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# THE KEY TO AFFORDABLE HOUSING

A critique of the Communication Workers  
Union's rent control proposals

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The author of the CWU report, Alexander Hilton, asked the IEA's Dr Kristian Niemietz to write a critical response to his proposals, which was published as a 'counterpoint' within the same report. This paper is based on Dr Niemietz's response.

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# Introduction: the return of rent controls

Rent controls are firmly back on the political agenda. At the national level, the reintroduction of rent controls is now official Labour Party policy.<sup>1</sup> At the London level, Mayor Sadiq Khan calls for their reintroduction as well.<sup>2</sup> Politicians, however, are in this case merely following a shift in the Overton Window which has already happened.<sup>3</sup> In recent years, various high-profile authors, such as Owen Jones (2014) and Danny Dorling (2014), have made the case for bringing back rent controls in one form or another, as have various campaign groups<sup>4</sup> and national media outlets.

The latest organisation to jump on this crowded bandwagon is the Communication Workers' Union (CWU), with a report written by Alexander Hilton (2016). The report contains a Survation poll, which shows just how popular rent controls are: only 6.6% of the public are opposed to them (ibid. p. 88). There is a little bit of variation by party-political orientation, social class, tenure and region, but whichever way the responses are sliced and diced, there is no identifiable social group in which more than

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1 'Labour to back rent controls', Inside Housing, 23 May 2016, available at <http://www.insidehousing.co.uk/labour-to-back-rent-controls/7015324.article>

'Corbyn, McDonnell and Labour Propose The Worst Of All Economic Policies: Rent Control', Forbes, 22 May 2016, available at <http://www.forbes.com/sites/timworstall/2016/05/22/corbyn-mcdonnell-and-labour-propose-the-worst-of-all-economic-policies-rent-control/#474edb4d3af9>

2 'Khan finds support for rent controls in London', Financial Times, 11 May 2016. Available at <http://www.ft.com/cms/s/0/f432c7aa-16bd-11e6-b197-a4af20d5575e.html#axzz4HWAR45Cw>

3 The Overton Window is the range of political ideas that the majority of the public will at least consider worthy of debate.

4 See e.g. Generation Rent (2014): 'Controlling rents: A response to the private renting affordability crisis', available at [http://www.generationrent.org/controlling\\_rents\\_a\\_response\\_to\\_the\\_private\\_renting\\_affordability\\_crisis](http://www.generationrent.org/controlling_rents_a_response_to_the_private_renting_affordability_crisis)

11% oppose rent controls. When interpreting these figures, we need to bear in mind that in opinion surveys, any option that *can* be picked *will* be picked by some people, no matter how unpopular or absurd – the so-called ‘Lizardman’s Constant’.<sup>5</sup> The figure will also include landlords, whose opposition to rent controls might not always be derived from first principles. Thus, genuine opposition to rent controls must be virtually non-existent.

However, no matter how popular they are, rent controls are not and could not be a solution to the UK’s housing crisis. This paper will reiterate the theoretical and empirical case against rent controls, and will then move on to suggest an alternative which would genuinely address the problem of escalating rents. It will use the CWU report as a starting point. Most authors who call for rent controls do not present a detailed policy argument. They merely describe the problem of high rents, and then present rent controls as a self-evident solution. They tend to see the case for rent controls as so obvious that it requires no further explanation, and assume that opponents of rent control are either acting in bad faith, or are just not interested in the problem (see e.g. Dorling 2014). The CWU report is different insofar as the author tries to engage with opponents, and recognises the existence of alternatives. The report therefore allows a useful juxtaposition of the arguments.

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5 The basis for this is a US survey, which asked people whether they believed that the world was run by intelligent lizards from outer space disguised as humans. 4% replied yes. See ‘Noisy poll results and reptilian Muslim climatologists from Mars’, Slate Star Codex, 12 April 2013, available at <http://slatestarcodex.com/2013/04/12/noisy-poll-results-and-reptilian-muslim-climatologists-from-mars/>

## What the CWU report gets right

The author of the CWU report, Alexander Hilton, does not exaggerate the scale of the problem. Britain's housing crisis, of which escalating private sector rents are a part, is a massive social and economic problem in its own right, and it is far worse still if we consider its (less obvious) ripple effects. If a government managed to solve Britain's housing crisis – and currently, no political party comes even close to offering a solution – it would kill a whole flock of birds with one stone.

Hilton is right, of course, that *“renters are paying large proportions of their incomes on rents, undermining their quality of life and their ability to save”* (Hilton 2016: 8). To be precise, British tenants are paying the highest rents in Europe, both in absolute terms and as a proportion of their incomes. Average rents in the UK are between 40-50% higher than average rents in the Netherlands, Belgium, Germany and France. They even exceed those of Luxembourg and Switzerland, two countries that are vastly richer than Britain.<sup>6</sup> In most of Europe, rent payments account for between a fifth and a third of tenants' incomes; in the UK, they account for around 40%.<sup>7</sup>

It is only when Monaco is included in the rent level rankings that the UK is pushed into second place, although inner London is in Monaco's league. South Kensington, Marylebone, Belgravia and Chelsea have overtaken some Monegasque boroughs; Mayfair is only marginally less expensive than Monaco's famous Monte Carlo district, and Knightsbridge has actually overtaken Monte Carlo (Pastor Real Estate 2014).

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6 'Revealed: The most expensive rents in Europe', Daily Telegraph, 24 June 2015. Available at <http://www.telegraph.co.uk/finance/property/11694273/Revealed-The-most-expensive-rents-in-Europe.html>

7 'UK tenants pay more rent than any country in Europe', The Guardian, 24 June 2015, available at <http://www.theguardian.com/money/2015/jun/24/uk-tenants-pay-more-rent-than-europe>



The housing crisis has become the single most important driver of poverty in the UK (see Niemietz 2012: 56-90). Hilton once summarised this aptly by pointing out that *“people aren’t queuing up at food banks because of the cost of food, they’re queuing up at food banks because of the cost of housing”*<sup>8</sup>, to which one might add that food banks are just the extreme end of a spectrum.

Hilton is also right in saying that the current system leads to an excessive concentration of market power in the hands of landlords: *“Similar to drug dealers, who cut addicts’ supply with all sorts of crud, because their addicts will continue to purchase it, tenants put up with poor conditions, poor behaviour and unreasonable fees and deposit deductions, simply because they are captured consumers”* (Hilton 2016: 9-10).

A housing crisis does not just raise house prices and rents. As Hilton explains, *“it increases the land costs of doing business through direct and indirect mechanisms [...] a business simply has to pay a greater proportion of its revenues on the rent or purchase of land from which to operate [...] any economic activity that has to be conducted on land, or is dependent on staff that have to live on overpriced land, gets more expensive”* (ibid.: 15-17). Exactly. What raises the cost of property really raises the cost of almost everything. The sector where this effect is most pronounced has to be retail. Grocery prices in the UK are about one fifth higher than in comparable countries, despite the fact that the British retail sector is one of the most competitive in the world, so it is more than plausible that the price differential is really a property price premium (Niemietz 2015a: 11-12). Inflated grocery prices are thus a second-order effect of the housing crisis, and it is a highly regressive effect, which hits low-earners hardest.

Hilton raises another important point by saying that sky-high rents are not a symmetric problem, but one that is especially pronounced in the most prosperous parts of the country: *“Individuals are beginning to choose to move away from London in order to escape the housing market, even if that involves earning less money. [...] This has a direct, detrimental effect on London’s competitiveness. Jobs don’t automatically follow workers in this manner”* (Hilton 2016: 17). Quite – and one could add that for every person driven out of places like London, there must be many more who are prevented from moving there in the first place. This is by no means

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8 ‘How can business reduce poverty? The Webb Trust essay prizewinner offers an answer’, *New Statesman*, 23 January 2015. Available at <http://www.newstatesman.com/politics/2015/01/how-can-business-reduce-poverty>

limited to London. The labour markets of places such as Oxford, Cambridge, Bristol or Brighton could absorb many more people, including in relatively well-paid positions, but their housing markets act as a bottleneck. These places are effectively pulling up the drawbridge, locking out those who would be able, and willing, to improve their economic situation by relocating. This is detrimental to the economy as a whole, because, like any measure that curbs labour mobility, it prevents people from putting their skills and talents to the best use. But it also means that people are, quite literally, being prevented from moving out of poverty.

The housing crisis has also undermined people's ability to save and prepare for a rainy day, which means that in the medium term, a lot of people will be far more vulnerable to income shocks than they would otherwise have been. The magnitude of this effect is unknown, but it is striking that the savings ratio of private households began to fall just as housing costs began to skyrocket. Between 1975 and 1995, the savings ratio stood, on average, at a solid 13% of incomes. Today, it has fallen to about 6% (ONS 2015).

As Hilton also makes clear, the housing crisis is a crisis which harms many and benefits few. It is true that almost all homeowners who bought their house at the right time have experienced an explosion of their property wealth, and it would be tempting to treat them as beneficiaries of the housing crisis. But it really depends on the *net* effects. Homeowners are not just homeowners. They also play other roles in economic life, and while homeowners may benefit from the housing crisis *qua* homeowners, most of them will lose in their role as taxpayers, or consumers, or employees or employers.

A housing crisis of British proportions has ripple effects on the whole economy, and the economic distortions it causes are colossal. As Hilton explains: "*By creating the conditions for ever increasing house prices, UK governments have created a rush to property as an investment class, to the detriment of other investments*" (Hilton 2016: 15). Precisely, and this is one of the ways in which the housing crisis holds back the economy as a whole. Funds that are tied up in bricks and mortar can no longer be channelled into productive avenues, which means that the UK has lower levels of investment, a smaller capital stock, lower levels of productivity, and ultimately lower wages and lower living standards than it otherwise would. This is detrimental even to those lucky homeowners who bought their houses just in time.

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The cost to taxpayers is also colossal. As Hilton correctly points out, the better part of Housing Benefit represents a redistribution from taxpayers to landlords. Housing Benefit now costs the taxpayer two and a half times as much in real terms as it did in the early 1990s (Niemietz 2015a: 12-13), or over £800 per household each year. This cost to taxpayers is, of course, opaque. There is no separate 'Housing Crisis Surcharge', which could be listed on payslips like income tax or national insurance.

If anything, the housing crisis is *worse* than Hilton describes it, because it has additional adverse effects that Hilton does not go into. Take the position of a Housing Benefit recipient in part-time employment. Suppose that their employer offers them a full-time position, and that this would increase their net salary by £100 per week. If they accept the full-time position, they will only be £35 per week better off, because Housing Benefit is withdrawn at a rate of 65% of net income. So it could be quite rational to turn down that offer, especially when keeping in mind travel costs and other work-related costs. In this way, the housing crisis also discourages work, trapping people in unemployment and underemployment. If rents were lower, fewer people would need Housing Benefit, and fewer people would be exposed to its withdrawal rate. In the UK, the share of the population requiring financial assistance with housing costs is higher than in any other developed country. Almost one in five people in the UK receive Housing Benefit. In Germany, about 13% receive the national equivalent; in Denmark and Finland, it is about 10%, in Norway and Austria, it is about 5%, and there are quite a few developed countries where hardly anybody requires Housing-Benefit-like assistance (Andrews et al 2011: 54-55).

And, of course, Hilton (2016: 16) is completely right to attack Help to Buy, that unhappy marriage of economic illiteracy and political cynicism. The current housing market resembles a game of musical chairs, and while measures like Help to Buy enable *some* people (presumably mainly marginal voters) to grab a chair, as long as there are more players than chairs, this must necessarily come at the expense of somebody else.

## The real causes of the housing crisis

So taken together, the CWU report accurately describes the housing crisis and many of its adverse effects. But it pays too little attention to its causes, and therefore arrives at the non-solution of rent controls. Before we can develop a workable solution, we need to get the causes right. Why do we have a housing crisis in the UK?

The drivers of housing costs are a very well-researched topic in economics, and there are dozens of empirical studies on the subject. With some difference in emphasis, they all come broadly to the same conclusion: In the short term, housing costs can fluctuate for all sorts of reasons, but in the long term term, their main driver is planning restrictions, i.e. regulatory controls that make it harder to build new homes (Niemietz 2015a: 14-16; Niemietz 2015b: 37-39). Already in 1990, a review of the relevant literature concluded:

*“There is now a large empirical literature documenting the effects of growth controls on housing and land markets. The evidence to date conclusively establishes that growth controls raise housing prices”* (Brueckner 1990).

Subsequent studies have only strengthened this verdict.

The most thorough study on the English housing market estimates that 35% of the average house price can be directly attributed to planning restrictions, and far more than that in London and the Southeast (Hilber and Vermeulen 2010). These figures are almost definitely an understatement, because the study errs on the side of caution in a lot of respects. It is also worth noting that the study’s counterfactual is not a free-for-all system in

which anyone can build anywhere: The authors merely posit that their counterfactual planning system would not limit the overall amount of land available for development, but this does not preclude communities deciding what type of development they want, and where exactly it should go. So solving the housing crisis is compatible with democratic participation and community involvement, just not with crude Nimbyism.

The UK has definitely no shortage of land, and land without planning permission is actually remarkably cheap in the UK. Even when house prices stood at their peak level, a typical hectare of land in the South East of England cost less than £7,500. However, the moment a planning permit was issued for that land, its price instantaneously shot up to £3.32 million (Leunig 2007). Land with planning permission is, of course, always and everywhere more valuable than land without, not least because the planning permit comes with an implicit guarantee that additional amenities will be provided in the vicinity of that land. But if 99.78% of the price of land is explained by a slip of paper, then clearly, the solution is to print more of those paper slips.

The UK has the very unfortunate combination of a highly restrictive planning system, and well-organised Nimby groups who are willing, and able, to exploit that system in their favour. The problem goes back to the 1947 Town and Country Planning Act, which nationalised development rights, and the introduction of greenbelts in the 1950s. Initially, these constraints did not matter much. There was enough undeveloped land within existing towns and cities, and 'New Towns' accommodated some of the spillover demand (Bourne and Niemietz 2014: 23-26). So the planning system was initially a non-binding constraint. But as those low-hanging fruits were slowly eaten up, planning restrictions were gradually tightened, while the Nimby opposition to development became more entrenched and more skilled in capturing the planning process (Niemietz 2015b: 41-42). Nimbyism has since become the driving force (or rather, the braking force) of British housing policy, which now mainly revolves around the sensitivities of those who feel offended by the sight of houses (other than their own).

The results speak for themselves. Housebuilding rates per 10,000 inhabitants have been declining in the UK since the end of the 1960s, and for more than three decades, the UK has been building fewer new housing units per 10,000 inhabitants than any other country in Europe (Eurostat 2010). As a consequence, the British housing stock (expressed as total residential floor space divided by the number of households) is now the

smallest in Western Europe. The reason why housing is expensive in the UK is simply that *there is not a lot of it*, be it for buying or for renting.

Hilton (2016: 28-30) is in favour of planning reform, but those sections of the paper are so tangential to his argument that he might as well have left them out. Hilton has got his priorities wrong. If we are interested in solving the housing crisis, planning reform cannot be a footnote in a paper about rent control; if anything, it would have to be the other way round. This is not because the other issues that Hilton raises are not important, but because directly or indirectly, they can all be traced back to our dysfunctional planning system.

Take the issue of land hoarding (Hilton 2015: 13). Speculative hoarding is a practice that we usually only see in markets where supply is naturally constrained, such as the markets for rare artworks or precious metals. In markets where supply is more flexible, hoarding is an extremely risky business strategy, because it is more than likely that a competitor will step in, expand their supply, and ruin the hoarder's prices. Our planning system has turned residential land into a good which is quite similar to Rembrandt paintings or gold, and this is why it is being traded in similar ways. Thus, hoarding is ultimately just another symptom of a dysfunctional planning system.

Or take Hilton's point that developers themselves have an interest in restraining new housing supply, because it enables them to keep prices high (ibid.). This is true, but this is what *any* supplier in *any* market aspires to. If a brewer could restrain the supply of beer, and sell the remaining units at exorbitant prices, they would do it. But since they operate in a competitive market, and since they cannot control their competitors' supply, they do not have that power. The solution is to break the market power of big developers – and further down the line, break the market power of landlords – by re-establishing a competitive land market.

Hilton also proposes a whole raft of quality regulations and extended tenants' rights in order to raise standards and clamp down on 'rogue landlords' (ibid: 21-24). He overlooks the fact that a lot of the more 'roguish' practices we observe in the rental market are already illegal, or at the fringes of legality. But as the German proverb goes, *Wo kein Kläger, da kein Richter* – where there's no prosecutor, there's no judge. Tenants are currently not insisting on their rights, because they know that it is their landlord who holds the whip hand, due to the market power they possess

in a supply-constrained market. The solution is to break that market power, and expose landlords to vigorous competition. Competition is a much more effective disciplinary force than legislation.

## Rent controls: worse than shooting the messenger

As we have seen, the reason why housing (be it for renting or buying) in the UK is so expensive is that there is not enough of it. High rents (and high house prices) are just messengers who inform us about this fact. A high price is a messenger who tells consumers: “There is very little of this good, and lots of people want it, so use it as sparingly as you possibly can”. This messenger also tells (current and potential) suppliers: “There is very little of this good, and lots of people want it, so if you can possibly spare some of it, please do.”

Imposing a price control, then, is worse than just shooting the messenger. It means forcing the messenger to tell a lie. A controlled price is a messenger who, at gunpoint, is made to tell consumers: “Everything is fine! This good is available in great abundance. So don’t hold back, don’t be shy, please help yourself to some more.” His message to (current and potential) suppliers is: “This good is available in great abundance, so even if you can spare some of it, don’t bother too much.” Responding to those messages, the ‘marginal landlord’ will exit the market, and the ‘marginal tenant’ will enter. There will be more people chasing fewer properties.

Hilton briefly mentions this conventional Econ 101 textbook case against price/rent controls, but facetiously dismisses it as ivory tower economics (ibid: 9). In my experience, supporters of rent controls always do this (‘That’s alright for you to say, Mister oh-so-clever economist in your ivory tower. But tell that to real people, tell that to the single mother struggling to pay her rent!’). So let us put the Econ 101 textbook to one side for a moment. The marginal landlord and the marginal tenant are not just theoretical abstractions. They are real people. And I happen to know both of them.



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I know the marginal landlord, because I used to rent a basement flat from him for a few years. He and his family lived in the house above. The house was not overly large, but they were a large family, with two adult sons (who could not afford to move out) and two teenage daughters. Renting out the basement flat meant a huge inconvenience to the family. It meant giving up living space that they would have loved to use for themselves, and it meant a substantial loss of privacy. Had the rent been capped at a level noticeably below what I was paying, would the family have kicked me out? No. But would they have been hesitant to re-let the flat after I moved out? Almost definitely yes.

I also know the marginal tenant, (or rather, the marginal non-tenant,) because I used to work with him at university for a few years. He was in his late twenties, and still living with his parents, a fact that he was not too happy about. He could have afforded to move out, but with London rents being as high as they are, he felt that this would have been an unjustifiable waste of money: far better to wait for another year or two. Had rents been capped, he would almost definitely have moved out a few years earlier. But given the overall shortage, this would inevitably have meant taking a flat away from somebody else; presumably from somebody who would not have had a convenient fallback option like 'Hotel Mum'.

As Tim Worstall puts it:

*"We often hear things being described, disparagingly, as "Just Economics 101". [...]*

*[Y]es, that's just a simplification, the truth is more complex as you find out in the more advanced courses. But the real truth here is that econ 101 is a pretty good first order approximation to the way that the world works. And this is especially true of the most basic part of that econ 101 description, the laws of supply and demand."*<sup>9</sup>

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9 'The Solution To Silicon Valley's \$1 Million Median House Price - Build More Houses', Forbes, 13 August 2016. Available at <http://www.forbes.com/sites/timworstall/2016/08/13/the-solution-to-silicon-valleys-1-million-median-house-price-build-more-houses/#3beee1750c94>

## Rent controls: empirical evidence

Hilton (2016: 8) claims that *“there are commonly repeated myths – unfounded in evidence – that are used to attack rent control. These are principally that “Rent Control restricts housing supply”, “Rent Control disincentivises landlords from maintaining properties properly” and “Rent Control creates an opportunity for corruption in tenancy”.*

But are they “unfounded in evidence”?

The most comprehensive review of the economic evidence on the subject has to be Jenkins’ (2009) paper ‘Rent control: Do economists agree?’, which discusses over sixty different studies on various forms of rent control. Jenkins concludes:

*“[E]conomic research quite consistently and predominantly frowns on rent control. My findings cover both theoretical and empirical research on many dimensions of the issue, including housing availability, maintenance and housing quality, rental rates, political and administrative costs, and redistribution. As Navarro (1985) notes, “the economics profession has reached a rare consensus: Rent control creates many more problems than it solves”.*

This puts Hilton’s (2016: 7) following statement into context:

*“Over the past couple of years I have spent time with several LSE economists who are studying the housing market and the PRS [private rental sector] in particular, and despite the plentiful availability of evidence, even they are ideologically incapable of diverging from an instinctive neoliberal stance on Rent Control.”*

Throwing in the word 'neoliberal' is, of course, very fashionable; it is an easy way of playing to the gallery. Yet it is not *despite* the plentiful availability of evidence, but precisely *because* of it, that the economists Hilton mentions oppose rent controls. Reality has a neoliberal bias.

Hilton also points out that Friedrich Hayek and Milton Friedman opposed rent controls (ibid), in what has to be the inverse of an 'argument from authority' ('These two evil people opposed rent controls, so rent controls must be good'). Hayek and Friedman were indeed opposed to rent controls (see Bourne 2014: 14-15). But they were not exactly alone in this. Paul Krugman, not exactly an arch-Hayekian or arch-Friedmanite, once wrote:

*"The analysis of rent control is among the best-understood issues in all of economics, and [...] one of the least controversial. In 1992 a poll of the American Economic Association found 93 percent of its members agreeing that "a ceiling on rents reduces the quality and quantity of housing." [...]*

*[T]he pathologies of San Francisco's housing market are right out of the textbook, that they are exactly what supply-and-demand analysis predicts. But people literally don't want to know. A few months ago, when a San Francisco official proposed a study of the city's housing crisis, there was a firestorm of opposition from tenant-advocacy groups. They argued that even to study the situation was a step on the road to ending rent control – and they may well have been right, because studying the issue might lead to a recognition of the obvious."<sup>10</sup>*

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10 Krugman, P.: Reckonings; A Rent Affair, New York Times, 7 June 2000. Available at <http://www.nytimes.com/2000/06/07/opinion/reckonings-a-rent-affair.html>

## Rent controls in Germany

Rent controls are a bit like communism, in the sense that they can never 'fail', in the eyes of their supporters – they can only be 'badly implemented'. Hilton's (2016: 7-8) paper is no exception. He vaguely concedes that the track record of rent controls in the past has not been brilliant, but he sees this as merely a case for 'trying harder'. Rent controls, he argues, come in so many different varieties that we cannot generalise from the failure of any one specific versions.

It would help, of course, if supporters of rent controls (or, for that matter, communism) could come up with at least *one* positive example. There are myriads of examples of 'badly implemented' rent controls, but why is it that nobody ever gets the implementation right?

To his credit, Hilton, perhaps unique among supporters of rent controls, mentions at least one actual country example: Germany, where "Rent Control [...] works just fine". But does it?

Studies on rent control often compare rent-controlled markets to a 'control group'; they try to identify uncontrolled rental markets that are otherwise as similar as possible to the rent-controlled ones. Unfortunately, German rental markets are very far away from being a suitable control groups for UK rental markets. Germany would have been a suitable example for overall comparisons of housing markets, because it is similar to the UK in many relevant aspects, especially population density, average incomes and geographical conditions. But it is not a suitable comparator if we are specifically interested in rent controls.

Germany has a vastly more liberal planning regime than the UK. There are no greenbelts, and no organised Nimby groups. As a result, German housebuilding rates have dwarfed British rates for decades. In the mid-

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1990s, when the most serious phase of the British house price explosion started, Germany was building more than twice as many new housing units per 10,000 inhabitants than the UK.<sup>11</sup> This is why German house prices have remained almost identical in real terms since 1970, whilst British house prices have increased four-and-a-half fold in real terms over the same period. The rental market cannot be studied in isolation. It is a downstream market, and what happens upstream is largely determined by the planning system. A country which gets things right upstream, as Germany more or less does, can cope with a few socialist follies in the downstream market. A country which messes things up upstream, as the UK does, cannot.

Even then, we need to bear mind that until June 2015, rents between tenancies were completely unregulated in Germany. There have long been restrictions on rent increases *during* a tenancy, and restrictions on a landlord's ability to terminate a tenancy. But until about a year ago, when putting a flat on the market, a German landlord could ask for any price they saw fit. Rent controls cannot be the reason for the massive gap in rent levels between the two countries, simply because that gap has existed long before rent controls were even considered in Germany.

In June 2015, the *Mietpreisbremse* (= 'rent price brake') was introduced. Under this system, state governments can cap the rent levels that landlords can ask for when putting a flat on the market in selected property hotspots. More precisely, they can limit them to 110% of a reference value, which is based on average local rents for similar properties, with various exemptions depending on specific characteristics of a property.

Most forms of rent control that have so far been tried have been crude and arbitrary, imposing one-size-fits-all ad-hoc caps. The *Mietpreisbremse* is a more sophisticated system. It recognises that there can be legitimate reasons for rent variation, it takes account of a range of local factors, and it incorporates market signals rather than ignoring them. If a rent control campaigner had read and understood the economic literature on rent controls, but still just could not bring themselves to abandon the idea, and set out to design a version that avoids the pitfalls of previous attempts,

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11 Niemietz, K.: 'Why 'second generation rent controls' are not a solution to the affordability crisis (Part 2): beware false comparisons', 27 March 2014, Institute of Economic Affairs blog. Available at <http://www.iea.org.uk/blog/why-%E2%80%98second-generation-rent-controls%E2%80%99-are-not-a-solution-to-the-affordability-crisis-part-2-bew>

they would probably come up with something quite like the *Mietpreisbremse*. The first empirical assessment of the *Mietpreisbremse*, by the German Institute for Economic Research (DIW 2016), compares the evolution of rental markets in places subject to the *Mietpreisbremse* to otherwise similar rental markets not subject to it. The authors do not find any measurable differences. Rents in controlled areas have shown the same trend as rents in otherwise similar, but uncontrolled areas.

The most likely explanation (apart from the fact that it is still early days) is that the *Mietpreisbremse* is just too complex to have much of an effect. It can be quite difficult to work out what the correct reference value for any given property would be, and whether or not deviations from it are due to legitimate exemptions.

And this is the crux: if you want to make a system of rent controls more fine-grained and flexible, you inevitably increase its complexity and create uncertainty. Under those conditions, the system is not automatically enforceable: you need proactive tenants, who insist on its enforcement. But the *Mietpreisbremse*, by design, only applies to areas where demand exceeds supply, and where tenants are least likely to seek a legal confrontation with their landlord. At the end of the day, there is no escape from the laws of demand and supply. The German version of rent controls may be the least bad version tried so far, and most German rental markets remain relatively tenant-friendly places. But rent controls are not the reason for that.

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## A genuine solution: expanding supply

If rent control is not the answer – what is? What would it mean to ‘get things right upstream’? First of all, the default option for development rights should be reversed. At the moment, landowners are not allowed to build on their own land unless they are given permission. It should be the other way round. Ownership of land should generally include the right to build on it, unless it is specifically prohibited or restricted.

On its own, this would not change much. Planning authorities would simply respond by copiously issuing development bans. But it would at least shift the burden of proof, and it would frame development disputes in a more appropriate way: the fact that you personally dislike the sight of houses does not give you an automatic right to prevent other people from using their property as they see fit. It is not the landowner who should have to ask for permission. It is the opponents of housebuilding who should have to explain what makes them think they have a right to tell other people what to do with their own property.

Secondly, greenbelt status should be abolished, and replaced with a system in which land is protected selectively, on the basis of its environmental and amenity value. The greenbelt is considered a sacred cow in British politics, but it owes its popularity to a misunderstanding. People appear to mistake greenbelt designation for an environmental designation, comparable to that of the Area of Outstanding Natural Beauty (AONB).<sup>12</sup>

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12 In one survey, people were asked: “Which of the following things, if any, do you think of when you hear the words Green Belt?”. It turned out that 54% thought of woodland, 48% of nature reserves, 48% of country parks, 28% of community forests, and 27% of walking and cycling paths. Only 5% thought of derelict land, and 4% quarries. See Natural England (2009): ‘A Natural England survey of public attitudes to the Green Belt.’

But these two designations have nothing in common. Greenbelt status has nothing to do with the environmental quality or the amenity value of the land in question. The greenbelt has only one purpose, namely to prevent the cities contained within them from growing outwards. It has nothing to do with protecting wildlife or biodiversity, and it has nothing to do with preserving recreational value or scenic beauty. The greenbelt is the planning system's equivalent of carpet bombing, when protecting land should be more like targeted drone strikes.

The claim that abolishing greenbelt designation is 'not politically feasible' is a self-fulfilling prophecy. It is currently not politically feasible because those who favour reform have written it off as a lost cause, and do not even try to argue their case. But if greenbelt myths and falsehoods are not publicly challenged, reform can never become politically feasible, because the anti-development lobby is given a monopoly over the topic. The way to make it politically feasible is to stop saying that it is not politically feasible, and to start explaining why it is the right thing to do. So the blame here lies not just with the anti-development lobby, but also with the defeatism and the intellectual cowardice of those who know better.

Thirdly, the economic incentives around housebuilding – and other forms of economic activity – must change. The UK is one of the most fiscally centralised countries in the world, with 95% of all tax revenue going to the national level. In countries with more decentralised tax systems, the regions, towns and cities compete for taxpayers, and under those conditions, permitting housing development can be a relatively easy way to attract new taxpayers. In contrast, in the overcentralised UK, local authorities can afford to treat potential new residents as hostile invaders to be fought off, and housing development as a threat to be averted.

Imagine local authorities were fully or largely self-funding, receiving all or most of their revenue from, for example, a local income tax and a local land value tax (LVT). This would mean that the 'planning gain' – the mentioned increase in land value when a planning permit is issued – would be fully retained locally, providing a strong incentive to issue more of them.

Fourthly, this carrot should be accompanied by a stick. Local authorities should have to fund Housing Benefit and social housing subsidies out of local tax revenue. If local authorities insist on driving up local rents by blocking development, they should have to pay for the resulting increase in local Housing Benefit spending. They would then either have to raise



local taxes, or cut back on local public services. Nimbyism would come at a price.

## Conclusion

All in all, the CWU report is a missed opportunity. The housing crisis is now so protracted that it can only be solved by a broad pro-development coalition that unites people from various ideological tribes. The opponents of housebuilding have succeeded at building such coalitions. ‘Nimbyism’ can be found on the reactionary right and on the far-left alike; indeed, in a ‘blind test’, it would be difficult to distinguish between an anti-housing article by Simon Jenkins and an anti-housing article by George Monbiot. When it comes to fighting off a housebuilding project, anti-development activists from across the political spectrum are able to put their differences aside, and fight it off together. Shaun Spiers of the anti-housing group the Campaign to Protect Rural England (CPRE) explains: “CPRE has members from across the political spectrum, from the Green Party to UKIP.”<sup>13</sup> Indeed. In contrast, supporters of housebuilding remain hopelessly factionalised along traditional tribal lines.

The CWU could have worked towards overcoming this situation, it could have tried to contribute to the building of a pro-development coalition. Hilton could have taken his arguments about supply-side reform a lot further. He could have made a – perfectly intellectually consistent – twin case for greater regulation of the rental market on the one hand, and deregulation of the planning system on the other hand. But while this would have fitted the *substance* of the paper, it would not have fitted the *tone*. The CWU report tries to ride the wave of trendy anti-capitalism, insisting that the housing crisis is somehow a crisis of ‘free-market capitalism’, when there is hardly a part of the British economy that is as far away from free-market capitalism as the housing market. This report

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13 Spiers, S. (2014): ‘The great housing disaster: time to get radical?’, CPRE Viewpoint. Available at <https://cpreviewpoint.wordpress.com/2014/10/02/the-great-housing-disaster-time-to-get-radical/>

will surely help the author to score points within his political tribe. But a contribution to solving the housing crisis it is not.

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