

letter from the editor

There are moments when you wonder why people cannot see the obvious! The present cost of living crisis shows that most ordinary working people live on wages that are the least they can manage on. Now that inflation and interest rates are rising, this least becomes blatantly obvious. Yet, even if wages rise, this rise disappears in a rise in housing costs which simply absorbs the difference.

Government statistics indicate that in the UK housing costs as a proportion of net income are continuously rising. They are now estimated to average 40% of a home income, though in some parts of the country it is nearer 60%. This is higher than the general cost in Europe. It is argued that these high costs of housing are due to a shortage of homes in the UK and that new homes need to be built urgently. The present UK population is just over 67 million, rising by about 6 million since 2010. Since 1970 there has been a very steep fall in the homes built by local authorities, falling from 400,000 per year to 200,000 in 1997. The average private builds have been 150,000 per year since 1990, with housing association builds averaging slightly more. So the number of homes in the UK has not kept up with population increase.

So a shortage of homes is clearly a major factor. Prices rise because of scarcity. But if there is a demand for more homes, why are more homes not built? According to prevailing economic doctrine, demand drives production. However, since the major decline in local authority house building since 1980, there has been no real increase in private house building, so the decline in housing is largely due to the fall in local authority house building. This occurred as local authority homes could be purchased by their tenants and no new homes were built in their place.

The idea was to have a nation of home owners and fewer renters. But the reverse has happened, and now a smaller proportion of the population own their own home than in 1980. The council homes were sold cheaply, and now many of them have been sold privately at high market prices. Many of these are now rented to tenants at market prices averaging two or three times the rent of those remaining in local authorities. So, selling off local authority homes has ended up increasing the cost of housing, and at the same time decreasing the number of home owners.

Why then does the market not respond to the demand? One major reason is that land speculators wish to keep the value of land rising. This includes the major home builders, who 'land bank' sites which could be built on so as to wait for a greater profit as land prices rise. To some degree regulations inhibit home building. Nevertheless, there are streets in parts the UK with many empty homes. And there are large properties in London kept empty for years, many nearby major building sites, for example near Victoria Station in London.

It is clear from simple observation that the housing shortage is to a large extent deliberately maintained through land speculation. Home owners have been duped into thinking like land speculators too, assuming that their home is always rising in value and that it can be sold at a large profit. This, however, is an illusion since if all homes rise in value simultaneously, selling a home to buy another will absorb the difference. There is a yet further illusion. It is not the home itself that is always rising in value but the land it stands on. In a certain sense even the home owner is causing the housing crisis by regarding their home as an investment and assuming it must always rise in value.

But is it actually rising in value? It is rising in value insofar as it commands a higher proportion of a buyer's net income to purchase. The increase in home prices marks a decrease in net wages. Over the last 20 years the cost of a home, either purchasing or renting, has risen from approximately 20% of net income to 40%. And insofar as living standards have risen, this is largely due to rising debt in every household. This borrowing, in turn, allows house prices to rise further.

For the last 20 years or so the population of the UK have been sleepwalking into paying a greater and greater proportion of their income on housing – on buying the same houses over and over again at higher prices as a kind of pyramid scheme. Curiously, the constant rise in house prices is seen by many economists as a sign of economic growth. In truth, however, it is crippling the economy and a major form of inflation.

Suddenly all this comes to light with a rise in the cost of energy. Inflation rises, interest rates rise, and the rented sector increase rents to meet these increased costs. So the home renter is hit twice; first by the rising cost of necessities, and second by rising rents. Yet nobody thinks to find ways to curb the ever-rising cost of homes due to pyramid selling of land values. We end up in a society where everyone is speculating off everyone else for homes. Now many are feeling the pinch. Families struggle to feed their children. Workers on essential services protest and many are going on strike. Understandably they demand higher wages. But if they get higher wages it will soon be absorbed again in the cost of housing. So the vicious circle is never broken.

Yet it could be broken in two different ways. First, a limit on what can be borrowed to purchase a home would force house prices down. In the 1960s this was set at three times the annual income of the main wage earner. Second, it could be broken by the implementation of a land value tax. This would bring an end to land banking and all forms of land speculation. It would encourage building new homes and would reduce the proportion of net income being absorbed in housing costs. Then the present cost of living crisis could easily be absorbed by the average household.



Joseph Milne
editor@landandliberty.net