

# **Housing policies in alternative economy: Against the commodification of public services**

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This publication is an outcome of a seminar, non-periodical and sponsored by the Rosa Luxemburg Stiftung with funds of the Federal Ministry for Economic Cooperation and Development of the Federal Republic of Germany”. The content of this publication is the sole responsibility of the author and does not necessarily reflect a position of AFA or RLS.

**Publishers:**  
**Arab Forum for Alternatives and Rosa Luxemburg  
Foundation**



منتدى البديل العربي للدراسات  
Arab Forum for Alternatives



مكتب شمال إفريقيا  
North Africa Office

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**Registration No: 18618 / 2012**

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## **Introduction:**

Housing policies in any given state are inseparable from the economic model adopted by this state and which usually ranges between dealing with housing as a right or as a commodity. The latter violates the social and economic right to adequate housing and shelter as stated in international charters and turns the housing sector into a business that only prioritizes profit and overlooks people's ability at affording the commodities it offers. The liberalization of the housing market gave rise to a number of serious problems, on top of which is the phenomenon of "informal housing" where units are constructed randomly and in many cases lack the basic requirements of adequate housing such as utilities and public transportation. The ramifications of this problem led to the emergence of a number of initiatives, both in the Arab region and worldwide, that aimed at proposing alternative housing models.

This paper examines the foundations of housing policies in an alternative economy. This will be done through tackling the following points:

- Analyzing the drawbacks of the capitalist system with special emphasis on their impact on housing policies
- Looking into initiatives that attempted to overcome the drawbacks of the capitalist system in the housing sector such as

social housing and housing cooperatives

- How these initiatives can inspire the foundations of housing policies in an alternative economy in which housing is a right not a commodity with special emphasis on types of lease and ownership, regulating the real estate market, the role of the state in providing adequate housing, and alternative management and funding

## **First:**

### **Capitalism and housing policies:**

The capitalist system deals with housing as a commodity, hence all rules pertaining to commodities apply to it. However, housing in particular occupies a special place in any capitalist society since it is one of the sectors the dominant economic system takes advantage of to make profit at the expense of the people<sup>1</sup>.

In his book *Rebel Cities*, David Harvey attempts to trace the capitalist origins of the housing problem in the United States<sup>2</sup>. Global capitalism had already been facing a number of crises worldwide such as South and

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<sup>1</sup> Simon Clarke and Norman Ginsburg. "The Political Economy of Housing." University of Warwick, December 2010:  
<https://goo.gl/w5cpCe>

<sup>2</sup> David Harvey. *Rebel Cities*. London and New York: Verso Books, 2012. p. 9.

Southeast Asia in 1997-1998, Russia in 1998, and Argentina in 2001 to cite a few examples, then the 2008 global financial crisis took place. Before 2008, the real estate market was a major stabilizer of American economy especially after it took in large amounts of surplus capital directly through new construction projects whether inside the cities or in emerging suburbs. The rapid inflation of housing asset prices together with lowest rates of mortgage refinancing led to boosting the internal American market for both consumer goods and services. The global market was relatively stabilized through urban expansion in the United States as well as speculation in property markets. The boom in property markets in Britain, Ireland, and Spain among others helped in consolidating the power of capitalism. This was also demonstrated in the urbanization of China where developments yielded enormous profits following the 1997 short-term recession. More than 100 cities exceeded the one million population in the past twenty years while several small villages and industrial cities turned into large metropolises with a population of 6-10 million each. Infrastructure megaprojects such as dams and highways, which were all debt-financed, started transforming the landscape. Gradually, natural areas in China seemed like dots in the middle of large shopping malls, parks, airports, resorts, gated communities, golf courses, and

overcrowded urban centers. In order to make up for migrating labor, laborers had to be brought in from impoverished rural areas. This urbanization process led to a huge absorption of surplus capital as almost each city in the world witnessed a property market boom that benefited the rich<sup>3</sup>.

Because of lack of regulations for risk assessment, the property market spiraled out of control and even though the crisis mainly took place in American cities, it could also be seen in the UK. The crises had a negative impact on low-income citizens in small cities and those who could not afford paying for houses in major urban centers. This crisis not only had a negative impact on urban life and infrastructure but threatened the entire financial system and brought about a major recession<sup>4</sup>.

For Harvey, the crises was the logical outcome of what happened in the mid-1980s. At that time, the neoliberal urban policy that was, for example, implemented in the European Union started seeing no point in redistributing wealth to disenfranchised neighborhoods and cities and instead preferred investing in “entrepreneurial growth poles.” This necessitated the liberalization of property markets to achieve high growth rates, yet citizens’ right to adequate housing was overlooked and so were environmental considerations. The deregulation of financial systems in the second

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<sup>3</sup> Ibid, p. 11.

<sup>4</sup> Ibid, p. 13.

half of the 1980s led to the rapid expansion of market-based financing of housing and mortgage markets became equivalent to 40% of gross domestic product in developed countries, but the percentage was much less in developing countries as it did not exceed 10%<sup>5</sup>.

Harvey argues that urbanization has only been a means of absorbing surplus labor and capital throughout the history of capitalism. This means that urbanization is a result of the accumulation of capital and this is when the development of cities becomes one the ways through which this capital can be channeled. The radical changes caused by urbanization made adequate housing a commodity that is only available for those who pay<sup>6</sup>.

Since the financial crisis, housing prices in most major cities across the world started soaring, which affected the standard of living of a large number of citizens and paved the way for a global housing crisis. In fact, the Swiss UBS bank announced that property prices around the world are exaggerated. For example, average rent in the United States rose by 7% between 2001 and 2014 according to the Joint Center for Housing Studies at Harvard University. During the same

period, the average family income dropped by 9%<sup>7</sup>.

The Arab region was not an exception since governments there also adopted neoliberal policies and reform programs under the supervision of international financial institutions such as the World Bank and the International Monetary Fund. These policies created a housing crisis in the entire region as houses started losing all the conditions for the adequate shelter<sup>8</sup>. A discrepancy was created between what citizens need and what the markets offer since housing became treated as a commodity and more emphasis was placed on the construction of upscale neighborhoods and gated communities while low and medium income citizens were overlooked where there is a shortage of around 3.5 million units in the Middle East and North Africa<sup>9</sup>.

For example, in Tunisia the state was the main player in the housing sector until the early 1990s. This was done through the Société Nationale Immobilière de Tunisie (National Housing Society of Tunisia) and Société de Promotion des Logements

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<sup>7</sup> Gabriel Black. "Financial Parasitism and the Global Housing Crisis." *World Socialist Website*, May 31, 2016: <https://goo.gl/LBNP1E>

<sup>8</sup> For more on the characteristics of adequate housing see: <https://goo.gl/aPAs66>

<sup>9</sup> "The Affordable Housing Challenge." *Middle East Online*, March 2012, <https://goo.gl/yiEwQV>

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<sup>5</sup> *Ibid*, p. 29.

<sup>6</sup> *Ibid*, p.42.

Sociaux (The Society for the Development of Social Housing). This role started diminishing in 1974 after drafting a set of laws and legislations that opened the door for the private sector to invest in the sale and construction of houses<sup>10</sup>. In the 1980s, several procedures were taken to diversify types of housing production, especially to include the private sector, and development started for lands and sites on which housing units were to be constructed. In 1986, the Tunisian government started adopting structural reform policies that aim at reducing the role of the state and increasing that of the private sector. Tunisia released the first housing policy document in 1988 and in 1989 the Caisse Nationale d'Epargne Logement (National Housing Fund) turned into Banque de l'Habitat (Housing Bank) that was partially privatized. The private sector was seen at the time as the only way to construct low-cost housing unit. Since the 1990s, the private sector has been playing a major role in providing low-budget housing under a number of laws and procedures that facilitate such role<sup>11</sup>.

Yet private investment in the housing sector expanded

remarkably since 1990 after the liberalization of economy as part of the structural reform program and the international agreements associated with it. The local private sector was faced with a fierce competition it could not handle, hence decided to abandon competitive sectors for those that rely on speculation and in which profit was more guaranteed. The housing sector belonged to the second category. This shift was specifically demonstrated in Tunisia in 1990 when the private sector was given a series of privileges especially in relation to registration rights, tax exemptions, and housing loans. Such new procedures were in the best interest of the banking sector that took advantage of the growing demand on housing loans to make up for its losses after investment in other sectors started receding. The housing sector became open for speculation, which was demonstrated in the rapid price hikes. That is why the crises in Tunisia is not linked to the absence of housing units. In fact, there is an abundance in unsold housing units estimated at 24,000 in Greater Tunis only. The crises is rather the result of the imbalance between the prices of housing units and the purchasing power of the middle class that even bank loans became incapable of bridging this gap<sup>12</sup>.

The situation is not that different in Egypt where successive governments since the late 1970s saw the new urban communities

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<sup>10</sup> Mohammed Samih Beji Okkez. "The First Housing Program: Solving the Housing Crisis or Saving Speculators? [Arabic]." *Nawaat*, Feb 10, 2017: <https://goo.gl/lpFLOM>

<sup>11</sup> David Sims. "Tunisia Housing Profile." *UN Habitat*: <https://goo.gl/6HDLFP>, p.13.

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<sup>12</sup> Ibid.

as the solution to all Egypt's housing problems. In this regard, three main policies took hold: first, that the real estate and construction sectors can play a role in economic growth; second, that land sales will end budget deficit; third, that new urban projects will solve the country's housing crisis. In the early 1990s, the phenomenon of informal housing started growing despite the construction of new urban communities and despite the efforts exerted by the state to curb the expansion of slum areas. This demonstrates the government's inability to cater to the needs of low-income classes. However, the government still saw that lands, being the most abundant resources in Egypt, can be crucial in dealing with budget deficits and increasing public resources<sup>13</sup>.

Absence of regulations is another problem in the Egyptian housing market. That is why the increase in land and property prices exceeds that of income. For example, throughout the past eight years, prices of houses rose by 19.6% annually while the average income rose only by 5.4% for the same period. Average rents also exceed what the majority can afford so that 59.4% of Egyptian families have to pay more than 25% of their monthly income to rent an average apartment (around 800 Egyptian pounds) while 49.2% of

Egyptian families are incapable of buying medium-priced apartments (around 225,000 Egyptian pounds) because they are more than 6.6 times their annual income<sup>14</sup>.

A number of factors led to lack of regulations in the property market in Egypt, on top of which is the fact that the Egyptian state is the main landowner in the country through a number of state-owned agencies that want to maximize their profit from selling those lands. For example, the New Urban Communities Authority, affiliated to the Ministry of Housing, manages around one million acres of land allocated to urban development. When cabinet decree number 35 for the year 2007 lifted all restrictions on foreign corporates and individuals that buy property in Egypt, prices increased by 116% in the new urban communities built in suburban Cairo and run by the authority, the same lands where most speculation activities and speculative trading take place<sup>15</sup>.

## **Second:**

### **Alternative experiences:**

In response to problems triggered by housing policies under the dominant capitalist system, several initiatives, whether on the

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<sup>13</sup> "New Cities in Egypt: Modest Impact and Nonexistent Justice [Arabic]." *Tadamun Initiative*, May 6, 2016: <https://goo.gl/Wl9y2F>

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<sup>14</sup> "Affording Housing Prices [Arabic]." *10Tooba*:

<https://goo.gl/QqM364>

<sup>15</sup> Yehia Shawkat. "The Unregulated Real Estate Market in Egypt [Arabic]." June 1, 2015:

<http://goo.gl/xGQFu5>

level of governments or individuals, attempted to offer alternative model that turn housing from a commodity to a right to which all citizens are entitled. Below are examples of such initiatives.

#### Social housing:

The definition of social housing depending on a number of factors. These include the owner of housing units such as non-profit organizations and local authorities (Netherlands and Sweden), the entity in charge of construction (Austria and France), rent prices and how affordable they are compared to the market (UK and Ireland), the type of funding (France and Germany), and most important of all, the purpose of making this type of housing available. In some countries, social housing is officially available to all families (Austria and Sweden), but in most countries it targets those who cannot afford housing prices (the Netherlands and the UK)<sup>16</sup>.

In Denmark, social housing is comprised of units offered for rent at cost price and are owned by non-profit housing organizations. These organizations are semi-autonomous and are funded and regulated by the state, yet owned

and run by their own members. The contribution of the tenant is one of the most important principles upon which the social housing model in Denmark is based and which is stated in the 1984 tenants' law. This law guaranteed that all Danish citizens have access to housing as part of an initiative that started in the country in 1970 and aimed at focusing on the right to adequate shelter among the marginalized and the impoverished. Social housing constitutes around 20% of houses in Denmark and it depends in its funding on mortgage, which constitutes 88%, while municipalities pay 10% of the cost in the form of loans without interest and the remaining 2% are covered by tenants' deposits<sup>17</sup>.

The social housing law was later modified so that funding now depends on the National Building Fund for Social Housing. The fund does not have large reserves and took out loans based on income forecasts. The minister of housing and urban and rural affairs determines at the end of each year the type of loan to be used in the following year. The fund acts like a safety network because when there is too much pressure on the municipalities, the fund intervenes to solve the problem. Also, since the houses are rented at cost price, this means that prices are not determined by

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<sup>16</sup> Christine Whitehead and Kathleen Scanlon, *Social housing in Europe*. London: London School of Economics and Political Science, July 2007. Eds. K. Scanlon, C. Whitehead and M. F. Arrigoitia. John Wiley & Sons, Ltd, Chichester, UK , 2014. pp. 8-9: <https://goo.gl/2KLhWD>

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<sup>17</sup>H. Vestergaard, and K. Scanlon. "Social Housing in Denmark." in *Social Housing in Europe*: <https://goo.gl/HFaOW5>. pp. 77-88.

the market and are independent from it<sup>18</sup>.

In France, the number of social housing units is estimated at 4.5 million out of a total of 33 million. Social housing started in France in the 1960s. Since that time, there have been three types of social housing, each targeting a different income level. Two entities own and are in charge of administering social housing in France: first, public agencies headed by representatives of local authorities and social housing companies (limited liability companies); second, private non-profit social providers. Funding and management rules in the two are quite similar. Public agencies can follow public or private accountancy rules while private companies have to include in their boards of trustees representatives from municipal authorities and tenants' associations. The monitoring of social housing is divided between the central government and local authorities<sup>19</sup>.

The decentralization of the housing sector, which started in the past twenty years, increased the role of local authorities while the central government continued to determine the citizens' housing needs, approve projects, and decide on subsidies and long-term loans. Local authorities, on the other hand, supervise the owners

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<sup>18</sup>Ibid.

<sup>19</sup>C. Lévy-Vroelant, J.Pierre Schaefer and C. Tutin. "Social Housing in France." in *Social Housing in Europe*: <https://goo.gl/HFaOW5>. pp. 123-142.

of social housing, take part in funding social housing programs, and handle urban planning. Social housing is funded with local market price, hence is not subject to the fluctuations of the global financial markets. Rents are determined based on the original construction cost and the way the building was financed<sup>20</sup>.

Social housing experiences might not offer radical alternatives in terms of funding or types of ownership, but they do offer an alternative as far as management is concerned, which becomes clear on the cases of Denmark and France. Also, those experiences highlight the role local authorities can play not only in providing housing needs for citizens, but also in regulating rents and housing markets.

#### Housing cooperatives:

Housing cooperatives offer an alternative bottom-top model for urbanization. While housing cooperatives basically aim at solving housing problems, they are also considered a means of achieving local economic development<sup>21</sup>. Housing cooperatives also offer residents a number of privileges such as security since they are co-owners, which gives them the right to live there forever and landlords cannot

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<sup>20</sup>Ibid.

<sup>21</sup>Jon Dawson. "Housing Cooperatives: From Housing Improvement to Economic Regeneration?" *The Journal of the Local Economy Policy Unit*. Volume 6, May 1, 1991, pp. 48-49.

force them out. Residents of housing cooperatives are also capable of solving problems related to maintenance of the buildings in which they live and the use of public space, which creates an atmosphere of social solidarity and communal sustainability<sup>22</sup>.

The housing cooperatives system depends on individuals who do not own enough capital to buy housing units with the market price or to pay rent, so each of them pays an amount he/she can afford and the total is used to build or buy houses. Members of the cooperative get a share of the capital based on the amount they initially paid and get a share in the profit on the same basis. The housing cooperatives system also offers the option of leasing units within the cooperative under flexible terms<sup>23</sup>. There are three main types of ownership in housing cooperatives across the world: rent, co-ownership, and ownership at market price. Housing cooperatives differ according to the types of buildings they own and manage and use different financial mechanisms that are not separated from the economic and political

context in which they were established<sup>24</sup>.

It is noteworthy that in countries like Uruguay, Sweden, and the Philippines, government programs help local communities in purchasing, developing, and managing lands for cooperative housing. Since 1968, Uruguay has had a cooperatives legislation and is now home to 600 housing cooperatives inhabited by around 20,000 families. The fact that those families take part in building and managing those housing units creates a democratic atmosphere that is at the core of housing cooperatives<sup>25</sup>.

In Sweden, housing cooperatives constitute 22% of the total housing units. Housing cooperatives started in Sweden in the early 1920s in response to housing shortage and property speculations, which resembled to a great extent the circumstances that eventually lead to the 2008 global financial crisis.

In 1923, the Tenants' Association established the national union HSB Riksförbund to enhance the role of the housing cooperatives sector and offer advice to political entities to develop this sector. The union mainly aimed at providing

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<sup>22</sup> "Profiles of a Movement: Co-operative Housing Around the World" (Published by CECODHAS Housing Europe and ICA Housing, April 2012), p. 7.

<sup>23</sup> "On Housing Cooperatives [Arabic].": <https://goo.gl/4f7nXS>

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<sup>24</sup> "Profiles of a Movement: Co-operative Housing around the World." p.91.

<sup>25</sup> "Report of the Special Rapporteur on adequate housing as a component of the right to an adequate standard of living, and on the right to non-discrimination in this context." Raquel Rolnik, December 2011: <https://goo.gl/aS01RP>

all citizens with adequate housing as well as the ability to control their housing situation. This resulted in the development of a new ownership and renting system in which large housing cooperatives construct and sell housing units to small housing cooperatives. According to this system, local authorities play a major role in coordinating between large and small cooperatives.

Housing cooperatives in Sweden are represented by two associations: HSB and Riksbyggen. HSB is comprised of 3,388 housing cooperatives while Riksbyggen, which is owned by construction workers trade unions and other national cooperatives, is comprised of 1,700 housing cooperatives.

Housing cooperatives own both buildings and lands and tenants have to be members in the cooperative. Members buy shares that give them unlimited ownership and occupancy rights provided that they fulfill their membership commitments. Those shares are sold at market prices. The two associations have the right to sell or rent units that remain uncopied. Members pay monthly fees that cover the interests of the loans taken out by the cooperative and the rest is deposited in a fund that is used for the regular of maintenance of buildings. Monthly fees are calculated based on the number of units each member occupies. It is noteworthy that those cooperatives do not receive financial assistance from the state

since members of the cooperatives pay 75-80% of the fund and the rest is covered by cooperative and private financial associations<sup>26</sup>.

Through the above-mentioned analysis, it is possible to identify the main characteristics of housing cooperatives and which enable them to offer an alternative approach to the housing sector.

1- Affordability: The main purpose of establishing housing cooperatives is making it possible for citizens to afford paying rent or buying a house, so that priority is no longer given to the profit an external party would make.

2- Adequate shelter: Cooperatives provide housing for members who also become owners of housing units.

3- Security: Occupants of housing units are no longer threatened by being forced out of their houses because of market fluctuations.

4- Transparency and participatory management: Members of the cooperative all take part in the decision-making process and elected leaders submit regular reports to members. All major decisions have to be approved by all members.

5- Commitment to the social cause: Cooperatives serve the community as a whole and raise awareness among their members on the needs of their

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<sup>26</sup> "Profiles of a Movement: Co-operative Housing Around the World." pp. 70-72.

communities, which makes working on other social projects and cooperation with local authorities much easier<sup>27</sup>.

### **Third: proposals for housing policies in alternative economy:**

The afore-mentioned experiences highlighted the foundations upon which housing policies in an alternative economy should be based. These include, first and foremost, dealing with housing as a right not a commodity that is subjected to market mechanisms. In addition, it is important in this model for the decision-making process to be participatory so that citizens are involved in the decisions that affect their communities. Housing policies need to be handled on the level of local authorities and this is where decentralization is crucial. Autonomy is also an important factor since successful experiences all share an ability to be independent from the state. In fact, the state is to support laws and legislations that support the establishment and expansion of cooperatives and social housing projects, and not impose restrictions on them as is the case in several countries in the Arab region such as Egypt. Through successful experiences, it is also possible to underline the three main factors that constitute the

core of housing policies in an alternative economy.

#### **1- Funding:**

Housing in alternative economy depends on different sources of funding, which guarantees its independence from market control and makes it affordable for citizens. In housing cooperatives, funding can depend on the contributions of individuals while in social housing it depends on local sources or on the allocation of housing funds by local authorities. Construction material also constitute an important factor because not only are they are affordable, but they are also environment-friendly which in itself helps making them independent from the dominance of global markets and guarantees sustainability<sup>28</sup>.

#### **2- Management:**

Decentralization is an important factor in housing policies in an alternative economy and that is why local authorities play a major role in providing social housing as well as in regulating the market. Cooperatives also offer a different form of management which is participatory management since all decisions need to be approved by members of the cooperatives which are independent from property markets that only prioritize profit.

#### **3- Ownership:**

Cooperatives offer an alternative ownership model in which housing units are communally

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<sup>27</sup> Ibid, p.91.

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<sup>28</sup> The Geneva UN Charter on Sustainable Housing:  
<https://goo.gl/H95CNs>

owned. This type of ownership does not target profit but rather prioritizes making housing available for citizens as a means of facing property corporates that empower private ownership of housing units for the purpose of maximizing profits.

### **Conclusion:**

Several conditions need to be met before reaching the required form of housing in an alternative economy. Some of these conditions are linked to the context, which means that those policies need to be designed based on the belief that all citizens have the right to adequate housing not that housing is a business that yields profit. It is also important to realize the role played by

decentralization as local authorities start playing a role not only in drafting those policies, but also in implementing them in their respective communities. Such authorities have to be supported by the state that in turn needs to promote legislations that facilitate the work of housing projects founded on alternative policies. The state is also expected to regulate real estate markets whether through its central or local institutions so that subordination to the fluctuations of global markets starts gradually diminishing. A radical change to the mechanism of the decision-making process is necessary through the introduction of participatory management in which all parties involved take part in making decisions on matters affecting them