

Submission to the Affordable Housing Commission

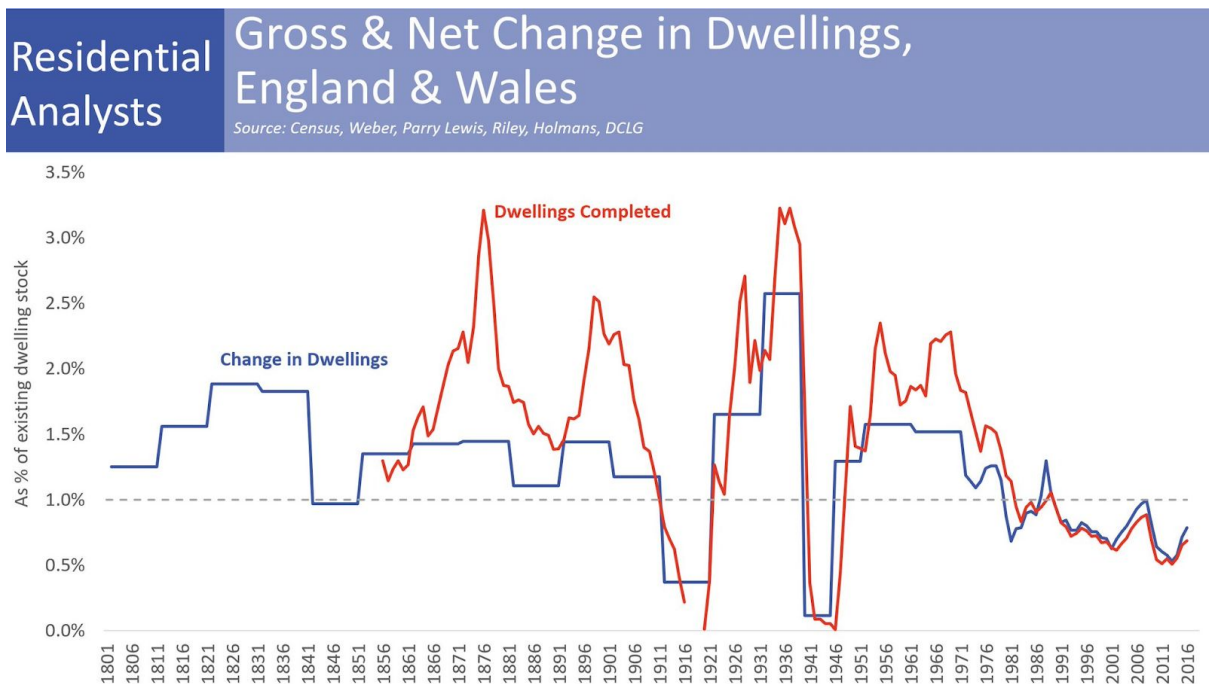
It is no surprise that affordability is a problem across the country in different places and groups. A profound shortage of housing in the South East inevitably has ripple effects elsewhere, as some people choose to minimize their pain by moving away from (or refraining from moving to) high wage cities with high house prices and rents.

1. There is a fundamental conflict between rising house prices and making housing affordable

Part of the challenge with 'affordable' housing is that there is an irreconcilable conflict between making housing more affordable and house prices going up forever. Ever-rising house prices require a cohort of miserable tenants desperate to escape by buying a home.

If we build social housing in sufficient quantities to provide homes for every tenant in housing stress – bearing in mind that more tenants will move to cities with higher wages like London and more latent demand for housing will be revealed – house prices will stop rising and may fall.

Since WW2 we have never grown the housing stock at the net percentage rate of the 1830s, let alone the vastly higher rate of the 1930s.



Source: Neal Hudson, Residential Analysts

In a world of immunotherapy, self-driving cars and self-driving rockets, we are clearly capable of building vastly more homes if we chose to. There is almost no other industry where production has regressed over time in this way. By contrast, a car in 1918 cost more than a house.

2. Building more homes would reduce problems of affordability

Even Iain Mulheirn, who claims that there is no shortage of housing, stated in a review of the literature that an increase of 1% in the housing stock, holding other factors constant, would result in an estimated reduction of 1.8% in house prices and of 1.7% in rents.¹ He has also acknowledged that his contention that it was not possible to increase housing supply sufficiently to materially affect housing affordability was based on an assumption about political feasibility and not based on any research or consideration of the relevant political science literature.²

In short there is very little credible peer-reviewed scientific evidence that an increase in housing supply would not increase housing affordability. The overwhelming evidence from peer-reviewed statistical research is that building more housing does help housing affordability, relative to the counterfactual, not least by making land cheaper on which to build social housing. Please let us know if you would like more evidence on that point.

3. The fundamental barrier to building enough housing is politics

The evidence is that politicians in government are painfully aware of the conflict, although they prefer not to acknowledge it and instead pay lip service to affordable housing. We strongly recommend the Institute for Government paper on the politics of housing.³ The same author pointed in a subsequent paper to an express admission:

In his 2014 Mansion House Speech, the Chancellor of the Exchequer, Osborne, was particularly candid in his remarks about these contradictions:

The challenge is that we want several things which don't sit comfortably together. For most people, their home is the biggest investment of their lifetime. And, of course, they want that asset to increase in value over time. But a home is also a place to live and build our lives – and we want all families to be able to afford security, comfort and peace of mind. That means homes have to be affordable – whether you're renting or buying. The only way that can be achieved over the long term is by building more, so supply better matches demand. But we are a small and crowded island, keen to protect our green spaces and ready to object to new development. **So the British people want our homes to go up in value, but also remain affordable**; and we want more homes built, just not next to us. You can see why no

¹ Ian Mulheirn, [Forecasting UK house prices and home ownership: a report for the Redfern Review into the decline of home ownership](#), November 2016, Oxford Economics.

² Response to an audience question, CaCHE conference, London, 1st June 2018

³ Miguel Castro Coelho and Vigyan Ratnoo with Sebastian Dellepiane, Housing that works for all: the political economy of housing in England, Institute for Government 2014, <https://www.instituteforgovernment.org.uk/sites/default/files/publications/Political%20Economy%20of%20Housing%20in%20England%20231014F1.pdf>

one has managed yet to solve the problems of Britain's housing market. (Extract from Osborne 2014)⁴

There is other anecdotal evidence:

[...] meeting that Gordon Brown held with his staff to review housing policy. One adviser said that there was a serious housing crisis and an urgent need to build more 'social' housing, to which another trusted aide responded, 'If we did that it would hit house prices and lose the election' [...]

Criticised for his Help to Buy boost to the housing market, George Osborne allegedly told the Cabinet: 'Hopefully we will get a little housing boom and everyone will be happy as property values go up'⁵

Governments want house prices to keep rising because that creates (for the majority of voters, the homeowners) a 'feel-good factor' that increases consumer confidence, which is correlated with the re-election of incumbent governments.

We have a housing cartel where two-thirds of voters – the homeowners – are part of the cartel. In a democracy, that is very difficult to fix.

Ultimately the only way to end the crisis is to find a reform to ensure that governments no longer want house prices to keep on going up.

4. Low interest rates and low taxation of property are part of the cause but not sufficient to raise prices on their own without limited supply

There are numerous counterexamples around the world of cities with population growth, easy mortgage finance and low interest rates, where house prices have not risen substantially above costs. Prices in Tokyo have not risen despite a large increase in population and negative interest rates.⁶

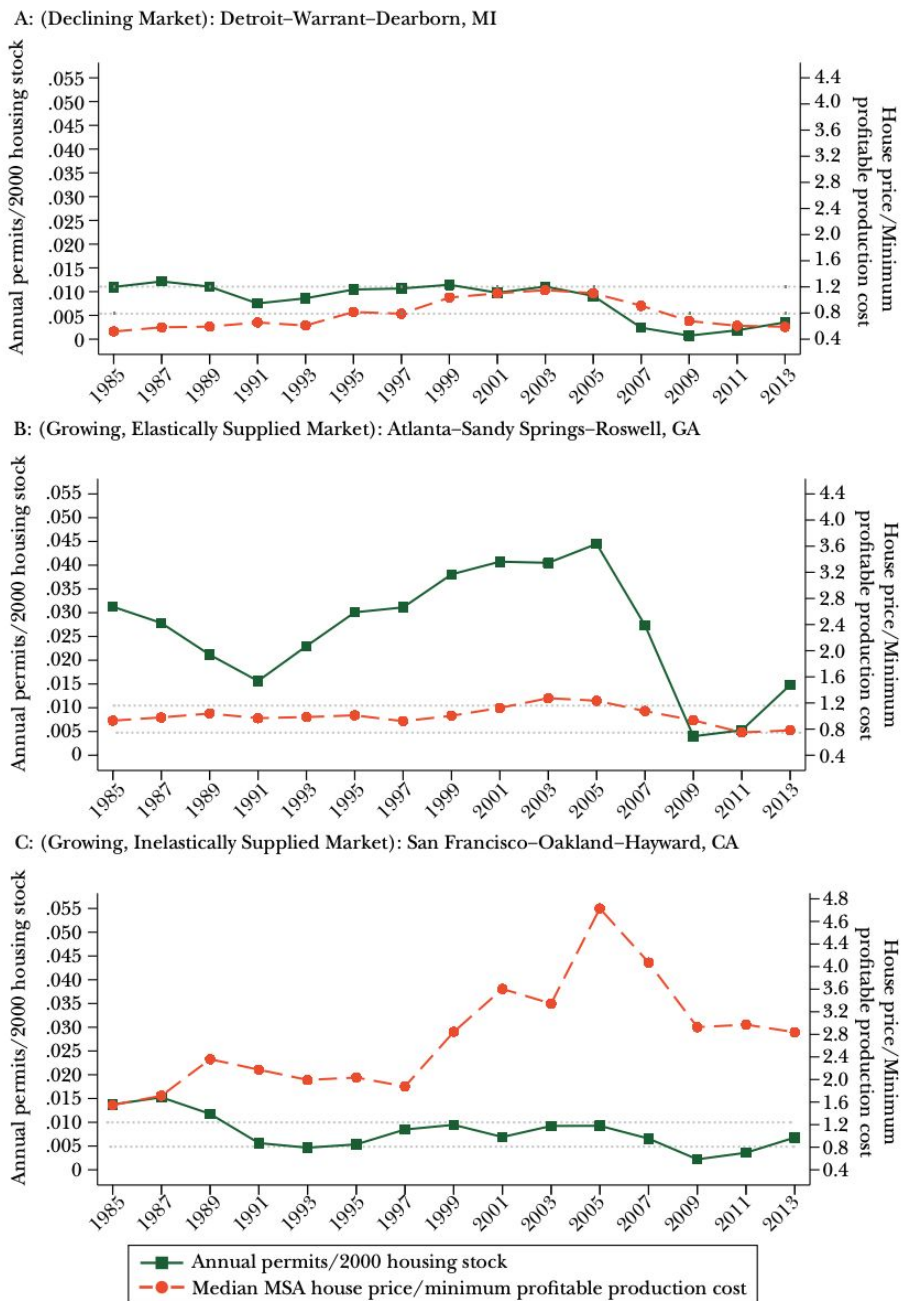
⁴ Miguel Coelho, Sebastian Dellepiane-Avellaneda & Vigyan Ratnoo (2017) The political economy of housing in England, *New Political Economy*, 22:1, 31-60, DOI: 10.1080/13563467.2016.1195346 (emphasis added)

⁵ Brian Lund, Brian Lund, [Housing Politics in the UK: Power, Planning and Protest](#), Policy Press, 2016, at 236. Sir Mark Boleat argues that 'the housing market is doing precisely what policy makers have, albeit unintentionally, told it to do.' Mark Boleat, [The housing market in London – a broken planning system](#), Housing & Finance Institute, August 2017. We would go further and argue some policy makers knew exactly what they were doing. See also, e.g., Luke Barratt, [Dispatches from the Conservative Conference](#), Inside Housing, 4th October 2018 ('Most Conservatives Inside Housing spoke to, however, were instinctively wary of doing too much on housing, fearing that they'd be punished by their traditional voters if the values of their homes were to fall. One young Tory activist told Inside Housing: "If you build too many houses, you get a Labour government. But if you don't build enough houses, you get a Labour government. So you have to build some homes, but not too many."') For related arguments in Australia, see Nicole Gurran & Peter Phibbs (2015) Are Governments Really Interested in Fixing the Housing Problem? Policy Capture and Busy Work in Australia, *Housing Studies*, 30:5, 711-729, DOI: 10.1080/02673037.2015.1044948.

⁶ See, e.g., James Gleeson, How Tokyo built its way to abundant housing, 19th February 2018, <https://jamesjgleeson.wordpress.com/2018/02/19/how-tokyo-built-its-way-to-abundant-housing/>; River Davis, What housing crisis? In Tokyo, housing prices stay flat, *Wall Street Journal*, 2nd April 2019, <https://www.wsj.com/articles/what-housing-crisis-in-japan-home-prices-stay-flat-11554210002>

Glaeser and Gyourko's study of housing supply and prices in different US cities⁷ showed that cities with healthy housing supply such as Atlanta saw very little increase of house prices above the economic cost of building homes, despite a large increase in population. In contrast, cities like San Francisco saw a large increase in price with little increase in housing stock, despite a nearly flat or declining population.

New Housing Supply and House Prices (Relative to Costs)



⁷ Edward Glaeser and Joseph Gyourko, The Economic Implications of Housing Supply, Journal of Economic Perspectives, Vol. 32, No. 1, Winter 2018, <https://www.aeaweb.org/articles?id=10.1257/jep.32.1.3>

5. We have plenty of room to build more homes

There is plenty of room to build more homes without upsetting anyone, while making existing places better, and without displacement. We simply have a system that is not designed to do so. The 1947 system was designed to build New Towns, but since homeowners became a majority no-one has managed to assemble a political coalition strong enough to build New Towns at anything near the required scale. If you would like more evidence on this point, please let us know.

6. Trying to ‘rebalance’ the country by restricting housing in cities with high wages is profoundly regressive and unethical

Even if it were not counterproductive (see below), it is unfair and immoral to seek to rebalance by a method that causes the most hardship to those on lower incomes, but raises house prices for wealthy homeowners, substantially increasing inequality. There are much better ways to rebalance, including by investment in infrastructure and skills in places with lower wages.

The current demand for social housing is even greater than estimated. It is concealed by the fact that it is almost impossible to qualify for social housing in high-cost cities unless you already live there. There is an army of hidden demand that would love to move but cannot do so. That can be seen in the anguish of social housing tenants who are moved out of London. They know it will be very hard to return. That is a hidden mechanism of social control.

We have found two analogues to the current English system of keeping workers out of cities like London by limiting housing supply:

- i. The English Statute of Labourers of 1351 sought to prevent the increase in wages caused by the shortage of labour after the Black Death by prohibiting wage increases and banning workers from moving to new jobs.
- ii. The Chinese *hukou* system of worker registration makes it difficult for workers to move to job opportunities.

Neither of those are attractive parallels. Our housing shortage is a 21st-century Statute of Labourers; a very British *hukou*. It would be far fairer and more ethical to rebalance the country by investing in infrastructure and skills in places with lower wages. We could also relocate the capital to (say) Leeds or Manchester, if we are serious about rebalancing. More devolution would also help. The UK is currently the most centralized country in the G7 and quite possibly in the OECD.

It is remarkable that the one method of so-called ‘rebalancing’ that seems to be politically feasible – maintaining a shortage of housing in London and elsewhere – is the one that makes middle-class homeowners and landlords vastly better off at the expense of the poor.

If we must restrict housing in high wage cities, we should allocate what housing exists with a radically reformed tax and rationing system that distributes the current housing stock more

fairly. Until that it politically possible, it is unjust and immoral to punish the lowest deciles by restricting housing supply to price them out of housing near to the best opportunities.

7. There is evidence that restricting housing supply in high-wage cities increases inequality, decreases wages overall, and reduces wages in cities with low wages.

According to the last available ONS numbers before the definitions were changed in 2016, the total value of UK dwellings now exceed the cost of building those dwellings by nearly £4 trillion, or approximately two-fifths of the entire net worth of the United Kingdom. That is primarily caused by a needless scarcity of homes and infrastructure within reach of the best opportunities. It is almost inconceivable that that has not caused substantial damage to human welfare.

Matt Rognlie showed⁸ that the bulk of the increase in inequality demonstrated by Piketty has been due to housing.

There is no equivalent study for the UK, but Hsieh and Moretti estimate a substantial impairment of average wages and of GDP growth due to the shortage of housing in high-wage cities such as San Francisco and New York.⁹

There are indications that a shortage of housing in some parts of the US has significantly restricted labour mobility and reduced income convergence.¹⁰

Conclusion

If you would like more evidence on any of the above, please let us know. There is a wealth of scientific research to which we cannot do justice in this document.

⁸ Matthew Rognlie, Deciphering the Fall and Rise in the Net Capital Share: Accumulation or Scarcity?, Brookings Papers on Economic Activity, Spring, pp 1–54. ('[H]ousing plays a pivotal role in the modern story of income distribution.')

⁹ Chang-Tai Hsieh and Enrico Moretti, Housing Constraints and Spatial Misallocation, Working paper, 3rd August 2018, <https://faculty.chicagobooth.edu/chang-tai.hsieh/research/growth.pdf>

¹⁰ See e.g. Peter Ganong, Daniel W. Shoag, Why Has Regional Income Convergence in the U.S. Declined?, NBER Working Paper No. 23609, July 2017; Florian Lehmer, Johannes Ludsteck, The returns to job mobility and inter-regional migration: Evidence from Germany, Papers in Regional Science Volume 90, Issue 3, doi:10.1111/j.1435-5957.2010.00326.x