

# Housing Policy Model and Policy Directions for Korea

SUH, BYONG KEY

*Executive Vice Chairman, Korea Housing Association*

## Abstract

Housing policy can be a response to various kinds of factors such as the nature and the scope of the housing problem, the economic, technological and social resources available. Thus, housing policies are very different as between different countries. Yet, there is no accepted model for the application of the ultimate policy objectives. The purpose of this paper is to review the Korean housing policies and to propose the policy directions.

There are four types of housing policy model: ideological, economic, social, and political approach model. In Korea, housing policies have been formulated dominantly by the central government. And the central government distributes housing resources according to the government initiated plans, which is considered as typical approach of developing countries. In other words, housing resources are allocated by the central plannings. In that sense, housing policy model of Korea is totally distinct from the other countries. In this paper, housing policy model of Korea is defined as "Government Initiated Planning Model."

It is important to have a clear, well defined policy model in order to cope with housing problems effectively and to provide policy directions. In other words, in-depth discussion should be made regarding to the various type of policy model.

## I. Introduction

Housing Policy refers to the range of activities that governments and private institutions jointly undertake to provide housing services for a population. In every society, the manner in which housing is produced, financed, and even consumed is determined by a combination of government activities, customs, and market forces. Because of this interdependence, consideration of housing policy cannot be divorced from the culture in which it operates.

The entire housing system is circumscribed by such factors as the level of national wealth, the political consensus concerning the amount of that wealth to be invested in housing, and individual tastes and preferences. Because of the intimate relationship of housing to family life, it is a pillar of social stability, positively related to social well-being and group satisfaction. Therefore, the very nature of housing makes it political and hence subject to political pressures in all of its facets—production, financing, and consumption. Housing manifests the political and economic climate found in a society as well as does any other facet of national experience.

The role that government assumes in the housing sector is the dominant aspect of a national housing policy. Government may take an active role, intervening directly, or a passive one, deferring to private market forces and individual consumer demand, to establish the level of production and prices. A multiplicity of national housing policies exist around the globe. In other words, the approach to housing policy varies widely in every country.

Until recently, the Korean Government has dealt with the housing problems primarily by regulatory measures on the production, allocation and output sectors. Korean housing policy can be classified as a market-oriented, selective approach (Park, 1993 ; 73).

The purpose of this paper is to review the Korean housing policy and to propose the policy directions.

## **II. Government Intervention in the Housing Sector**

### **1. Housing Sector and Government Intervention**

Housing is also subject to various regulations at all levels of government, local and national, because of its unique characteristics. As regards the economic aspect, if the housing market mechanism assured optimal allocation between demand and supply, government intervention would be unnecessary. To meet this condition, housing markets must operate efficiently, demanders must know the utility of housing services relative to alternative objects of spending, and investors must have accurate information on rates of return on housing relative to other investment alternatives. These conditions are unlikely to be met in the real world. For all these reasons, there is a strong presumption that the market mechanism fails to assure optimal housing allocation, and therefore public interventions are inevitably needed.

Although the specifics of government interventions obviously differ from country to country, the level of intervention, compared with other product markets and consumption, is very high as a whole. Both interventions concerning direct measures or policies conventional public housing, sites and services, and squatter upgrading, regulations such as rent controls, zoning and building codes, actions that affect the sup-

ply of housing finance, taxation, land, infrastructure, construction materials and other inputs, and the income transfer policies of the government influence the housing system.

These days, therefore, almost all the governments in the world play a large and increasing role in most aspects of housing production, distribution and consumption. They act as administrators, landlords, planners, financiers, insurers, speculators, regulators, and sometimes destroyers. Above all, since the transition from the free market to welfare capitalism, the basic motive of government intervention has been gradually invoked, because the private sector cannot profitably supply decent mass housing at an affordable price. Housing is also used by government as a tool for regulating economic growth and as a part of its macro-economic stabilization policy.

## **2. Reasons for Government Intervention**

The simplest rationale for government involvement in the housing system is that housing is far too important in financial, economic, social and political terms to be left exclusively to an unfettered, unregulated private market.<sup>1)</sup>

First of all, everyone has to have an adequate minimum standard of living place as a human right. Secondly, the desire to counteract market imperfections or market failures provides a specific justification for social action to support low- and moderate-income families in meeting their housing needs. Many such households in all countries really have incomes too low to obtain adequate housing without some public sector assistance, including the government. Thirdly, depending upon the modern public goods and merit goods theory, public controls over various aspects of housing, such as building standards, land use and housing mix by size and quality, are introduced to promote the creation of positive externalities and to mitigate any negative externalities. Fourthly and the last, in economic policy, the purpose of government intervention in the private market is to ensure that the productive resources of society are used as effectively as possible and to minimize the fluctuations in the economic cycle. In short, a broad range of public interventions is necessary for an efficient and equitable housing policy, in particular, housing price controls and a large, public housing sector (Burns and Grebler, 1977; 100-125; Bourne, 1981; Nesselin, 1988).

In terms of housing policy, the pursuit of social equity implies the use of national resources to maximize the housing welfare of the entire population. Policies in pursuit of distributive justice have led to housing policies directed to meeting special housing needs and solving specific housing problems. However, the economic and demographic pressures have caused disturbances in the delicate balance between policies pursuing social equity and distributive justice, as governments embrace policies of minimum intervention, high efficiency and high effectiveness.

The rationale for government intervention in housing has generated lengthy debate on the relationships between political structures and the established housing system (Donnison, 1967; Downs, 1975; Stafford, 1978; Heady, 1978; Pugh, 1980; Nesslein, 1988). Essentially, the arguments are between those who consider that unwanted public interventions have negative impacts on society and result in public over-spending, on the one hand, and those who think that government interventions are necessary to correct the inequitable distribution of housing services, on the other.

In housing policy, this controversy has led to the examination of public expenditures benefiting all households and all housing stock, particularly in the light of rising housing standards. It has also caused governments to focus their attention on particular housing problems and specific housing needs. Governments are searching for effective interventions that can contribute to national improvement in housing standards, while providing comparatively greater assistance to those in need (Brink, 1989; 103-104). Such government interventions, as a matter of source, are taking hybrid forms in the present political climate of each country. This matter of public controls over the housing market will be discussed later in connection with housing policy models. Anyway, the literature on the involvement and positive. The former discusses what the role of government ought to be; the latter analyzes the effects of government programs (Tobin, 1970, de Leeuw, 1974).

It is concluded that, to understand the government intervention in housing, we must shift our attention to an overall theorization of social relations, in particular, the dominant ideologies of society since the Industrial Revolution during the mid-nineteenth century. As a matter of fact, since then, social idealism, social theory and social actions, as well as economic theories, have together influenced the development of housing policies. These circumstances have left us an inheritance of policies, ideas and professions. However, until World War I, even the most advanced countries did not accept public interventions in the housing system, beyond regulatory measures to ensure minimum standards of safety and health. The improvement of housing conditions was left to the market or the employers charity or the beneficence of social philanthropists, while the national legislation adopted in a few western-European countries remained dormant in the absence of large-scale funding.

### **III. Types of Housing Policy**

The housing policies are very different as between different countries and reflect the political ideology of each country, the levels of economic development, the social attitudes and the institutional structures. However, the ultimate goals of housing policy are social equity and efficiency, which imply the use of the available resources to maximize the housing welfare of the people. Yet, there is no accepted

model for the application of the ultimate policy objectives. Thus, every country has so far directed its housing policy towards acceptance by most of its population. This section reviews four types of housing policy model; ideological approach model, economic approach model and social approach model.

### **1. Ideological Approach Model**

Socialist countries view housing as a social right and hence assume responsibility for the provision of housing. However, capitalist countries view as a consumer good, thus it is entirely the responsibility of households to provide for the entire cost of their housing accommodation.

Housing policy of capitalist countries can be classified as two models; market and social welfare model. Market model, typically the United States, strongly support the market mechanism which can efficiently allocate housing services and resources for the entire population. Under the system of market allocation, strong incentives, generated by effective demand, stimulate housing production, cut down the production cost and simplify the maintenance of the stock. This means that public intervention in the housing market have actually decrease total housing investment; instead, the potential to achieve both efficiency and equity goals with respect to housing seems great.

On the other hand, social welfare model considers housing as a social services rather than strictly as an economic commodity. It also differs from the traditional socialist model in which the private market in housing is allowed to operate (Bourne, 1981 ; 236).

The housing sectors of the European welfare states, such as the United Kingdom and Sweden, are generally governed by the two integral components of housing price controls, usually within a large rented sector, and an emphasis on nonprofit-making housing. Thus, the housing systems of European welfare states are neither coordinated nor controlled by the informational and incentive structures of the price mechanism, as in the Laissez-faire model. In social welfare states, typically in Sweden, their housing interventions seek justifications in the achievement of more equity, the elimination of insecurity and the establishment of minimum living standards, depending largely upon the ideological background of egalitarianism. Governments have also relied on the principle of distributive justice and equal opportunity to acquire a fair share of goods and services and have thereby been led to use public resources to benefit selected target groups in need. While these purposes have not always been completely fulfilled, this is the basis of welfare state criteria in housing policy.

## **2. Economic Approach Model**

The basic assumption of this model is that it is impossible to improve the living condition without economic development. Therefore, they insist that dwelling construction of developing country is desirable to hold over until nations productivity is fully ripen.

This model's theory is based on the economic productivity. Namely, when the productivity and the welfare compete with each other for deciding on the priority order of policy, they should put the first priority for industrial development. This means that the investment funds should be allocated in the higher investment of economic facility than housing. What is so called here for economic productivity is that the shorter returning period on the side of the capital and the output, the higher investment efficiency. The way of this approach agree to lift it up from the housing level of developing country to developed country's level as fast as possible. In order to improve standard of housing level, limited domestic resources should be invested in the higher economic scale of return area and then it might be increased the income level as a result of economic growth.

Howenstine and Donnison have indicated how stages of housing investment are geared to levels of general economic development. For example, Donnison developed three stage scheme which shows the relationship between housing investment and economic development. In early stage of industrial growth and urbanization, government may still be compelled to give first priority to education, industrial investment, health and defense. At the second stage, many countries have a less mobile and more slowly growing population, and they become richer. This is the point at which fundamental changes occur in the conditions under which housing policies are made. The resources that can be devoted to housing grow much larger. The third stage is characterized by wholesale replacement of old dwellings and by meeting the needs of special groups of the population such as large families and the elderly (Burns and Grebler, 1977, 20-21).

## **3. Social Approach Model**

This way of approach is the advocated model and supported by the International Labor Organization (ILO), since housing is the one of a basic human necessities. We should be concentrated distribution for the resources that could supply proper housing service to all the people. In the social approach model, supplying housing and its facility is the necessary condition of economic development and national goal. In accordance with this model, they estimated the production of housing which is based on the social view point, namely, on the side of social efficiency.

Especially, social approach that housing condition is getting worse in the rapidly improving urban areas. Therefore, the economic development plan should be promoted on the priority order of the investment in housing and also should build more houses compared to the way of economic approach. The way of this approach, with the preconditions of economic development, spread the theory that should preferentially supply best quality of housing and residential facility.

But among the assertors of this approach model, in the economic development stage, it is impossible to provide the best quality of housing to all the people and it is not the realistic way of approach in the developing countries. Because of this, it often shows that on the half way or reasonable way of approach is realistically acceptable minimum level of housing supply considering with family size

In conclusion, social approach model is only natural goods and it is difficult to practice for the undeveloping countries. It should lead to wrong direction of the housing policy, it contends possibility of social conflict because of unsatisfaction about the people's housing demand. Besides, in the case of the developing country for economic development which get to the fixed level, it needs to examine positively for the introduction of this model.

#### **IV. The Housing Policy Model of Korea**

##### **1. Government Intervention in the housing sector**

Housing policy in Korea can be examined by dividing the post-Korean War era into the period 1945-1961 and the subsequent Five-Year Economic Development Planning periods. The former period was marked by a huge immigration of returning emigrants and refugees from Japan and Manchuria after the country's liberation from Japan in 1945. They contributed enormously to the growth of urban population in Korea and to the acute housing shortage. The Korean War worsened even further the housing shortage problem. The earlier housing policy before the 1960s was focused on providing emergency shelters for the refugees of the Korean War and the immigrants from abroad.

Korean housing policy was originally initiated and implemented as a part of the Economic Development Plan during the 1960s; however, the plans for the housing sector have merely been formalities. It was after the establishment of the Ten Year Housing Construction Plan and the enactment of the Housing Construction Promotion Act that Korean government became committed in housing policy. This plan presented the quantitative object of providing 2.5 million housing; however, in its actual content, Korean government gave a principle theory or allocating existing resources for support systems for private sectors without any financial expenditure.

On the other hand, despite successful accomplishment of the Economic Develop-

ment Plan and the increase in the housing demand due to such factors as increase of baby-boomers and nuclear families and concentration of population in urban areas, investment in housing sector was not as much promoted as economic development due to financial shortage.

Industrialization has accelerated the migration from rural to urban areas, worsening the housing problems of large cities which did not have financial sources for investment in housing sector. However, the officials of the federal government who drove the economic development selected an economic approach to housing sector, providing few resource for housing investment.

The accumulated housing problems have led Korean people to depend on market ability for their housing, and the housing supply was limited to the middle and high income classes while the urban poor which could not afford the housing price could not help living in slum areas. For those who migrated to urban areas, food and clothing come prior to housing, and they were interested in employment and quality education. This explains the latent period of housing problems which lasted until the mid 1970s.

From the mid 1970s, influenced by the economic development, there existed an increased demand for more convenient and comfortable housing in the high income class. The housing supply did not meet the demand and resulted in increase in housing price. There also have been demand for land which also accelerated the hike of housing price as the unbalance in land demand and supply caused increased land price.

Main emphasis of government's housing policy was put on developing anti-speculation measures rather than establishing supply system since the housing demand and supply mismatched. The anti-speculation policy brought about decrease in new housing supply and periodic vicious cycles which caused hikes in housing prices.

In the mean time, it was recognized that expanding housing supply is better way than developing anti-speculation policies for stabilizing housing prices. In the early 1980s, Five Million Housing Construction Plan (1981-1995) was formulated, and Two Million Housing Construction Plan was implemented in 1988 and accomplished in 1992. During the period, government's involvement in housing market was expanded in most of the sectors of the housing policy system. Not only classical commitment such as Land Use Regulations for externalities but also various types of modern involvement as the following were included:

- land development supply to encourage housing production;
- provision and allocation of housing fund;
- organization and management of housing construction industry;
- establishment of housing plan;
- allocation of housing investment;
- regulations for apartment sales price;



- regulations for rents for Public Rental Housing;
- regulations for housing size;
- implementation of redevelopment and housing environment improvement;
- construction of low income housing such as rental housing and workers' housing;
- permission of real estate intermediation business for orderly transactions; and
- computerization of housing related material.

## **2. Housing Policy Model : Government Initiated Planning Model**

During the past thirty years, Korean housing policy has been undertaken as a part of the Economic and Social Development Plan and the National Physical Land Development Plan, and other plans. Examining the theoretical framework of the process and content of the housing policy, it is seen that the market model and the welfare state model have been selectively employed.

Housing policy regarding rental housing, workers housing, public development of land, provision of cheap land for public housing, low-interest housing loan, and housing price control could be considered as the equitable distribution policy of welfare state model to cope with the problems caused by the market failure. In this sense, housing policy of Korea, based on the market principle, induces the concentration of housing supply according to effective demand and distribute housing capital voluntarily.

Analyzing Korean housing policy from functional perspective, social and political methodology were employed when housing problems emerge since the priority was given to economic development, not to housing sector.

As illustrated by welfare state model, most of the housing problems of Korea resulted from market failure. Abnormally inflated housing price due to absolute housing shortage made housing exchange value excel housing utility value, giving higher priority to investment value. Most of housing experts and policy makers in Korea have implemented market model based housing policy, ignoring the nature of Korean housing problems. This could be understood as a way of investing limited financial expenditure to establishment of conditions for capital accumulation rather than establishment of welfare expenditure such as housing, health and education.

Implementation of housing policy was started with revising and reinforcing necessary means on the basis of the long-term development plans. Korean housing policy is based on planning which can solve housing problems. It is unlikely that Korean housing policy selects totally market dependent approach without considering distinctive nature of social, political and economic structure. History of European housing policy which was actively involved in housing market to raise housing standard and is now turning to activate market function could be a good example.

Korean government have not provided clear theoretical framework and attempted an unsuccessful market intervention on the basis of filtering process by economic approach. As a result, there have been the following undesirable outcomes: too high housing price; increasing gap in housing standards among social classes; accumulation of housing capital by development profit rather than by capitalistic competition; and increasing gap in housing resources earnings among social classes. This could be interpreted as products of market failure and policy failure which tried to solve housing problems by controlling private capital without providing financial expenditure for housing sector.

When housing speculations occur, government tries to stabilize housing market by proclaiming the change in the concept of housing from ownership to habitation. Since this is regarded as a discrepant concept of housing which could mislead people to have the concept of housing as social or political property, theoretical concept of housing should be clearly defined.

With a solid theoretical background, government implemented an economy-oriented housing policy, and when housing problem became a social issue, government presented remedial plans on housing sector. This could be considered as a political approach to absorb housing demand which can explode at political transition period when the pace of improvement of housing standard is slower than that of income increase and when people's dissatisfaction with housing reaches the limit.

Since the Sixth Administration began, democratization in every sector of society has led to explosion of social need for adequate housing and living facilities, social approach in which housing is considered as the prime condition for economic development has been perceived as more persuasive housing policy model.

However, under economy-oriented policy, housing problems have accumulated and caused a hike in housing price at political, economic, and social transitions. As housing problems became more a threat to national system than a social problem, the government formulated Two Million Housing Construction Plan as a political remedy. The plan included workers' housing and rental housing as suggested by social approach.

Since Korean housing policy has been driven by government, relating laws and regulations have been enacted to encourage and support the implementation of housing plans. The role of long-term plans was significant as enormous development authority of government presented them as a means of achieving major plans.

Housing Construction Promotion Act which provides legal base for housing Policy was enacted in October 1972 for efficient implementation of Ten Year Housing Construction Plan. The following measures were developed for successful implementation of Five Million housing Construction Plan:

- enactment of Land Use Development Act;
- implementation of housing supply plan by income level;

- establishment of National Housing Fund;
- construction of rental housing and workers' housing;
- and construction of five newtowns in the capital region.

Throughout the whole process, government tried to distribute resources based on strategy of expanding housing supply by private sector rather than by increase in financial expenditure.

## V. Conclusion

Housing policy of most of developing countries have been established after World War II. In the process of selecting earlier policy, which lasted until the 1970s most of developing countries have followed developed countries models without considering the actual status of housing problems and the economy. Housing policy of developing countries has been directed at; construction of European type social housing, supply of public housing which meets the standard of urban infrastructure, and demolition of squatter areas for redevelopment. However, this type of housing policy has been criticized for expanding the gap in housing standards among social classes.

Korean government distributes housing resources according to the government initiated plans, which is considered as typical approach of developing countries. The successful outcome of six consecutive Economic Development Plans bring about the social issue of allocating the fruit of economic development and the need for better housing service was a part of the issue.

In this paper, housing policy model of Korea is defined as. Government Initiated Planning Model which failed to give clear theoretical framework. In this model, government is actively committed to develop comprehensive plans and systematic measures for housing problems by controlling private investment and distributing housing resources.

It is important to have a clear, well defined policy model in order to cope with housing problems effectively and to provide policy directions. In other words, in-depth discussion should be made regarding the types of policy model-market model, welfare state model, or government initiated model. Close examination of housing problems and people's attitude toward housing is needed prior to the discussion. Since housing problems represent the structural problems of any society, change in frame of reference to identify housing problems not as a housing market phenomenon but as a political, economic and social phenomenon should be brought about.

Market model would not need national planning on housing sector; however, government initiated model which perceive housing as social good and merit good and the minimum living standard would need housing policy for comprehensive implementation. The latter would be justified as long as housing problem is solved.

However, two options will need more discussion; one is whether housing plan should be initiated by central government; the other is whether local governments initiate and implement housing plan according to local housing situation and central government leads the overall policy direction of the nation through providing fund and tax incentives.

In the long term, planning on housing sector should be part of more social planning than of economic planning which is operated by government to dominate market system.

### Notes

- 1) Further sophisticated justifications will be found in Burns and Grebler(1977), Pugh(1980), Bourne(1981), and Nesslerin(1988).

### References

- Bourne, L.S. *The Geography of Housing*, (Canada V.H. Winston and Sons, 1981).
- Burns, L.S. and Grebler L., *The Housing of Nations*, (MacMillan Press Ltd., 1977).
- Burns, L.S. and Grebler, L., "Resource Allocation to Housing Investment: Comparative Analysis", *Economic Development and Cultural Change*, Vol. 24, (1976).
- Darke, Jane and Darke, Roy, *Who Needs Housing?*, (London: Macmillan Press, 1979).
- de Leeuw, F., "What Should U.S. Housing Policies Be?" *Journal of Finance*, Vol. 29, (1974).
- Donnison, D.V., *The Government of Housing*, (Penguin, London, 1967).
- Downs, A., *Urban Problems and Prospects*, (Rand McNally, 1975).
- Fallis, George, *Housing Economics*, (Toronto: Butterworths, 1985).
- Ha, S.K.ed., *Housing Policy and Practice in Asia*, (London: Croom Helm, 1987).
- Howenstine, E.J., "Appraising the Role of Housing in Economic Development", *International Labour Review*, Vol. LXXV, No. 1, 1957.
- Lansley, Stewart, *Housing and Public Policy*, (London: Croom Helm, 1979).
- Lord, T.F., *Decent Housing : A Promise to Keep*, (Massachusetts: Schenkman Publishing Co., 1977).
- MacLennan, Duncan, *Housing Economics*, (London: Croom Helem, 1982).
- Nesslerin, T.S., "Housing: The Market Versus the Welfare State Model Revisited", *Urban Studies*, Vol. 25, (1988).
- Park, H.J., "Housing Policy Modelin Korea", *The Korea Spatial Planning Review*, Vol. 25, (1993).
- Pugh, C., *Housing in Capitalist Socities*, (Gower Publishing, Westmead, 1980).
- Tobin, J., "On Limiting the Domain of Inequality" *Journal of Law Economy*, (1970).
- Weissmann, E., "Importance of Physical Planning in Economic Development", *Housing and Economic Development*, Massachusetts Institute of Technology, Cambridge, (1955).