

Student Prize Winner

TOWARDS FREER HOUSING

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Summary

A free-market policy initiative that would greatly improve prosperity, economic freedom, and the social mobility of those in the bottom third of the UK income distribution is the repeal of the two Planning Acts that legislate permissions for building: the 1990 Town and Country Planning Act and the 2004 Planning and Compulsory Purchases Act. They would be replaced by a Freedom of Housing Act. These two Acts create a series of supply-side constraints which have limited the ability of the UK housing market to expand and meet rising demand. As a result, they have contributed to the current housing crisis, which has eaten up the incomes of working Britons, especially those at the bottom of the income distribution. The Freedom of Housing Act would serve to free up land while protecting areas of natural beauty or environmental importance, as well as re-work the incentives to build. Not only would such an initiative bring prosperity to the UK; the removal of planning permissions throughout developed nations would improve access to property for the poor throughout the rich world. This essay explains how this proposal would aid those in need. It consists of three sections: current policy and its contribution the housing crisis, the implementation mechanisms of Freedom of Housing, and the economic predictions logically possible from this policy.

The UK's housing crisis

The long-run average price for homes in the UK has historically been around four times income, but the ratio has consistently been above this level since 2001.¹ House prices have again been rising following the recession, and as of April 2016 were 5.89 times average income according to the Office for National Statistics. This continuous growth means that the ratio may soon surpass the peak house-price ratio in 2007.

Growth in house prices relative to income means that despite a recovering economy with low inflation the average household still feels a heavy economic burden. The UK's house prices are now second only to Monaco's, with the growth in house prices the fastest in the OECD, and the size of houses considerably smaller than in similar densely populated European nations.

The current system of development dates back to the 1947 Town and Planning Act, which laid the groundwork for what is the strictest set of planning laws in the OECD. It has contributed to a marked decline in the growth of the housing stock, particularly since the 1970s. The Act stipulated green belt land to prevent urban sprawl, height

¹ Chu, B. (2016) 'The one chart that shows how UK houses are now even more unaffordable', *Independent*, 28 April, <http://www.independent.co.uk/news/business/news/the-one-chart-that-shows-how-uk-houses-are-now-even-more-unaffordable-a7004796.html> (accessed 5 January 2017).

controls, and reduced the local fiscal incentives to allow development. The 1990 update to the Act with its 2004 complement, the Planning and Compulsory Purchases Act, while changing details, did little to substantially change the constraints on housing supply that the original policy created. The fundamental tenet of the original policy, that private property requires government permission to be changed, is representative of the command economy that once existed in the United Kingdom, the inefficiencies of which have been carried over to this day. As a result of these Acts, the building industry has followed government incentives, which do not necessarily match up with economic demand. This offers an explanation for why house prices rise fastest in London, where the demand growth is greatest but the disincentives to build remain quite strong.

The rate of growth in house prices then is clearly seen to be a result of the strict planning restrictions imposed. A study by Hilber and Vermeulen found that if all regulatory restrictions were removed, the growth in house prices would have vanished in real terms.² As a result, an initiative to remove the restrictions placed on house building is seen as the most effective way to deal with the housing crisis, thereby freeing up the incomes of those spending the vast majority of their wages on rents and mortgage payments.

Freedom of housing

If a Freedom of Housing Act were to come into effect, a series of steps would need to be taken to ensure that the transition was smooth and effective. The major concern of such a policy would be to increase the ability of homebuilders to respond to the local demand for increased housing stock. This would occur with the steps outlined in this section.

Re-appraise the green belt

One of the great supply-side restrictions under current planning law is the classification of land as green belt, the majority of which is neither of environmental or scientific importance, nor of outstanding beauty. If a re-appraisal of the green belt were undertaken to restrict the classification to the land which met the above criteria, this would free up a considerable amount of land for development.

According to an independent appraisal by Stringer, 20,000 hectares of the green belt surrounding London meets none of these criteria, and if it were to be re-classified would free up space for the construction of approximately one million new buildings.³ This re-classification would go a long way towards freeing up the current restrictions in place, allowing market forces to respond to growing demands for housing. This re-classification process would be undertaken by means of the new Act, with

² See Hilber, C. (2015) *UK Housing and Planning Policies: the evidence from economic research*, London: Centre for Economic Performance, <http://cep.lse.ac.uk/pubs/download/EA033.pdf> (accessed 5 January 2017).

³ Stringer, B. (2016) *Is the Green Belt Sustainable?* 17 June, <https://barneystinger.wordpress.com/2014/06/17/is-the-green-belt-sustainable/> (accessed 5 January 2017).

stipulations that the old classifications would no longer be valid. While in the short run this process might be costly for the government to undertake, such an update would deliver significant longer term benefits, especially as the demand for housing increases with British population growth.

Removal of planning permission

Another major improvement to the housing market would be to remove the planning requirements within usable land. Hundreds of pages of planning legislation exist for each local authority, which, despite frequent updates, remain true to the command economics of the original 1947 Town and Country Planning Act. These plans contain endless stipulations about design and give extremely specific details about the nature of developments. Simultaneously they respond to what the council believes businesses and individuals need rather than market demands. This has resulted in countless cases of inefficiency and has prevented a great deal of modernisation from occurring in UK land development.

The inefficacy of this system has led to the rationing of commercial land, with the private sector often unable to create new jobs without government permission. It has also greatly driven up the cost of development throughout the country. These plans also result in permissions taking over a year to receive approval; ignore the market prices for already developed property, making projections outdated even before development; and create barriers to entry for new developers.

The costs of all this add up. The market price of a hectare of land in Oxford is £20,000, but with industrial planning permission it rises to £1 million, and with residential planning permission, up to £4 million.⁴ These permission systems require no replacement to correct for market failure. The provision of social housing and various other initiatives to prevent exploitation exist outside of the remit of the Planning Acts, making the existence of this sort of legislation simply unnecessary interference in market processes.

The removal of planning permissions is an initiative that would benefit not only the UK, but could be used by various developed nations to address growing concerns about a lack of housing. Germany, Canada and several US states, notably California and New York, are all experiencing housing shortages, which will only get worse as the populations of these nations continues to grow with high immigration. While not as strict as the system in the UK, all of these places feature planning controls which greatly restrict the supply of housing and drastically increase the cost of development. In order for poverty to be reduced across the rich world, it would be beneficial for all OECD nations to follow the route of removing planning permissions.

Together these initiatives would free up more land and also provide greater freedom to enter the market, boosting competition and allowing more homes to be built. The immediate economic effects and their benefits to those on low incomes are apparent, but the long term benefits for all will be examined in the next section.

⁴ Morton, A. (2011) *Cities for Growth: Solutions to Our Planning Problems*, London: Policy Exchange, <https://policyexchange.org.uk/wp-content/uploads/2016/09/cities-for-growth-nov-11.pdf> (accessed 5 January 2017).

Economic impact

The short- and long-term effects of the policy outlined above can be predicted with reasonable certainty. The impact on social mobility, economic growth and economic freedom will all be discussed in this section. First, the logical effects of the specific mechanisms of this initiative will be outlined, followed by the expected effects of the initiative as a whole.

City growth, productivity and jobs

The reclassification of green belt land according to strict criteria rather than local authority designations would free up a considerable amount of the 12 per cent of England that currently has this designation. This freeing up of land would result in a series of positive economic developments that would help the wider economy and especially those who are most vulnerable. Expanding land for building would extend the development of major cities, which has been linked to productivity growth by many major economic studies. Productivity is considerably higher in cities than in rural areas, and the doubling of a city size has been correlated with an average 6 per cent productivity growth per worker. This is generally as a result of the increased investment that comes into growing cities, and their greater potential for economic specialisation. This growth is not limited to the geographical borders of the city, but also extends to their hinterlands. As a result, it is clear that 'city regions', that is both the city and the hinterlands, would see substantial economic growth as their potential for expansion is increased.

These productivity gains improve the economy in several ways that benefit the most disadvantaged. First, the expansion of available land would lead to an increase in the construction of housing. Building these homes would require additional jobs in construction, increasing the availability of quality jobs for struggling families. As this housebuilding would be able to continue into the future, as there is no indication that UK population growth will decrease, and at present only 10 per cent of land is built upon, a certain stability would also come with these new jobs. These new jobs and homes would boost aggregate demand for consumer goods, which would lead to a virtuous cycle as seen in the general trends of productivity growth throughout growing cities worldwide.

Another benefit reaped beyond the increase in good jobs, is the decrease in housing costs, and the greater availability of new homes for families. As the supply of homes rises, access to homes for young people and struggling families increases tremendously. The ability to climb the property ladder has been seen historically as one of the greatest markers of social mobility and increased prosperity. Because it logically follows that removing a supply-side restriction would help an economy move towards equilibrium, house prices and supply would tend towards levels observed in similar densely populated areas throughout the world, which have a greater rate of property ownership than the UK. As the cost of a home decreases relative to income, this frees up the income of the most disadvantaged towards other activity, either increased consumption to improve their quality of life, or investment in starting new

businesses. The latter is also facilitated as business space becomes cheaper, due to increased supply making more space available for entrepreneurial activities.

Incentives to build

As well as the boost to productivity, employment and home ownership facilitated by the freeing up of green belt land, the removal of local authority approval would significantly change the incentive structures for building. As the cost of approval diminishes to the market price for land, and builders can more freely enter the market without meeting onerous and unnecessary requirements, a much more adaptive market for developing land will emerge. Such dynamism will increase incentives to develop property that caters to the various segments of the market, allowing more affordable housing to be built by market processes. It is sound economic logic to believe that if a producer can sell his product at greater than the fixed cost of production, he is incentivised to sell as many as possible on the market due to competition, rather than only cater to the richest segments and build fewer units. However, under current incentives, the restriction on the amount built, their space, and the high cost of building, all lead to an economy in which much of the work done is shoddy, while a great deal of resources are allocated to high revenue dwellings. As profitability for developers becomes easier, the cost at which they are willing to part with the property would also decrease, improving both the consumer and producer surplus.

Benefits to the poor

Accordingly, the group that benefits the most from these reforms is the bottom third of the income distribution. As the cost of housing falls to reasonable levels, it becomes easier for individuals to be approved for mortgages that no longer deprive them of financial security. Climbing the property ladder has always been one of the greatest moves towards household financial stability, so increasing the opportunity for this to be accomplished is certainly a step in the right direction. Simultaneously, it would increase the supply of rental accommodation, increasing competition between landlords, improving both access to and the quality of affordable rental space. Affordable rental units increase mobility for employees, as they are able to move around the country more easily on short-term rental contracts without breaking the bank, allowing for a more efficient job-search market. As well as being able to search for better quality work and move around the country more easily, the lower cost of rentals simultaneously lowers the financial burden of entrepreneurship, providing more opportunities to those creative individuals who previously had no physical capital. By freeing up land to be used, thereby reducing the price and improving access, economic dynamism becomes more achievable across the income spectrum, which provides economic benefits for all, especially those currently disadvantaged.

Conclusion

It is readily apparent that the UK's housing crisis has been responsible for preventing gains in productivity and social mobility, especially in the recent post-crisis years. The old Planning Acts, based on command economics, have created numerous supply-side restrictions and have led to a great deal of inefficiency and lowered economic dynamism. The globalised world of today is not the same as the one in which these planning restrictions were created. Increasing immigration poses a major threat to the stability of the current system. In order to facilitate greater economic mobility for all, especially the most disadvantaged, and allow for more sustainable economic development, the Freedom of Housing Act is essential for modern-day Britain. Through the mechanisms outlined above, it is clear that repealing old planning laws and replacing them with this Act would improve the stock and quality of housing, the availability of high quality and secure jobs, market access for new house-building entrants, and the potential for entrepreneurship. Such an Act would thereby be the most advantageous means of aiding Britain's poor.