

Why Theresa May's Housing Plan will fail, and what can be done about it

Fred Harrison

Prime Minister Theresa May's plan to address the housing crisis looks good, on paper. In practice, the government's strategy will help to raise house prices and rents even further above what many families can afford.

I have no doubt that Mrs May is sincere when she says she wants to rebalance the economy and make it work for *everyone*. She sees no reason why people on the lowest incomes should suffer from high rents. And she is putting (our) money where her mouth is, with the proposal to spend £5bn to raise the output of new dwellings.

But we can predict with a high degree of confidence that the government's measures - applied within the current tax regime - will create even greater injustices in communities throughout the land. The reason: we live in a society that favours what economists call rent-seeking.

Understanding the economics of rent-seeking would make it possible to rebalance fiscal policy so that Mrs May really could achieve her goal, of justice for everyone in the United Kingdom. But as things stand, that £5bn is a gift from the Prime Minister to people who already own residential property, and to the owners of stock market assets. The rising tide of rents will now accelerate. Here's why.

The Sponge Effect of the Land Market

The land market operates like a sponge. It soaks up the net incomes - the financial benefits that are floated into the economy by gestures such as the May government's £5bn. In this case, the market reaction was immediate: the price of the shares of house-building companies leaped as soon as the government's plans were announced.

Of that sum, £2bn has been allocated to the Home and Communities Agency. The intention is that all forms of tenure would benefit, including affordable homes and

dwellings made available through registered social landlords. How will land owners milk the public purse?

We are told that this money will be used to under-write the so-called risks of constructing dwellings on public land. According to Sir Edward Lister, who chairs the agency, they will approach builders and offer to buy unsold properties. This is supposed to encourage the industry to expand output to meet the need for 1.8m more rental homes by 2025.

Like sponges, all sites
soak up the value of the
publicly-funded amenities
and services to which
they have access



But why do new dwellings on construction sites remain unsold? One reason only: as the owners of the land, construction companies can afford not to sell at “market-clearing prices”. They can hold their properties vacant until the shortage of supply drives up prices to levels that *they* find acceptable. So under the government’s scheme, we know from past experience what will happen. Builders will jack up their output, but put unrealistic price tags on their properties. That means the people who need to buy the dwellings will not be able to afford them. But the building companies will not lose - *the Homes and Communities Agency will step in and purchase the properties at the inflated prices!*

More houses for low-income families would become available, true; but it also means that taxpayers would not be getting the full value for the money being paid to builders. Debt would pile up on sovereign debt, making life even more difficult for a government trying to balance its books. And the ultimate losers are always the low-

income families, who are squeezed in repeated bids to balance the government's books.

Why builders need scapegoats

Building companies reject my analysis. They claim that they do not hoard land in banks, waiting for the time when they can capture the highest possible capital gains. Should we believe them?

The construction industry and its lobbyists hold the planning system responsible for the shortfall in dwellings. Bureaucrats are the scapegoats: blamed for high rents and unaffordable prices in the property market. And yet, building companies own vast amounts of land *with planning permission* which stand idle. Why don't they building on that land?

The construction industry needs a scapegoat because, otherwise - by following the money trail - we would trace the housing crisis back to rent-seeking behaviour.

The nature of rent-seeking

Before the Town and Country Planning Act (1947), the majority of people in Britain lived in rented accommodation. Houses were often jerry-built, and over-crowded. The 2-up-2-down terraced dwellings make up the back-streets of cities like Derby and Newcastle. This housing stock - and the lifestyles of the families crushed into the dwellings - was the outcome of economic incentives that militated against the working population and in favour of the owners of land.

In the 1930s, construction sprawled into green fields around London. This was induced by the expansion of the capital's underground railway network. "Ribbon developments" became a blot on the landscape. Taxpayers were the losers: they had to fund under-used infrastructure to accommodate the practices of land speculators. Because government had to provide public services in the sprawling countryside, it could not provide the funds for public services that were needed by families in densely populated towns.

To induce some order into this system, planning was necessary. But it was not the answer to the housing needs of the nation, as we discovered after the planning laws were enacted.

After 1945, governments worked with local authorities and developers to deliver record levels of output of new houses. But the underlying financial system was not reformed: the cash incentive to speculate in the land market continued to run riot over the nation's needs. So here we are, in the 21st century, with a housing crisis. The 1st Industrial Nation on earth is apparently incapable of churning out sufficient dwellings at affordable prices to meet everyone's needs. This incapacity is uniquely confined to services anchored in the land market.

In my second blog, I will explain how the housing market manipulates the tax system to transfer money out of the pockets of low-income families, for the further enrichment of those who are already rich. And in my third blog I will describe the democratic mandate that Theresa May needs if she is to change the tax regime to one that does not victimise millions of families through the economics of apartheid.