

Cheap housing is good for business!

by Dr Gavin Putland

If you want to expand your business, you probably need to hire people. But you can't hire them unless they can afford to pay for housing within commuting distance of your business premises, out of wages that you can afford to pay them. If that condition is not met, either you can't afford to hire them, or they can't afford to work for you. The cheaper housing is, the less you need to pay people to enable them to work for you, or the more people will be able to work for you at any given wage.

In view of that, what should be your attitude to property owners who want housing to be expensive in order to protect their "investments"? Clearly their "investment" interests are opposed to yours!

Actually the opposition is not as complete as it may seem. To the extent that property owners want to raise the value of residential property by improving its amenity — for example, through better transport or more accessible schools — they are trying to increase workers' capacity to pay for housing by saving them time or money on other things. That doesn't make it harder to pay workers enough to live on. Meanwhile, all the activity involved in improving amenity tends to be profitable for business. On balance, then, raising property values by improving its amenity is business-friendly.

But to the extent that property owners want to raise the value of residential property by worsening its scarcity — for example, by opposing residential development under the guise of preserving the "character" of their suburbs, or by supporting tax policies that make housing scarce and opposing

policies that would make it more plentiful — they are simply making it harder for you to pay workers enough to enable them to work for you.

To optimize affordability of housing, we must maximize the supply of habitable space in habitable locations. That means maximizing the incentives for land owners to build accommodation on suitably located land, and to seek tenants or buyers for existing accommodation. That in turn means reforming the tax system so that land owners who build accommodation and keep it occupied pay less tax — or, at worst, no more tax — than those who don't.

Under the present tax system, of course, land owners who build accommodation or keep it occupied pay more tax than those who don't, because the transactions incidental to these desirable activities are taxable events. That's the problem. The solution is to stop taxing those transactions, and to replace some of the revenue by other means. It would only be necessary to replace some, not all, of the revenue, because the reduction in housing-related and unemployment-related poverty would remove much of the present need for public spending. (And of course the revenue should not be replaced by any tax on labour, because that's another way of making it harder to pay workers enough to live on, and another tax on transactions involved in the supply of housing.)

Thus a tax system that is more conducive to the supply of housing would not only make it easier to hire people, but also reduce the overall level of taxation. That too is good for business.