Welfare States, Housing Markets and Millennials: Inhibited Transitions into Adulthood

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Introduction

Why has 'adulting' – attaining traditional life-cycle milestones such as exit from the parental home, partnering, and parenting – recently become so hard for the millennial[i] cohort to attain in high-income OECD countries? Changes to housing and housing policy are a central but often neglected component in answering this question. The intensification of privatization, commodification, and financialization of housing in recent decades reflect shifts in welfare states away from policies that enabled previous adult cohorts to meet life-cycle milestones, and towards policies that now undermine contemporary young adults in reaching those milestones. The popular label 'Generation Rent', mentioned throughout this book, captures this general trend across higher-income OECD countries. In response, families in various contexts have increasingly mobilized themselves around the accumulation and circulation of housing property as they seek to reach those milestones while protecting themselves from new social and economic uncertainties. Differences in personal and family resources across the millennial generation, however, produce considerable internal heterogeneity within that cohort. Indeed, not all millennials fall into Generation Rent.

In this chapter we address the common housing market trends across OECD countries[ii] that stem from changes in welfare state polices, arguing that these developments account for much of the difficulties facing the millennial cohort. Housing is a central social structure regulating people's

ability to attain traditional milestones. Yet, with some exceptions, welfare state research tends to underemphasize housing as an issue. Some writing side-lines housing, some looks at 'compensatory' housing policy that remediates problems faced by the homeless or low-income households, and some looks at the political consequences of owning versus renting. By contrast, we look at how welfare state policy concerning housing either enables or disables young people's ability to reach life-cycle milestones.

Obviously, weak labour markets in the decade following the Global Financial Crisis have combined with changing social norms (Arnett, 2007) to delay exit from the parental household (Lennartz et al., 2016), and in turn delay subsequent partnering and parenting. But changes in social norms are not entirely exogenous. They also reflect adaptation to economic realities like the shape of labour markets, which determines millennials' income and thus demand for housing, and, on the supply side, the cost of the major items of consumption enabling emancipation (leaving the parental home) and partnering. Of those items, housing is not only the single largest expense but also the one that most obviously bears on the ability to transition through key life-course stages and form new families.

Put simply, from the 1990s forward, welfare state housing policy in particular, and state social policy in general, became a disabling force, inhibiting easy exit from the parental home. States have largely been passive about the effects of rising income inequality on millennials' ability to afford independent housing. Meanwhile, states have actively tried to privatize or individuate risk. This has varied across countries but has taken three overlapping forms. Firstly, states promoted 'asset-based welfare', in which households resort first to their own financial savings or substitute those savings for formal state welfare programs. Inevitably, this means using home equity, usually the households' greatest asset, as a financial buffer. Second, governments in many countries sold-off or marketized public and social housing. Finally, EU regulations on subsidies have exposed social housing associations to open financial markets. All these factors worsened the price and supply of housing for new entrants. Millennials (and their extended families) have responded to the diminishing efficacy of the welfare state as an enabling force by delaying exit into adulthood or forming non-traditional households.

That said, different families have brought different resources to the table. Flynn and Schwartz (2017) document eight ideal-typical situations produced by the combination of a millennial's own

income, the parental resources available to them, and whether or not that millennial has exited the parental home. For example, millennials with high wage jobs and parents who can help with a down payment (i.e. purchase money) obviously have an easier time getting into homeownership and forming a family household. On the other side, millennials in part-time low wage employment, with below average income parents are likely to remain living at home (see also Arundel and Ronald, 2016). Overall, Flynn and Schwartz document delayed exit and falling homeownership rates across almost all high-income OECD countries after 1980, as well as a process of 're-familialization' – an increased reliance on family resources rather than the state or market for social protection.

Below, we mobilize more recent data from the Luxembourg Income Study to update and further explore the dynamics uncovered in Flynn and Schwartz (2017). Rowlingson and Overton (2021) provide a qualitative analysis of intergenerational family support for housing in the UK context in this volume, while Druta (2021) also explores the meaning of transfers in different European contexts. This chapter provides a complementary quantitative, comparative approach focused on the role of welfare state changes. It proceeds in five parts. First, we survey the literature on welfare states and housing. Unlike the existing literature, which focuses mostly on social housing and on the political consequences of owner-occupation versus renting, we emphasize the critical role housing plays in both emancipation and subsequent life-cycle transitions. Second, we uncover how previous housing policy enabled easier and earlier transitions into adulthood. Third, we discuss the long-term trend towards delayed and non-traditional exits from the parental home. While the effects of the global financial crisis meant that millennials felt this most strongly, the trend towards delayed adulting originates in the 1990s. The fourth section explains this trend by looking at how the welfare state and housing policies became a disabling force. Financialization and the deregulation of housing finance abetted rapid increases in the costs of both owner-occupation and renting. The conclusion briefly discusses the shift from an enabling to a disabling welfare state, and its implications for households, family formation and society.

Welfare, risk and housing

The Mirrored Literatures of Welfare States and Housing

The welfare state literature largely ignores housing, or fits it into one of two dominant analytic frameworks. Much of the literature deals with either its *compensatory* or *political* effects, or the interaction of the two. The compensatory literature examines how the welfare state remediates life and market risks through various forms of social insurance, social assistance or public provision. This tends to orient the analytic focus on the poor or more broadly the working class as the object of welfare policy. When the compensatory literature does turn towards the broader population, however, it tends to look only at the 'visible' welfare state, that is, tax-funded public transfers and services. The exception to this has been work in the United States (Howard, 1999), and, more recently, Europe (see e.g. Morel et al., 2016; Reisenbichler, 2018), pointing at the importance of 'tax expenditures' as implicit or explicit subsidies for different forms of social protection. Even when these tax expenditures are indirect, they almost always disproportionately subsidize owner-occupied housing.[iii] This typical omission in welfare state literature reinforces the lack of attention on how state policy determines broader housing outcomes.

The political welfare state literature, by contrast, asks how different institutional arrangements strengthen or weaken labour's power in the labour and electoral markets (Esping-Andersen, 1985; Korpi, 2006), or in parallel, the construction of ruling class solidarity (de Swaan, 1988). While some of this literature sees an enduring and primary cleavage between capital and labour, other approaches examine how specific welfare state institutions emerge from sector based, cross-class coalitions (Swenson, 1991), or from demands by non-industrial social classes (Baldwin, 1990). Nonetheless, these also limit their scope to specific slices of the population. One variant in this literature asks how homeownership affected policy preferences (Kemeny 1981), another how electoral outcomes shaped welfare state policy (e.g. Castles, 1982), and a third how welfare state institutions and policies shaped electoral outcomes (Esping-Andersen, 1985; 2002). These approaches neglect 'downstream' policy outcomes that shape people's lives and family relations, as well as how the welfare state fundamentally modifies relative costs across different life-cycle activities and lifestyle opportunities.

Historically, the narrower housing literature has mimicked the larger pattern. Much writing on housing policy has typically looked at compensatory policies, focussing on the problems of low-

income housing or homelessness (e.g. Harloe, 1995). Even the OECD's new affordable housing database – one of two major sources of comprehensive and comparable data on housing policy – has this orientation. While that database defines housing stress as housing costs exceeding 30 percent of household income, the database emphasizes the bottom half of the population. The fact that the social ministries that charge the OECD with research mandates often do not have housing in their portfolio further drives their lack of a housing focus.

The more specific literature on housing and politics also mimics the welfare state literature. Initial debates in the field examined relationships between owner-occupation and the political preferences that shaped the welfare state, with Kemeny (1981; 2005) arguing that owner-occupation has fostered a politics hostile to a universal, tax-financed welfare state. Castles (1998) later narrowed this to specific policy arenas, arguing that homeownership particularly hinders the formation of broad public pensions systems. In the more recent literature, however, many have returned to Kemeny's original argument, with Ansell (2014) and Malpass (2008), for example, arguing that potential capital gains on housing have produced electoral preferences hostile to expansive spending. Langley (2006) likewise argues that owner-occupation has produced a more general shift towards individualistic mentalities.

From the mid-1990s onwards, and with increasing intensity following the early 2000s property boom, welfare states and housing have interacted in new ways. States increasingly promoted 'asset-based welfare', with housing as a possible source of self-insurance that might supplement or replace traditional welfare state transfers (Doling and Ronald, 2010; Delfani, DeDeken and Dewilde, 2014). The housing crash subsequently dampened that particular fantasy. Delfani, DeDeken, and Dewilde (2014) argue most mortgage markets are illiquid, making it difficult if not impossible to extract ready cash from whatever equity owners might possess. Worse, in a real crisis, everyone's home equity might shrink, as it did in the 2008 to 2012 Global Financial Crisis.

Given the new ways the welfare state and housing interact, and the increasing difficulty entire generations face in successfully navigating those interactions, it no longer makes sense (and indeed never did) to consider compensatory effects or political consequences in isolation. In this chapter, rather, we address the kind of family structures and life-cycle patterns that housing policy creates across the entire population. Echoing feminist analyses in the broader welfare state literature (O'Connor, Orloff, and Shaver, 1999; and on housing specifically, Hayden, 2002), recent work on

millennials has also sought to connect welfare states, kinship networks and life courses (Arundel and Lennartz, 2017). Demographers and urban planners, of course, have always studied the development of household and family structures, as well as life-cycle milestones, and more recently began linking it to housing (Mulder 2006; Simon and Tamura 2009; Kulu and Steele 2013; Dettling and Kearney 2014). Welfare state housing policy can enable or disable people's ability to attain what are seen as traditional or normal life-cycle milestones. These effects are not solely felt by low-income or working-class households. Our broader purpose here is thus to show how welfare state housing policy affects adult transitions and the attainment of life-cycle milestones.[iv]

Three typical milestones

Three milestones have traditionally defined the transition into adulthood for the majority of the population: exit from the parental home, partnering, and becoming a parent. The links to housing here are fairly obvious. Social norms about dating in the 20th and even 21st century have assumed some degree of stable independent living, which combines both employment and housing. Thus, people generally do not form families until they exit the original nuclear home and have the space to make a family. As people map out their entry into parenthood they often consider whether a second or third bedroom is available or, for example, whether there is enough closet space for a pram.

These three milestones are interlinked and sequential, with exit usually preceding partnering, and partnering preceding parenthood. Leaving the parental nest is especially important, because delays in this first young-adult transition ripple throughout the life course. Leaving the parental home precedes partnering in 16 of the 18 countries Flynn (2017) studied, with a strong relationship between the average age of home leaving and average age of partnering ($r = 0.80$; $p < 0.01$). Fewer than 4 percent of young adults who live with their parents are partnered. Conversely, among those who have left the parental home, substantially more are partnered: 72 percent on average.

Access to housing matters doubly for entry into parenthood. First, entry into parenthood is usually contingent on partnership which, as noted, is strongly dependent on access to independent housing. On average across the 18 wealthier OECD countries where we have data, 88 percent of mothers with a child living in the home are partnered. In 11 of those countries, the partnership rate for mothers exceeds 90 percent (Austria, Belgium, Germany, Spain, Finland, Greece, Italy, Japan, Korea, the Netherlands, and Switzerland). Only the Anglo countries known for having high rates

of single motherhood – Ireland, the UK and the United States – have parental partnership rates under 80 percent. Second, parenthood often depends on access to housing that would-be parents consider adequate for family formation – although what is considered 'adequate' is obviously socially determined and differs across societies.

Access to housing is thus a crucial enabling condition for attaining these traditional milestones. Differences in timing between the pre-World War II, post-World War II, and millennial cohorts evidence this. Both pre-World War II and millennial cohorts faced adverse housing regimes and both exhibited delayed attainment of life-cycle milestones relative to the two post-World War II cohorts, the parents of the Baby Boomers and Boomers[v] themselves. While their mortgage regimes differed, both the millennial and pre-war cohorts faced weak labour markets, and both also faced relatively high housing costs (and shortages). Boomers and their parents, by contrast, received considerable help in attaining housing from post-war welfare states. Both the sequence and timing of these milestones as socially desirable norms reflect a consolidation of the experience of Boomers. They enjoyed strongly enabling housing policies. In contrast, the less-married, less-fecund pre-war generations confronted both limited housing opportunities and, typically, low-quality housing (De Grazia, 2009). The millennial generation in that sense is not entirely historically distinct. We can understand current trends as a partial regression to social patterns typifying the pre-war era. The two immediate post-war generations appear to in fact be the historically anomalous ones, precisely because they enjoyed a strongly enabling set of welfare state housing policies.

3 Welfare state housing policy as an enabler

In the post-war period, every OECD state promoted expanding housing stock and quality for social, economic and political reasons, albeit through different modalities (Schwartz and Seabrooke, 2008). For households coming of age roughly from the 1950s into the 1980s, these housing policies enabled easier exit from parental households and entry in parenthood. This period included near universal access to homogenized and cheap mortgage finance for both owner-occupation and rental construction, segmentation of the mortgage market from other financial markets, a massive upgrading of the quality and quantity of housing, and a re-affirmation of a male breadwinner model encouraging family formation. These policies homogenized housing units,

redefined the social understanding of a family unit towards nuclear families and single-person households, and created new normative expectations about traditional ages for attaining life-cycle milestones. From the 1950s to the 1980s, housing finance for owner-occupation and rental construction tended to deliver a standard loan at a subsidized interest rate to the ethno-national core of the adult population (Boleat, 1985). Sometimes this took the form of a protected market for banks specializing in housing finance (e.g. the United States or Germany), sometimes direct lending from state housing banks (e.g. Norway or Japan), and sometimes a separate, subsidized capital market for local governments (e.g. Sweden) or housing associations (e.g. the Netherlands) seeking to build apartments. Most countries blended elements of all three strategies.

The US government, for example, massively intervened in housing finance markets in the post-war period (Schwartz, 2012). It created a national mortgage market using government-sponsored enterprises like Fannie Mae and then insured those mortgages through the Federal Housing Administration (FHA) and other HAs. Pre-war mortgages were difficult to obtain and service because they typically required a 50 percent down payment, were not self-amortizing, and lasted five years with a balloon payment at the end. By contrast, Fannie Mae standardized post-war mortgages around self-amortizing, thirty-year, fixed rate loans. This eased access for three reasons. First, the extended amortization period reduced monthly payments. Second, self-amortization encouraged – indeed forced – most buyers to pay off their debt. Third, the mildly inflationary environment of the 1950s and 1960s eroded the real burden of debt.

Critically, Federal Home Loan Banks in the United States (which provided liquidity to banks so they could originate mortgages) and Fannie Mae (later also including Freddie Mac) were walled off from other financial circuits. These big government enterprises were fundamental to the savings and loan sector[vi], providing capital for mortgage origination on one side and absorbing those new mortgages on the other. This shielded the major source of mortgage finance for the average buyer from pressure to meet rate-of-return targets set by the broader financial market, and from interruptions in the flow of capital (Schwartz, 2020).

The American solution diffused across other high-income countries, albeit unevenly and with an even more overt state presence reflecting post-war bank nationalizations and less developed secondary markets for mortgage debt.[vii] For example, in Norway and Iceland, state banks provided the bulk of mortgages in the post-war era, with Norway's two main state banks accounting for 75

percent of housing finance. The Housing Corporation of New Zealand, which replaced the earlier State Advances Corporation, generated roughly 20 percent of mortgage debt, was the main owner of social housing, and guaranteed most private mortgages. In France the large state banking enterprises Crédit Foncier and Crédit Agricole supplied most capital to the housing market, though largely to builders rather than buyers, reflecting an orientation towards rental housing construction. Germany, on the other hand, lacked centralized federal financing institutions, instead relying on a segmented financial system in which specialist mortgage banks and *bausparkassen*, backed by the state (länder) owned banks, provided subsidized mortgages to households that had accumulated their down payment through a subsidized defined savings scheme (see Boleat, 1985). The federal government's major subsidy occurred through a waiver on capital gains taxes for dwellings that had been privately constructed and rented out. Notably, Germany exhibited and continues to exhibit lower homeownership rates and later entry into ownership than the other countries. However, the tax waiver created a generous supply of quasi-rent-controlled (*Mietspiegel*) rental housing for young households. In the Netherlands and Sweden, state support for semi-public housing corporations provided capital and security for the construction of a large social housing sector. This rent-controlled or social housing stock gave young families the opportunity for independent housing, price stability, and space, outside the homeownership sector.

Homogenized housing finance required a homogenized and higher quality housing stock to work (Schwartz, 2012). States thus also undertook a large-scale upgrading and expansion of the housing stock. At one end of the welfare state spectrum, the Swedish government undertook a massive home construction and upgrading project, the 'one million homes' project, in the 1960s. While this project only built net about one-half million new units, it also replaced older, smaller, lower quality apartments with modern, standardized units. Over the longer period 1960 to 1975, roughly 1.5 million gross new units were built. Scaled to Sweden's population of roughly 8 million in 1970, this meant that roughly one-third of Swedish households accessed a new unit over this period (Hall and Vidén, 2005). France's *banlieues* of *Habitation à Loyer Modéré*, Britain's council housing, and more variegated German projects like Berlin's *Märkisches Viertel* similarly greatly expanded and upgraded housing.

This large-scale construction and upgrading implied a widespread improvement in access to adequate housing. For example, in 1948, 96 percent of the French population lacked the complete package of indoor toilets, running water, heat, electricity, and piped gas (de Grazia, 2009: 438-

444). Similarly, 45 percent of dwellings in Sweden in 1960 lacked a bathroom, versus only 5 percent in 1975 (Hall and Vidén, 2005: 306). Beyond just allowing newly formed households to access independent housing, dwellings equipped with modern stoves, clothes washers, and even the modestly sized bathrooms of the 1960s were much more amenable to family formation than the cramped tenements of the pre-war period.

State policy encouraged – and often required – more and larger housing units. In the United States the FHA promoted upgrading and expansion by promulgating a national building code. Though this lacked force of law, states and localities often adopted it because the FHA would only insure mortgages for homes that met this building code as well as other minimum size and amenity standards. While in the US standardization never went as far as in Sweden or Britain, such policies lowered construction costs through the mass manufacture of building components. Housing policy intersected with socio-cultural and ideological desires to drive up homeownership rates across many countries (Ronald 2008). Roughly speaking, most wealthy OECD societies shifted from a society in which two-thirds rented to the reverse of about two-thirds homeownership. The timing on this differed. The United States led, with owner-occupation roughly doubling in the 1950s and 1960s, while societies with more robust social housing programs experienced this transition later.

These developments both expanded homeownership and the average size of dwellings relative to pre-war rentals, enabling pre-war generation households to accommodate their baby boom. This new housing was both better and cheaper (relative to incomes) than pre-war housing. These trends continued in the post-war decades. In the US, the average house built in the 1950s had 155 square meters (1670 square feet), but by the 1980s it had grown to 204 m^2 (2200 sq. ft.).[viii] In Australia the typical house in 1950 was 100 m^2 (1076 sq. ft.), by 1983 had grown to 167 m^2, and by 2016 had grown to 240 m^2, rivalling the size of the typical US house.[ix] Put in perspective, the extra 67 m^2 is equivalent to three bedrooms with spacious closets and an additional bathroom. The same trends occurred even in more land-constrained countries such as Denmark, where most houses built before 1940 had fewer than 100 m^2 of floor space, ones built from 1960 to 1980 averaged about 139 m^2, and more recent houses ballooned to 155 m^2 (Kristensen, 2007: 26).

Conceptualizing the welfare state as a set of enabling rather than compensatory policies highlights the crucial role of invisible subsidies for homeownership. Homeowner societies have relied on substantial explicit or implicit subsidization policies prioritizing owner-occupation over other

tenures. For example, the United States has multiple subsidy vehicles for homeownership. The single largest subsidy was tax deductibility for mortgage interest, which amounted to about $69 billion in 2017, or 0.4 percent of GDP. In addition, income tax deductibility of local property taxes, which are significant in the United States, amounted to a further $36 billion (JCT, 2018). These deductions subsidized both suburbanization and owner-occupation until the 2017 tax reform greatly limited their availability. The implicit federal government guarantee of the credit-worthiness of American mortgage giants Fannie Mae and Freddie Mac, which became explicit with their nationalization in 2008, is estimated to have lowered mortgage interest rates over the long term by a non-trivial 30 basis points (0.30 percentage points) (Hendershott and Shilling, 1988). On the side of the rental sector, by contrast, the total budget for the federal Housing and Urban Development Department, only part of which is used for rental subsidies, amounted to roughly $50 billion in recent years.

The implicit ownership subsidies provided by the Dutch and Nordic governments are even larger. Dutch mortgage interest and property tax subsidies alone amounted to a full 2 percent of GDP in 2011, and Scandinavian tax subsidies were also a larger share of GDP than in the United States (Vandevyvere and Zenthöfer, 2012: 3). Governments have cut these subsidies recently. In Denmark, state policy gave mortgage bonds a monopoly in the long maturity private bond market, assuring a steady flow of capital for house purchases. Relatedly, the weak property tax collection systems prevalent in southern Europe can also be understood as a subsidy to the self-provisioning of homeownership (Allen et al., 2004).

On the socio-cultural side, a number of developments re-affirmed the male-breadwinner model. Withdrawal or expulsion of women from labour markets often encouraged earlier childbearing than in the pre-war era. States wary of a revival of the social conflict of the 1930s, conservative groups dismayed by the relative freedom women had gained from marriage via employment in the 1920s and especially 1940s, and returning soldiers all created social pressure to instantiate an idealized version of the male breadwinner societies they perceived pre-dated the war. Owner-occupation and in particular owner-occupied single-family homes, or terraced housing, fit this model (Hayden, 2002). The expectation that ‘normal’ households would enter homeownership, and climb the housing ladder as their incomes grew, not only made it easier to transition through the three life-cycle milestones but also hastened those transitions. (For example, the parents of one of the authors here thus moved from a 57 square meter, or 600 sq. ft., third-floor walk-up apartment

in his mother's parents' house to a 167 m^2, or 1800 sq. ft., terrace house and promptly had three children by the age of 25.) Such changes shaped the socio-cultural expectations of the baby boomer generation, who largely enjoyed the same homogenized and segmented housing markets, alongside relatively stable employment.

That said, rental housing still played a role as the first step towards ownership in the typical – or 'traditional' – sequence of tenures. In 1980, 80 percent of US married households under the age of 25 were renting, as were 60 percent of the 25–29 age group. Meanwhile homeownership was the majority tenure among those aged 30-34 (Boleat, 1985: 3-4). Boleat (1985) describes a common traditional housing pathway across many countries, though average ages of transition to homeownership varied slightly.

By the 1980s, then, social norms centred on nuclear families consisting of young adults who generally married, became homeowners, and then parents in their early- to mid-20s. As we contend above, the pre-1980s welfare state shaped and instituted these pathways through housing-related policies. Such policies enabled the emergence of the specific social norms regarding life-cycle milestones and timing against which today's millennials are judged. Millennials, alas, have confronted an entirely different set of welfare state housing policies and employment realities. In the next section, we examine what has happened to the timing and attainment of those milestones for millennials.

What happened to Millennials?

What happened to younger cohorts' ability to exit the parental household and attain traditional life-cycle milestones after the mid-1980s? The data reveal a complicated pattern. In most countries, more people under 30 are living with their parents, the average age of entering marriage (or permanent partnering) and of having a first child has increased, but the share of the cohort that transitioned into homeownership has decreased. This section examines what has happened, while the subsequent section discusses why this happened. Obviously, whereas we focus here on changes in welfare state housing policy, other factors such as changing social norms (Arnett, 2007) also affect the timing of these transitions. All the data in this section come from the Luxembourg Income Study (LIS) which provides continuous microdata for 17 OECD countries from the mid-1980s to 2010s.

Across the countries with LIS data, the overall share of millennials living with their parents increased by 4.8 percent from the mid-1980s to the 2010s. While this may seem low, it is a significant shift from a long-term demographic perspective. This share implies both an enormous number of additional person-years being spent in the parental household (Figure 1) and a substantial fragmentation of life paths for the millennial cohort as compared to previous ones.

In 12 out of 17 countries the share of the 25- to 34-year-old cohort living at home increased (see Table 1, column 1). The 12 cases of delayed exit show considerable variation in scale, with economically troubled Italy and Spain showing the largest increases – double digits – in the share living with parents. More economically robust Britain and Denmark exhibit more moderate, low single-digit increases. Figure 1 captures the lost 'person years' of emancipation in the outward shift in the curve displaying the share of each annual cohort still living in the parental home for Italy, Germany, and the United Kingdom – three countries with different housing policy constellations and different degrees of this outward shift. To take the more moderate case of Germany, while virtually all 15 year-olds were living with their parents in both 1985 and 2015, 20 percent of 25 year-olds were still living at home in 1985 versus 35 percent in 2015. The increased number of person-years spent at home is even larger for Italy.

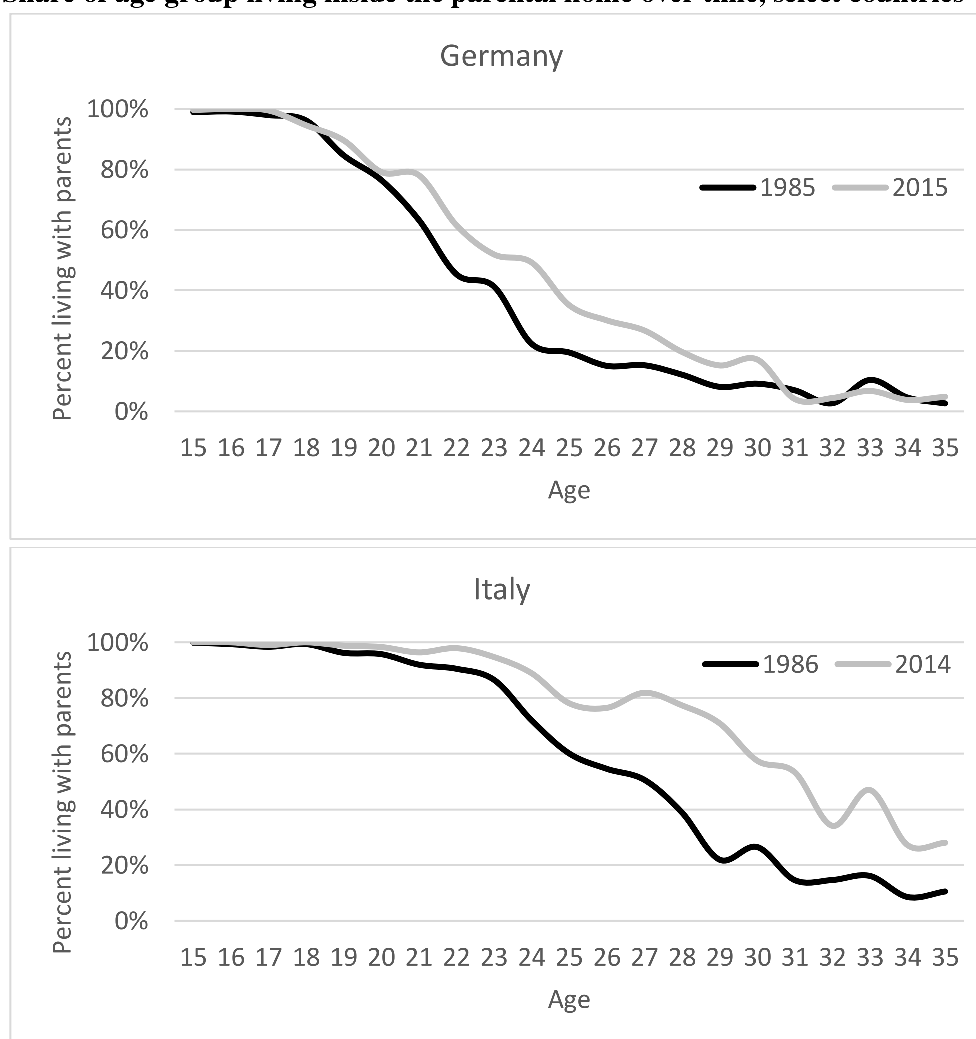
Table 1: Percentage point change in share of four household types, mid-1980s to 2010, for households aged 25 to 34 in those years

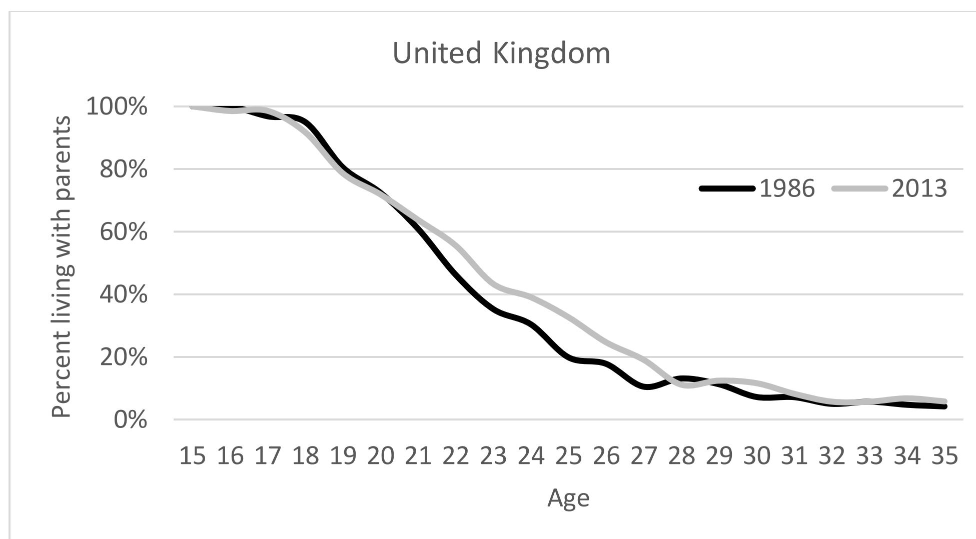
	1	2	3	4
	Living with parents	Traditional emancipated households*	One-person households	Non-traditional emancipated households**
Austria	-1.3	-6.8	6.3	1.8
Belgium	2.7	-4.9	2.5	-0.4
Canada	1.2	-12.5	3.2	8.0
Denmark	3.9	-9.9	-1.8	7.8
Finland	-11.5	5.1	5.9	0.5
France	5.5	-13.8	4.9	3.5
Germany	2.1	-4.9	3.3	-0.5
Greece	10.9	-19.8	4.6	4.3
Ireland	-17.2	7.8	2.2	7.3
Italy	40.2	-40.9	4.5	-3.8
Luxembourg	1.9	-6.2	5.6	-1.4

Netherlands	7.1	-14.7	3.3	4.3
Norway	-5.6	-8.0	19.0	-5.4
Spain	33.6	-33.9	3.7	-3.4
Switzerland	-1.2	-5.8	3.0	4.0
UK	2.8	-6.0	0.7	2.5
USA	7.0	-11.3	-1.0	5.3

Source: Authors' construction from LIS data.
* Traditional emancipated households include coupled households, with or without children, as well as single-parent households (who in many cases have been previously partnered).
** Nontraditional emancipated households include those with roommates, boarders, other non-coupled relatives, etc.

Figure 1: Share of age group living inside the parental home over time, select countries





Source: Authors' construction from LIS data.

That said, two countries combining more robust growth and a cultural orientation towards early exit from the parental home saw large decreases in the share of 25- to 34-year-olds living with parents: Finland and Ireland. However, two factors qualify our interpretation of these cases (indeed of all five cases in which the share that exited the parental home increased). First, exit is just the first step towards other milestones and a weak labour market and rising housing prices might deter family formation even if they did not deter leaving the parental home. Second, not all exit is the same. For our purposes the key question is thus whether parental home-leaving also leads to the emergence of the 'traditional' household that the two post-war generations experienced. The data on types of exit show a more complicated picture than the simple exit data.

In essence we need to disaggregate 'exit-ers' into three different types, those who exit and form a traditional, coupled household (with or without children, and including here single-parent households[x]), those who exit into independent single living (without children), and those who exit into non-traditional living arrangements in which unrelated and un-coupled individuals share living space, or where couples (with or without children) take in non-parental relatives or non-relatives as boarders. Columns 2, 3 and 4 in Table 1 capture these different categories of household. The non-traditional arrangements reflect the kinds of financial stresses and lack of welfare state support that also deter exit, because they reflect an inability to form the finished traditional household in column 2, or the often transitional living alone arrangement in column 3. In the traditional pathway, the 25-to-34-year-old cohort exits the parental home, perhaps transitions through independent living and then couples up in rental and owner-occupied housing. Notably,

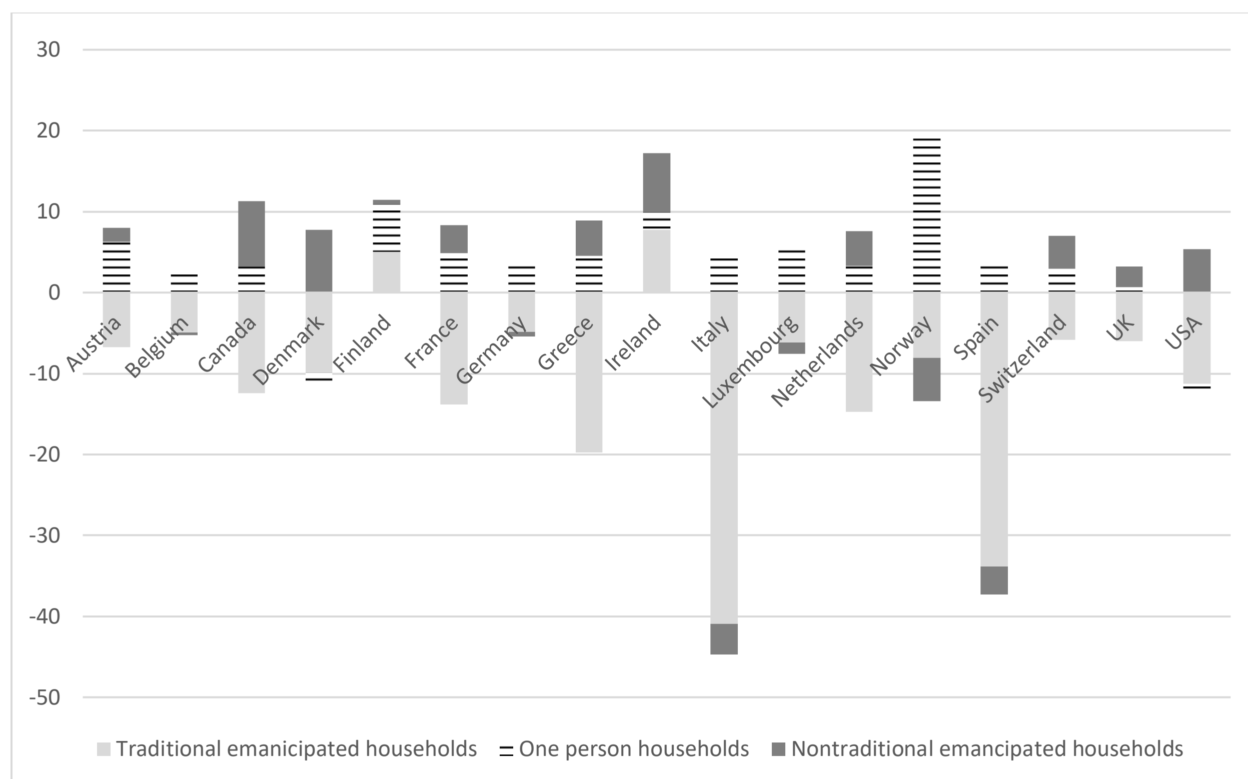
while we had five cases in which the share of young adults that exited increased, only Finland and Ireland actually show an increase in the traditional household type, while most of the change in exiting is still explained here by changes in single-person and non-traditional households.

What then drove such changes in life-cycle pathways among recent cohorts? Obviously changes in the labour market matter. During the 1990s and 2000s an increasingly polarized labour market emerged – more high-wage and low-wage jobs with fewer at the median or average wage. Rising inequality in the labour market produced divergence in the ability to live independently, with those having good jobs exiting more easily into independent living and ownership, and those in worse labour market positions having constrained options for home-leaving and homeownership access (Arundel & Lennartz, 2020). The latter group would subsequently be more likely to double-up or share housing in order to afford exiting from the parental home. Moreover, we would expect that countries in which students carry the cost of higher education as debt should also show an increase in non-traditional households and/or lower rates of exit from the parental home. Finally, we would expect that as state housing policy became increasingly disabling, exit would decline. This is precisely what the data show. That said, simultaneous societal trends, such as increased rates of divorce and a growing preference for living alone should raise the proportion of single-person households, as we note below.

In virtually all of our cases, and especially in the context of Norway, we see an increase in young adults living by themselves. This accounts for the bulk of those exiting the parental household. In Austria, the share of people living with parents was essentially stable with a 1.3 percentage point drop in exit. However, the more startling change was a 6.8 percentage point drop in 'traditional' emancipated households in favour of a 6.3 percentage point increase in living alone and a 1.8 percentage point increase in non-traditional households. Austria thus primarily reflects a case of social change. By contrast, consider Ireland, where a cursory look at the substantial drop in the share of young adults in the parental home might suggest no housing stress. Decomposing home-leavers by the resulting households, however, shows that the 17.2 percentage point increase in home leaving divides more or less evenly into traditional and non-traditional households. This instead reflects what a polarized labour market in conjunction with rising housing costs would predict. Finally, consider the US case, which is characterized by a weak welfare state and robust but unevenly distributed economic growth. There, the share of traditional households fell by 11.3 percentage points, split between a 7 percentage point increase in non-exit-ers and a 5.3 percentage

point increase in non-traditional households. Figure 2 decomposes the change in household types across OECD countries to reveal housing outcomes for those who exited (or not). The overall drop in emancipation is clearly visible.

Figure 2: Decomposition of change in home leaving, 1980s vs 2010s, percentage points



Source: Authors' construction from LIS data.

As Flynn and Schwartz (2017) show, the millennial cohort has no singular story. While millennials generally face weaker labour markets and more expensive housing (particularly given that most good jobs are in places with expensive housing), exiting the parental home remains possible and a common practice. However, this transition has become increasingly delayed. Likewise, while homeownership (the ultimate end point of the traditional household pathway) is sharply lower among millennials everywhere, many still manage to acquire ownership, albeit at a later stage in life. This delay nonetheless matters considerably by creating compounding delays in other life-cycle milestones. Delayed marriage, childbirth and homeownership are all complex and intertwined phenomena. We cannot fully disentangle these effects here, but across the OECD the average age of exit, marriage and childbirth have all followed a common rising trend. From 1990

to 2014, the age of first marriage for both men and women has risen by 4.5 years on average across the OECD. For the 16 countries in the chart above where data do exist, the average age at first childbirth has increased by 3.8 years from 1980 to 2015/17.[xi]

5 Millennial monopoly

In 2017, a joke began circulating in the United States based on the popular *Monopoly* board game. The way to win *Monopoly* is to acquire property as you move around the board, and then force others who land on your property to pay rent. The joke was that a new variant, *Millennial Monopoly*, was going to be released, but in this game, players would just go around the board paying rent and never buying any property. In fact, in 2018, a version called *Millennial Monopoly* was released, wherein players go around the board buying 'experiences' instead of property.

What has changed that has so significantly affected Millennial's housing and life-cycle pathways? As we contend above, in the past two decades the welfare state's enabling policies have reversed and, indeed, in many respects become *dis*abling with respect to attaining traditional milestones. Four key elements have driven this transformation. First, housing markets have become more financialized, in the sense that houses increasingly behave as financial assets and mortgage markets have become more individuated. Second, millennials have faced a polarized labour market, with a limited number of 'winners' and a greater share of 'losers'. Third, despite deteriorating employment conditions for many young adults, home prices rose faster than incomes, so even those relatively better-off in the labour market found housing increasingly expensive. Fourth, though this is harder to document, a supply and demand mismatch emerged over the type of housing supplied. The market continued to supply modernized versions of post-war housing, built for male-breadwinner, female-carer households, while the largely dual-earner millennial cohort desired a different format for their housing – let alone, changing preferences associated with more recent increases in working from home (Doling & Arundel, 2020). Below we focus on financialization and its associated impacts, as the most closely connected to welfare state policy.

After the late 1970s, states progressively deregulated financial markets.[xii] Deregulation integrated the formerly segmented financial markets of the post-war period, allowing capital to move relatively freely from one investment vehicle to another, while removing limits on interest rates and the quantity of credit supplied (see Aalbers, 2016, for a more comprehensive treatment of

housing financialization). This had several significant consequences. First, deregulation caused the homogenized mortgages of the post-war period to give way to more individuated, heterogenous mortgages with interest rates set on the basis of specific household characteristics like credit rating and income. In the US, FICO scores became commercially available for mortgage lending in 1989 and were mandated by Fannie Mae in 1995. Lenders began to offer a wider range of products, but also to tailor interest rates precisely to borrowers' credit profile. This removed the implicit subsidy for interest rates in the old homogenous market, while opening the mortgage market to lower income households. But access came at the price of higher interest rates and thus increased payments and potential financial stress. Broadly-speaking mortgage market transformations increased housing cost stress for lower income groups (Edelberg, 2006).

In general, this first dynamic occurred to a much greater degree in the United States and the other Anglo-economies, which had more developed credit-scoring systems, than in European credit markets where the ability to accumulate a down-payment remained a greater proxy for credit-worthiness. However, in the United Kingdom, social policies lessened the economic pain of the crisis compared to the United States (Schelkle, 2012). On the flip side, this phenomenon also occurred in unexpected places. For instance, credit-constrained Italy saw a marked increase in the matching of credit scores and mortgage offerings, even though it was hidden by a smaller overall default rate because of the lower share of mortgaged homes (Magri and Pico, 2010). In other words, the risks that young people face do not align neatly with the usual stories of credit expansion in different types of welfare states.

Second, deregulation also saw houses behave more like financial assets than consumption goods. Mortgage interest rates converged with market interest rates and became more volatile. The loss of subsidies made housing more expensive as interest rates rose through the early 1990s. Yet, paradoxically, the secular decline in interest rates from the mid-1990s forward did not make housing less expensive anywhere, except in the United States from 1994 to 1999. Instead, houses began to behave like bonds, whose market price increases when interest rates fall. This also partly reflected socio-cultural changes, as homeowners began to treat their house increasingly as an investment good that could yield large capital gains on the basis of high leverage. Similarly, both large and small investors began to enter the housing market, although with different motivations (Ronald and Kadi, 2018). Smaller investors tended to be baby boomers concerned about fragile

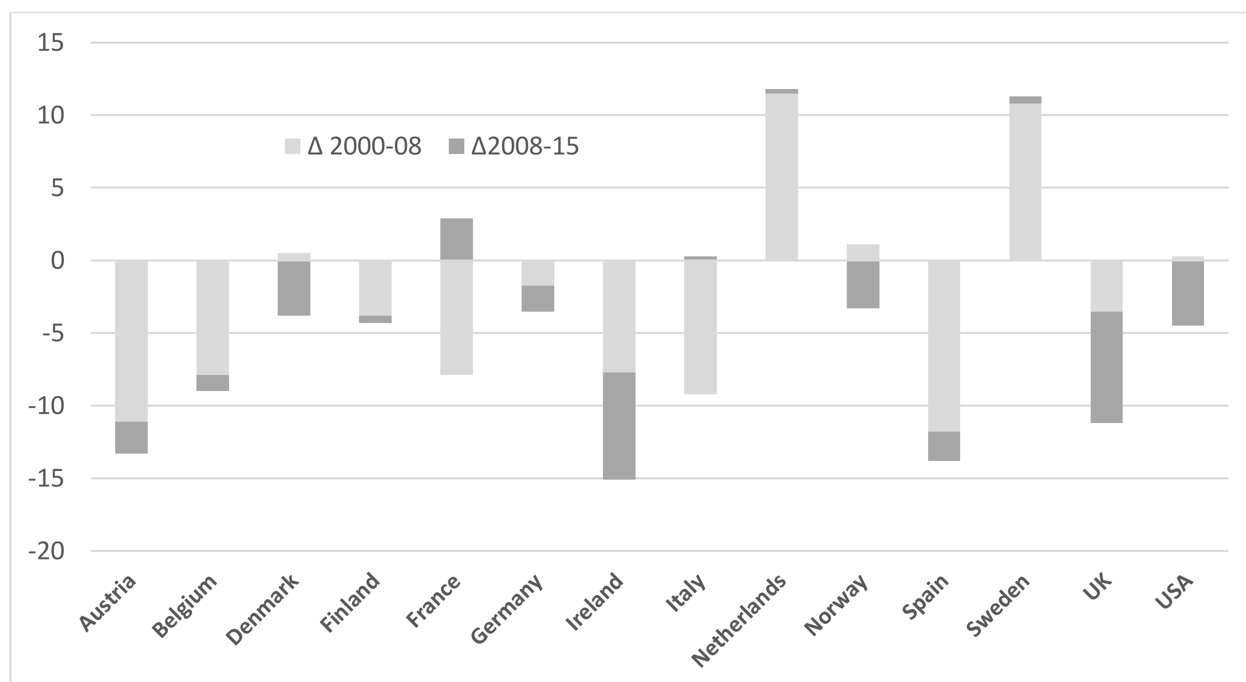
pensions. Large institutional investors saw real estate as a place to park the growing savings of high-income earners.

Third, financialization and deregulation also affected rental housing, though more strongly in Europe. The European Union's integration of financial markets made more mortgage finance available in southern Europe by allowing northern savings to flow south. But the EU simultaneously required the removal of subsidies for social housing and encouraged the privatization and corporatization of social housing. As with the owner-occupation market, housing associations and local governments increasingly had to access mortgage finance at market rates. Formal investment firms rapidly moved to purchase social housing and then raise rents (Aalbers and Holm, 2008; Wijberg et al., 2018). Overall, rental housing became less affordable and secure.

Taken together, these factors drove up housing prices faster than incomes in all high-income OECD countries except for Germany and Japan. Across the 19 OECD countries with data, the average price-to-income ratio rose by 39.1 percent from 1995 to 2019.[xiii] There was considerable variation here, though, with the price-to-income ratio falling by 10 percent in Germany and increasing by 50 to 95 percent in eight others. Most of the change was driven by rising prices, with a doubling or tripling of housing prices in real terms in almost all these countries. The global financial crisis mitigated this somewhat, as interest rates fell to historic lows. But against this, it also hindered labour market entry for the youngest millennials, even as it eased the cost burden for older ones that had managed to buy a house. Indeed, while owner-occupation rates tended to increase from the 1980s into the 1990s for most European countries, homeownership rates began falling in almost all of our countries after 2000, reflecting millennials difficulties in increasingly polarized labour markets and unaffordable housing markets (Arundel and Doling, 2017).

Figure 3 decomposes the change in homeownership rates from 2000 to 2015 into the pre- and post-2008 eras.[xiv] The Netherlands showed consistently rising ownership, albeit slowing to a near negligible rate in the second period. In the other countries, slight increases in one period were usually offset by decreases in the other, or in the Irish and the UK cases, both periods saw substantial declines. The overall picture, barring a few exceptions, is one of a general decline over the period representing a clear reversal from the experience of previous cohorts. The decline in homeownership is not solely a consequence of the financial crisis, but, rather, reflects long-standing changes in millennial income and rising housing prices (Arundel and Doling, 2017).

Figure 3: Change in homeownership rate, 2000-2008 and 2008-2015, in percentage points



Source: Author's construction from Whitehead and Williams, 2017

Renters meanwhile faced rising costs almost everywhere and had higher housing costs as a share of income than owners (OECD, n.d.). This disparity was particularly acute where non-millennial, incumbent owners had access to low interest rate, interest-only mortgages in the aftermath of the global financial crisis. The burden on renters – who by definition are those who managed to exit the parental home – had two effects. First, the rent burden on successful exit-ers reduced their ability to accumulate a down payment. Second, high rental costs pushed some into the non-traditional household types identified above. This is in addition to those millennials remaining in the parental home due to high rental costs.

Changes in the quantity and quality of housing supplied also hindered the ability of millennials to reach life course milestones, although in more complex ways. First, while some countries saw excessive homebuilding during the 2000s boom years, the number of actual housing units constructed stagnated relative to the 1990s. This was especially true after the housing bust, obviously. Numerically the millennial generation is as large as, or larger than, the baby boomer generation, but the supply of new housing has been smaller. In most countries, the number of housing completions remains below the pre-crisis level, and both periods are lower than the

massive building booms of the 1950s and 1960s (EMF, n.d.). Second, post-war housing reflected a male breadwinner, female carer model of household. Suburban housing, even when it took the form of large apartment blocks (as in Sweden), consigned women to a consumption role. This tendency is worse in North America, where builders continue to produce large suburban homes at some distance from employment, or expensive condos that are not suitable for young households with children. Flynn (2018) found that housing structures people's labour market behaviour, with homeowning mothers in eight of 15 countries working less than their renting counterparts.

These financialization trends had contradictory effects on millennials' ability to attain traditional milestones. On the one side, the greater availability of credit allowed more people to finance housing, including rental housing. On the other side, this access came at the cost of increased financial fragility for households at all income levels, but especially for lower income and younger households just starting out. Normally, higher nominal housing prices would correct downwards as potential (young) buyers exited the market through an inability to bid for houses. But on the demand side, older households bidding for investment properties replaced the lost demand from younger households. In some of the priciest markets, parents began providing significant financial assistance to their children in entering the housing market. However, this created new dynamics of inter and intra-generational inequality based on parental resources (Arundel, 2017; Coulter, 2017; Tranøy, et al., 2019).

6 Concluding remarks

This chapter examined how common changes in welfare state polices that bear on housing in wealthier OECD housing markets affected exit from the parental home. Welfare state housing policy once supported early parental home leaving and a quick progression through the three major life-cycle stages identified above. Those policies included a homogeneous mortgage market, various visible and invisible subsidies, and the unrecognized effects of a robust construction market in terms of stabilizing income and employment. After the 1980s, changes in housing finance, labour market restructuring and polarization, and changes in the quantity and quality of housing supply each created challenges for the millennial cohort. Rising income inequality and financial deregulation produced rapid growth in real and nominal housing prices in the 2000s. Despite the 2008-2012 crisis, housing prices remain elevated almost everywhere. These trends

have raised barriers to exit from the parental household. The delayed independence has broad social and demographic consequences. Socially, it reinforces a shift away from traditional family units towards more post-modern and fluid forms of cohabitation. Demographically, these developments depress fertility rates, given that housing pathways are strongly intertwined with family formation. In turn, decreased fertility undermines pension sustainability.

The broad trends naturally encompass meaningful variation across countries. The most financialized countries and those most affected negatively by the eurozone crisis have seen the greatest decreases in exiting the parental home. These reflect, in the former cases, extreme housing price appreciation, and in the latter cases, extreme stress in the labour market. By contrast, where labour markets were more stable, or where millennials carried less educational debt upon graduation, exit has been less hindered. Nonetheless, a subtler change has also taken place among those who do leave the parental home. Home-leavers are now more likely to double up in shared housing or live alone as opposed to partnered, reshaping the meaning and use of housing.

A tension has emerged between social expectations that continue to prioritize homeownership attainment and young people's actual ability to enter the housing market. People have mobilized resources in different ways to cope with this tension. Some rely more on family resources to put together down payments, generate rent money, or share costs. Simultaneously, new household forms in which unrelated people share housing costs or adopt forms of joint homeownership have emerged. These housing arrangements imply new and complex patterns of re-familialization and de-familialization. The impact of the global Covid-19 Pandemic is yet to be fully realised. Nonetheless, the new crisis has done little to relieve the struggle to transition through housing careers for younger people, with even more young adults moving back to the parental home with the onset of lockdowns, disruptions in career opportunities, downturns in house building and a reassertion in global house price inflation since 2020.

Most datasets do not provide consistent time-series data on homeownership and housing costs for specific age cohorts. However, we have used the available LIS data on housing and household composition to show that millennials are exiting the parental home later and are more likely to enter into non-traditional housing arrangements as compared to their counterpart cohort 30 years ago. One obvious policy relevant suggestion is that statistical agencies begin collecting more detailed diachronic data on housing transitions and housing costs by age group. This would

facilitate research into understanding changing welfare state housing policy effects on cohorts as they exit the parental home and progress through their housing pathways.

Substantively, the issues are of course larger than data availability. The transformations we identified involve millions of individuals and household interacting with institutional structures. Those structures are beginning to change, as young people's increasing inability to exit the parental household – and more generally the problems posed by income inequality – motivate political responses. Some local governments are starting to address the quantity and quality mismatch of housing supply and demand; for example, the government of the US state of California is making some revenue transfers contingent on local governments easing their restraints on building, and recently banned zoning rules requiring single family homes. While housing prices remain high almost everywhere, the re-nationalization of large sectors of housing finance after the financial crisis may have slowed the financialization of housing to some extent. Nonetheless, contemporary welfare state interventions (or lack thereof) still decisively and negatively shape people's access to housing. Welfare states in the twenty first century have done little to stabilize young people's incomes, making it harder for them to meet mortgage or rental payments, while housing policies still focus on tax expenditures rather than subsidies targeting young people or promoting expanded construction. Both have made 'adulting' more difficult for young people in high-income countries and most prominently through their disabling impact on traditional housing pathways.

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[i] The Millennial or Generation Y cohort is traditionally defined as people born between 1981 and 2000, who are thus 21 to 40 years old in 2021; we will use the standard census category of 25 to 34 year-olds as our benchmark for this group, given that people in their early 20s might still be in education.

[ii] The 22 OECD countries examined here include: Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Ireland, Italy, Japan, Korea, Luxembourg, Netherlands, New Zealand, Norway, Portugal, Spain, Sweden, Switzerland, the United Kingdom, and the United States. Consistent and comprehensive data are not available for all these countries, but in general the trends are similar.

[iii] One reason housing is under- or mis-studied in welfare state literature is that money flows to housing are less readily visible. One such example, would be depreciation allowances in the tax code which, in some contexts, have huge effects on the profitability of private housing construction but are neglected in welfare state research. Another would be mortgage interest deductibility which, when present, might massively subsidize homeowners.

[iv] Flynn and Schwartz (2017) discuss de-familialization within the context of the feminist literature more broadly.

[v] In Western societies, Baby boomers are typically people born between the late-1940s and early 1960s

[vi] Equivalent to the European *bausparkassen* or 'cooperative' banks

[vii] A secondary market for mortgage debt allows banks to sell those mortgages to investors. Fannie Mae is an actor in that secondary market. Only the United States, Denmark, Canada, and France had extensive secondary markets as of the middle of the 1990s.

[viii] US Census Bureau, "Characteristics of New Housing," accessed at https://www.census.gov/construction/chars/historical_data/. Astoundingly, the first Levittown homes were only 70 m^2 (750 sq. ft.).

[ix] Australian Bureau of Statistics, http://www.abs.gov.au/AUSSTATS/abs@.nsf/Previousproducts/A562C22B5EC4E5C1CA2570EC0019E1A4

[x] Putting single parents into the traditional category is an analytically conservative choice, reflecting the fact that these people have transitioned through exit into parenthood.

[xi]Calculated from OECD, Age of mothers at childbirth and age-specific fertility, 2019 accessed at https://www.oecd.org/els/soc/SF_2_3_Age_mothers_childbirth.pdf.

[xii] The reasons why are too complex to go into here, but reflect a mixture of prudential, interest based and domestic and geo-political factors. Abdelal, 2006 and Goodman and Pauly, 1993 provide exemplary analyses.
[xiii] Calculated from OECD data at https://data.oecd.org/price/housing-prices.htm.
[xiv] The data in Figure 3 differ in some cases from EU-SILC data, but these data provide a longer time series and come from a similar official source.