rates causing housing costs and rents to jump suddenly will likely force the new government to behave very much like its predecessor. The economic and political costs of doing otherwise are very high. The alternative—planning and implementing a comprehensive national housing policy and a set of coordinated national programs based on the lessons of the past—is not yet on the new government's agenda. Many of the key variables—interest rates, unemployment levels, changes in real income—are largely determined in the United States. Canada first needs to confront the much larger problem of its dependency status before more independent housing policy initiatives can be undertaken. For the foreseeable future, it appears that the inequities of the current housing expenditure system will continue, that Canadians will continue to be even further polarized by tenure based on their income, and that Canada's rental sector will increasingly become a residual one, the domain of the bottom 40 or 50 percent of the income scale.

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