



RESEARCH PAPERS IN ECONOMICS AND FINANCE

JOURNAL HOMEPAGE: www.ref.ue.poznan.pl

Housing needs, choice and responsibility as three concepts to understand the role of housing markets and government intervention in Israel

Avi Perez¹

¹PhD student, Poznań University of Economics and Business, Poland

ABSTRACT

In this paper, the concepts of need, choice, and responsibility in the context of the Israeli housing market are explored and analysed. These concepts are significant for the understanding of the interaction between households and government intervention on both private and public housing markets. The following question is formulated: Should the government identify the housing needs and intervene in the free market? And if so, to what degree?

In previous years, by adopting the privatization policy, the Israeli government has limited its involvement in the free housing market as well as in public housing. As a result, housing prices have increased significantly since the 2008 subprime crisis. These changes have forced the government to redefine the housing needs and government intervention while maintaining the freedoms and households' abilities to make their own choices. The author of the article concludes that the government should limit its intervention and allow individuals to define their own needs, to ensure a genuine freedom of choice, and to express the responsibility that comes with it.

Keywords: government intervention, housing needs, housing policy, choice, need, responsibility.

1. Introduction

The primary aim of this study is to analyse and evaluate the transformation of the concepts: housing needs, choice, and responsibility, resulting from the privatization policies introduced in Israel in the early 1990s. Israel is a country that absorbs "Olim" (Jewish Immigration). With the establishment of the State, the Jewish population was estimated at 600,000. Over the last 70 years, the Jewish population has grown to 6.5 million. Together with minority populations of Arabs, Druze, and Circasians, the total population is now estimated at 8.7 million citizens. Most housing properties in Israel, a total of 93%, are publicly owned and managed by the government, with 7% being privately owned.

In general, the evolution of the housing market in Israel can be divided into two main periods: the first period between 1948-1990, and the second period from the early 1990s up to the present. The first period begins with the establishment of the State of Israel and is cha-

racterized by the struggle to absorb large immigration waves of Jews from all over the world, and integrate them into the Israeli society. In this respect, housing provided a particular challenge. To cope with the increased demand for housing, the State of Israel began building public housing. In the first decade, more than 200,000 permanent housing units and 60,000 temporary housing units consisting of small and relatively light construction huts were built. The main concern of the state was to provide immediate and reasonable shelter, without fulfilling all the needs and wishes of the new immigrants. Thus, the apartments built were small and not suitable for numerous family members. Moreover, the planned dispersal of immigrants throughout Israel, as part of the government policy to settle the land, did not take into consideration the immigrants' opinions. Finally, the public housing policy in Israel was motivated by political considerations, such as creating Jewish territorial contiguity, populating uninhabited areas in the periphery and

promoting a Zionist-socialist agenda.

The second period began in the 1990s with the collapse of the Soviet Union. The State of Israel absorbed an immigration wave of one million immigrants, which created an excessive demand for housing. In contrast to the first period of the establishment of the state, in the 1990s, the State of Israel was already sufficiently economically developed to prepare for the allocation of resources for absorbing immigrants, in terms of housing and financial grants for households. Immigrants to Israel are entitled to financial benefits named an "absorption basket". Over time, in the early 2000s, as immigrants settled economically in Israel, they were able to buy apartments of an average size.

However, today, buying an apartment in Israel is a complex and difficult process, especially for young couples. As part of the lessons learned from the subprime crisis in 2008, the central bank in Israel determined that a person who wants to purchase an apartment must pay 25% of the value of the apartment from private capital and the rest will be completed through a mortgage from a bank. This fact, in addition to a very sharp rise in apartment prices in Israel, has driven a large part of the population away from fulfilling their dreams of purchasing an apartment and turned them towards the rental market (the rental market in Israel operates as a free market, without government intervention and through the relationship between landlords and tenants). Furthermore, the Israeli government did not allocate land for construction in a manner that satisfies the demand. Consequently, there was a significant increase in housing prices in Israel, which also led to rising prices on the rental market.

In the discussion of housing in general and in Israel in particular, a number of questions arise: Should the government intervene in the housing issue? If so, to what extent and how? Is it right for the government to intervene? Should the housing issue be left to the free market? Is the free market by its very nature capable of addressing the housing problem in Israel? Israel suffers severe housing market failures in both residential and public housing, and some housing issues in Israel are deeply linked to geopolitical problems. With respect to the population size, Israel is larger than Austria, Switzerland, Denmark, Finland, Norway and Ireland. The annual growth rate of the population in Israel is 1.8% per annum, which is higher than other Western countries. This data poses many challenges, especially for housing planning.

2. Literature review

The concepts of need, choice and responsibility provide an integral part of the discussion regarding the role of the free market and the state. The need and choice could justify the state intervention in housing, while personal responsibility could bolster the role of the markets [King, 2009, p. 16]. Contemporary literature on the housing needs is scarce and certainly addresses the fundamental concept to a relatively small degree. The key studies relating to housing needs originated in the 20th century. According to Krzekotowski [1939], housing occupies a leading position in the hierarchy of human needs as one of the most important items of individual consumption, and at the same time is a social need. Levin [1995, pp. 31-32] stressed that needs are things (imperatives) imposed upon a person independently of their will, while wants are things (aspirations) people choose for themselves as a way of expressing who they are.

The formation of housing needs can be assessed as a social process from the perspective of a macro-social and macroeconomic scales. Analysing the impact of factors such as demographic changes, socio-economic development, technological progress and residential building deprivation, enables a balance sheet of the whole country, regions, cities, towns or villages, which statistically shows the number of dwellings needed and their average, socially justified standards [Czeczterda, 1974, p. 121]. The formation of housing needs can also be assessed by the same factors, but from the perspective of an individual, household or family, stressing the individualization of needs, the diversity that characterizes them and the volatility of the needs over time. These criteria set out various requirements regarding e.g. housing standards, forms, types of buildings, size of apartments and their layout. They allow determining the quality structure of a statistical balance sheet of housing needs. In economic terms, individual housing needs are identical with individual preferences determining the structure of the demand for housing [Czeczterda, 1974, p. 121].

Robinson [1979] provides a geographical definition of need. Corresponding to this definition, the state must identify the housing needs of a defined population (the state or a certain district within it). The scope of the need is determined by the size of the population in need of assistance (calculated by a formula which accounts for all households unable to pay for housing through the private market) and the standard of housing determined by the

state (which is included in the need for each housing unit).

On the other hand, Bradshaw [1972] distinguishes between four types of need, which provide a distinction between different households according to a social criterion that identifies the existing shortage as a social problem. The first category is the normative need. The government defines the need according to a certain situation. In other words, this definition of need makes it possible to differentiate between different populations according to the norms that exist in a specific society. A normative need is a relative need, which can vary from period to period and from place to place. The second category is the emotional need. This need is subjective for every person and refers to the private definition of need. This definition can cause confusion between a person's real need and his or her desires. The third category is the explicit need. This is a category similar to the emotional need with the difference that the person is working to fulfil this need. The need is learned from the consumer behaviour of individuals in the society. It is also difficult to distinguish between a real need and consumers' desires, but it is possible to learn consistently what consumers are prepared to invest in. According to the data, the state can allocate limited choices that meet the specific needs of consumers. Bradshaw's last category focuses on the comparative need. This need is learned from a comparison between various segments of the population, between those who can afford to pay for housing on the private market to weaker individuals in the society. By comparing what exists on the private market, the state can understand what citizens of varying means are willing to invest on the housing market, and according to these results, it is possible to fulfil the needs that are not naturally satisfied by the free market to help weak consumers by defining the need and implementing the government activity accordingly.

Choice, as discussed by Brown and King [2005], is described in a rational model for the expression of the right to choose on the housing market. The ability to choose increases according to personal beliefs, wishes and the amount of information available to the decision-maker. This is a definition that restricts the person's ability to make the best decision for them, and therefore the term „right of true choice“ has evolved to describe a situation in which the person has to choose between a preferred option among a number of distinctly exist-

ing options. Thus, the choice of the housing market is a choice between a small number of real options available to the household according to the needs, preferences, resources and limitations of the private household combined with the opportunities offered on the housing market.

Elster [1986] characterizes the selection process as a subjective process that is influenced by the subject's ability to be rational and gain access to the information. Hence, a person can be rational by his or her choice and still make a bad decision. Brown and King [2005] characterize effective decision-making in the existence of three principles: limitation, control and accessibility. The state should not set tough rules on the housing market but rather set limits and parameters for households to operate. The restrictions should enable the maximization of profit and self-fulfilment for the citizens of the state. Mulder [1996] estimated that beyond the rational connection of the right to vote, choice is continuous. Usually the need to make a choice stems from a preliminary event that is a trigger for the need to choose new housing, for example, a change of workplace. Buying a new apartment and moving to another place of residence is not a minor decision, and households tend to compromise on their wishes as individuals for the benefit of the family unit.

There are two responsibility regimes that should be examined in relation to the housing market. In the first regime the decision-maker is held responsible for the outcome, and in the second regime the best strategy is damage prevention. In the first regime, responsibility is attributed to the person who created the damage. The connection is made by a causal link between the decision-maker and the result, and thus responsibility is linked to the choice (if the government makes the choice, the responsibility lies at its feet). The division of responsibility obligates the agent to perform future tasks and obligations according to past actions.

The second regime of responsibility proposes separating the damage from the future task. Goodin [1998], suggests an approach that examines who can restore the situation most effectively. According to Goodin, it may be that the responsible party for the situation in the first place is someone who can restore the situation to its previous state in the most efficient manner, however, this may be unnecessary because sometimes government officials can alleviate the suffering and improve the situation while wasting less resources.

3. Housing needs, choice, and responsibility

3.1. Housing needs

To explain the need on the housing market of Israel, the discussion is divided into two aspects: the private housing market and the public housing market. Economic motives of households typically encourage trade on the free, private market. Apartment owners and buyers are actively looking for housing solutions that suit their financial capabilities. However, on the public housing market, social motives are high priority. Consequently, the state's policy implies that in case of a specific need, it is not appropriate for the landlord to prioritize his or her private profit at the expense of the tenants' interests [Resident's rights law, 1972].

In the first period since the establishment of the State of Israel, housing needs were significantly different from those of the second period between 1990 and 2017. During the first period, the private housing market in Israel was operating according to the normative need. The standard was poorly constructed buildings which provided minimum conditions for tenants, such as dwellings of small sizes, without heating or cooling, and proper facilities [Ginur, 1968]. Furthermore, some immigrants lived in temporary housing with outdoor facilities. Since most immigrants arrived without their belongings, the State had to provide basic equipment such as plain mattresses, iron beds and blankets, ovens for cooking and more. Israel, as a young country was undeveloped in terms of assimilation, institutions and the economy.

In the second period which began in the early 1990s, the normative needs in Israel changed considerably. On the private market, the average size of an apartment was 180 square meters, with a higher standard of construction. The new apartments incorporated heating and cooling systems, and individual households were able to choose where to live according to their financial status [BOI Research report, 2004].

Concurrently, on the public market there has been a fundamental change in housing requirements due to the explicit need of households. The state relocated the entire population living in the „Ma'abarot" (temporary huts) into apartments with reasonable standards, while offering appropriate infrastructure for each apartment and matching the number of persons to the size of the apartment. Furthermore, the State allowed a choice between two alternative apartments, and a third alternative lined up, if necessary. However, in the past two decades, the government of Israel has reduced

its involvement on the public housing market significantly and focused on assisting the weak population through participation in rent according to the economic criteria of each family. Families in need could choose where to rent an apartment within the private market.

Israel was established from the memory of the holocaust and the emotional sentiment that Israel is the only Jewish state. For Jews returning to their ancestral land after two thousand years of exile, there is an emotional need to own a property in the so-called Holy Land. Even if housing conditions do not meet their needs, this emotional dimension provides a significant motive.

On another notion, the government policy to enable free choice in public housing for those in need is aimed at creating a sense of social equality and preventing negative stigmatization. For example, in the mid-1990s after the enactment of the Basic Law: Human Dignity and Liberty 1992, the Supreme Court of Israel took a comparative look at the law and anchored the right to a shelter as a fundamental right to which all citizens are entitled. The lack of a shelter is a violation of the individual dignity, „A person without basic housing is a person whose human dignity has been violated" „[LCA 4905/98 Yossi Gamzu v. Naama Yeshayahu, given on March 19, 2001].

3.2. Choice

The possibility of choice morally connects to the idea of autonomy, freedom and responsibility [King, 2003]. In a capitalist society, we celebrate the individual's freedom to choose how to shape his or her life. Free choice can empower households and enable them to meet their specific needs. The right to choose implies that households can choose between different alternatives and can explain the reasons for choosing one option at the expense of another. Households make their decisions and choices in relation to the amount of information available to them; without this information it is not possible to make rational decisions.

Today, there are a variety of choices within the private market in Israel, from the place of residence to the unique characteristics of housing, on the buyers' market and renters market alike. Nonetheless, high prices pose the biggest limitation on choice, though infrastructure allows mobility both in the location and quality of housing. On the public housing market, the choice is restricted. For example, the State of Israel allows households entitled to public housing to choose between two options and a third possibility is given to the Population Ad-

ministration.

Since 1999, the government has limited its involvement on the private market in general and on the public market, in the light of the privatization policy adopted by the Israeli government, which believed that the free market would function more efficiently. On the public market, the government of Israel stopped building new apartments. Moreover, the state sold the existing apartments in the public housing stock at very discounted prices („liquidation sale”), despite the fact that, according to the Public Housing Law (Acquisition Rights) the government is supposed to set up a fund to be managed by the Ministry of Construction, and the proceeds of the sale should be transferred to the construction of new public apartments. While public housing in Israel has shrunk, the opposite trend has taken place in the OECD countries and resources have been allocated to increase the supply of public housing. Control of the housing market can be in the hands of the state or the households. When the control is transferred to the citizens (who are the direct beneficiaries of housing), they can plan and obtain quality housing. The more households can invest in housing, the more options they have for housing, and the possibility of preferring certain types of apartments at the expense of other apartments. Accordingly, the Israeli government launched the „Price Per Occupant” initiative (“Me’chir La’Mishtaken”) - young couples are entitled to a discount and obtain a choice for good quality housing at affordable price in many cities. Eligible couples can apply for as many cities as they like, and thus control their future place of residence if they win the raffle.

Another instrument that enables households to make effective choices is access to information mainly through information available to government officials. The housing market consists of sellers and buyers. The group of sellers usually has more knowledge of the nature of the market, and the true value of the sale. When buyers obtain reliable information regarding the apartment relative to other apartments on the market, they can make better decisions that will benefit them in the long run. For example, in Israel, it is possible to apply to the Israel Land Administration and pay only a nominal fee for documentation of activities carried out within specific land. Access to information enables households to control the negotiations with the sellers and to better assess their needs. Another issue of significance is access to legal advice and legal proceedings. The gap between the seller and the buyer is reduced when households gain legal advice. In 2011 there was

a mass demonstration in Israel, and over half a million people went out to the streets to protest about the high cost of housing and renting. The owners of apartments, who typically own multiple apartments, raised the rent significantly after the 2008 subprime crisis. The protest aimed to encourage transparency and improve the information flow between landlords and tenants.

When considering the right of choice in the broad sense one should also examine the right to freedom, autonomy and even the responsibility linked to choice. Additionally, we must consider external constraints that affect the manner of selection. Even if these restrictions allow only a partial solution to the problem in relation to the order of subjective preferences of the recipient of the right to choose. Since the choice is between a limited number of options, the selection cannot be defined as a circumvention of market preferences. Rational households must compromise on the characteristics of apartment size, quality of construction, design and others.

3.3. Responsibility

In order to examine how Israel’s responsibility policy is affected, attention is drawn to the problem of homelessness in Israel, as this issue provides an insight into how the government addresses responsibility which is directly linked to the choice of individuals. In Israel today, more than a quarter percent of Israel’s population (some 21,000 citizens) live without shelter, in abandoned buildings, on benches in public gardens and in stairwells. What is the policy of the government? Are the dimensions of the phenomenon known to institutions and government agencies? Is it possible to eliminate homelessness? How does the phenomenon correlate with the basic and legal right to adequate housing?

At the beginning of the 21st century, there was an agreement among leading researchers that the cause of homelessness is a combination of two reasons – structural and personal [Main, 1998]. Accordingly, a review of the policy on homelessness may discern two main issues: social exclusion and response to the housing needs of the homeless. Most countries struggle to eradicate or reduce the phenomenon while putting an emphasis on prevention, early intervention, emergency intervention and strategies for long-term support. In Israel, following the 1996 legislation, the government allocated financial resources to the Ministry of Social Affairs and municipal authorities, specifically for

citizens who did not live in proper housing. As part of the implementation of the government policy, shelters were established, which provided housing, food and professional assistance. The risk of such an approach is that by not imposing responsibility, it can lead households to unwanted outcomes. A person who knows that there is no effect on his or her behaviour can act lightly and not take reasonable measures to avoid the risk. In the early years of the State, the level of public housing deteriorated because the tenants had no reason to invest in property and left the maintenance to state representatives.

4. Results and Discussion

The deliberate policy of the Israeli government to reduce its involvement in public housing led to increased gaps between the low supply and high demand. Privatization of public housing on the part of the government was reflected, inter alia, in stopping new public housing constructions. Expanding the number of people who own their apartments was perceived as a step to reduce social gaps and instil more equality in the Israeli society.

However, Israel's housing policy has led to the sale of public housing and the cessation of public construction. As a result, the number of public housing apartments shrank significantly. During the first two decades of the establishment of the State of Israel public housing accounted for 23% (206 thousand apartments), whereas at the beginning of 2006 public housing accounted for only about 2% (76 thousand apartments) [Feldman, 2011]. At the same time, however, the government adopted a policy of subsidizing rent on the free market to low-income population that could not afford to pay the rent. In this sense, the government furthered the freedom of choice in respect of where households choose to live.

Housing is expensive, yet owning a house is essential and very important to every person. The right to adequate housing is one of the uni-

versal and fundamental human rights and is recognized both in the international law and the Israeli law. The State of Israel adopted and ratified the Universal Declaration of Human Rights [Universal Declaration of Human Rights, 1948], Article 25, according to which, every person, citizen has the right to adequate and affordable housing, and the obligation of the State is to ensure the fulfilment of the basic rights, i.e. infrastructure, welfare, security, education, health, funded by the taxpayer. The government directs the budgets to meet the residents' needs in the most appropriate and efficient manner, because if it were not for the state, some of the needs would not exist [King, 2005].

In the author's opinion, the Israeli government should redefine the concept of need, limit government spending and redirect existing resources to support a responsible regime that helps the disadvantaged. The state should ensure a better distribution of the population geographically, as was the case in the early years (the 1950s), alongside the improvement of infrastructure for employment and equality. Moreover, the government should adopt a responsible and proactive approach to the public housing market, ensure sufficient quality of construction and the fulfilment of tenants' needs, while expanding the freedom of choice. Regarding the homelessness, the government should work together with the municipal authorities to take responsibility and address the problem to its fullest extent. Permanent housing solutions for the homeless and/or management of public shelters should be provided.

Finally, the government should maintain the separation between the private market and the public market. To ensure that the government does not interfere with the economic motives of the free market and upholds individual freedoms, the free market requires responsibility. On the other hand, the public market that follows social motives forces the government to resume more responsibility.

References

- Basic Law: *Human Dignity and Liberty*, 1992.
- Bradshaw, J., 1972, Taxonomy of social need. In: McLachlan, Gordon, (Ed.) *Problems and progress in medical care: essays on current research. 7th series.* (71-82.). London: Oxford University Press.
- Brown, T., King, P., 2005, The power to choose: effective choice and housing policy. *European Journal of Housing Policy*, 5(1), 59-97.
- Czeczterda, W., 1974, Indywidualne potrzeby mieszkaniowe oraz potrzeby specjalnych grup ludności. *Studia Infrastruktura mieszkaniowa i jej zróżnicowanie regionalne 1970-2000*, XLVIII, 121-131.
- Elster, J., 1986, *Rational choice*, New York: University Press.
- Feldman, I., 2011, Changes in Public Housing. Kahat Research and Information Center.
- Ginur, F., 1968, Twenty Years of Israel's Economy. *The Economic Quarterly*.
- Godin, R., 1998, Social Welfare as a Collective Social Responsibility, in Schmidtz, D., Goodin, R., *Social Welfare and Individual Responsibility*, Cambridge: Cambridge University Press, 97-195.
- King, P., 2003, *A Social Philosophy of Housing*. Aldershot, Hampshire: Ashgate Publishing.
- King, P., 2009, *Understanding Housing Finance*. London and New York: Routledge Taylor & Francis Group.
- Krzczkowski, K., 1939, *Kwestia mieszkaniowa w miastach polskich*. Warszawa: Związek Miast Polskich.
- LCA 4905/98 Yossi Gamzu v. Naama Yeshayahu, given on March 19, 2001.
- Main, T., 1998, *How to Think About Homelessness: Balancing Structural and Individual Causes*, Journal of Social Distress and the Homeless, Vol. 7, No. 1.
- Moulder, C., 1996, Housing choice: Assumptions and approaches. *Netherlands Journal of Housing and the Built Environment*, 11(3), 209-232.
- Public Housing Law (Acquisition rights), 1998.
- Research department, *Yearly Report 2004*, Bank of Israel.
- Resident's rights law, 1972.
- Robinson, R., 1979, *Housing Economics and Public Policy*. Basingstoke: Macmillan.
- UN General Assembly, 1948, *Universal declaration of human rights*, Article 25.

