

Summary

Free market ideals should not be limited to esoteric debates about what could be achieved in theory. Indeed, competition, decentralisation, accountability and choice can solve the biggest challenges of our time. The cost and inaccessibility of housing are among the greatest challenges of British public policy beyond Brexit, yet successive governments have acquiesced to special interests and offered short-term gimmicks instead of radical change.

A free market in housing can be that disruptive force that democratises homeownership for those who had given up hope. Despite the need to address deep-seated issues in housing however, free markets thinkers need to also create policies that are bold, popular but politically possible, especially given the wide-ranging free market movement this could start.

This essay proposes the “Land Purchase Act”: a market-based policy that centres on how public land can be used to help disadvantaged people acquire housing. And not simply the type of housing that bureaucrats and central planners think people should live in. Instead, people should be given the opportunity to live in the houses that they want and are attractive. We can create a new generation of homeowners and fundamentally rewrite the policymaking landscape in housing.

Introduction

We have a unique advantage of being too disorganised to block the future. An opportunity to rethink, from the ground up, our approach to housing; a paradigm shift that ends the short-term gimmicks and authority of bureaucrats. The chance to offer people a radical, market-based solution to housing and the prospect of homeownership. Free market approaches to housing are, moreover, the only way to ensure people acquire the housing they want, rather than bureaucrats deciding what is best for people. We can start a movement that dispels the notion that market-based solutions have no place in housing.

This essay applies free market principles to address the shortage and unaffordability of housing, and outlines how the government can use the equity it has in land to help people on to the housing ladder. The “Land Purchase Act”, proposed in this essay, also outlines how people can live in the homes that they want. This policy has the power to act as the initial step in restoring social mobility in the UK, and encouraging the will of the people for more free market ideas to follow.

The remainder of this essay is structured as follows. In the first section, the problems afflicting the housing market are fully outlined – both the problems themselves and how the free market in housing has been thwarted. The following section introduces the policy and how it achieves two objectives: increases the amount of land made available and number of homeowners in the UK. In the final section, the economic benefits of the policy initiative and a free market vision for housing are elucidated. The “Land Purchase Act” policy, this essay will conclude, is the key to a new era of economic progress: one that provides hope to a new generation of homeowners – and in particular those whom are yet to experience the liberating powers of the free market.

Housing costs in the UK are among the highest in the world, both in absolute terms and relative to average incomes. The UK's population has also grown considerably in recent decades. Between 1990 and 2015, the UK's immigrant population increased from 3.7 million to 8.5 million.¹ However, while the country's population has grown and increased the demand for housing, there has not been a commensurate increase in housebuilding in the UK. Inaccessibility to housing is linked to poverty and, more importantly, stands in the way of letting people see their children and grandchildren become property owners. Even those previously resistant to more housebuilding have become aware that the ever-increasing cost of buying a home is detrimental to society. People want to own their own homes and the government should not stand in the way of this natural ambition. In summary, we need to build more and lower the price of housing.

Despite the large backlog of homes that need to be built, planning permissions and the conceptions of central planners such as tower blocks have not delivered the homes that people actually want and are attractive. Allowing the free market to work is what will make homes attractive and, crucially, give people choice when it comes to housing. Why is it currently that people cannot acquire the homes that they want? Because you have to build what the central planners want, which has led to homes being built that nobody wants and miss out on the exciting vision that a free market in housing can offer. The deep-seated issues in housing can be explained by how political intervention has obstructed the free market.

Free markets thwarted

The roots of the UK's housing crisis dates back to the 1947 Town and Country Planning Act, which created a framework for the strictest planning laws in the OECD and designated the man in Whitehall as the planner and provider of housing. These laws have significantly contributed to reducing the number of homes being built, especially since the 1970s. The Act designated vast swathes of land as 'green belt' and imposed height controls, constraining incentives to allow development in areas where people want to live. As a result, housing does not meet the realities of modern day economic demand. The strict planning laws therefore explain why house prices rise fast in London, where the demand growth is greatest, yet the disincentives to build remain strong.

There have also been a number of attempts by the government in recent years to address the shortage and unaffordability of housing, though these have all been steps in the wrong direction. Government solutions, through interventions such as the Help to Buy scheme, changes to inheritance tax, and higher taxes on buy-to-let landlords have made the problems in housing worse not better. Indeed, most of the initiatives have inflated the demand for housing and created more distortions in the housing market. To cite but one example, the Help to Buy programme increased house prices by more than £8,000, according to Shelter's estimate in 2015.² It is clear that government intervention in a market with highly inelastic supply must necessarily increase the price, while having a negligible impact on quantity.

The average price for homes in the UK has historically been around four times income, although the ratio has consistently been above this since 2001.³ Rising house prices relative to incomes means that the average household feels a very heavy burden. The size of houses in the UK are also

¹ <http://www.pewresearch.org/fact-tank/2016/06/21/5-facts-about-migration-and-the-united-kingdom/> (accessed 2 September, 2018).

² Van Lohuizen, A. (2015) How much help is Help to Buy? Help to Buy and the impact on house prices, London: Shelter.

³ 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 4 September 2018).

considerably smaller compared with other European nations. Strict planning laws, for much of the population, have resulted in overpriced homes and not the kinds of homes people want to live in, located in parts of the country where nobody wants to live. Again, this is the result of government intervention in housing. Instead, a market-based approach that makes more land available, removes government restrictions and allows people to own the homes they want to live in is the most effective solution to the housing crisis.

The challenge to free market thinkers however, is to produce policies that are politically possible. Special interest groups resistant to more homebuilding are well-organised and proposals to build on 'green belt' land, for example, are already politicised and problematic. We therefore need to demonstrate the power of a market-based approach on a smaller scale before a total revolution in housing is possible. A free market approach needs to, on the one hand, not replace one short-term gimmick with another; and, on the other, propose simple yet popular ideas that politicians cannot resist implementing.

Land Purchase Act

The government puts vast restrictions in place that prevent people from getting on the housing ladder, although a number of government departments are some of the largest landowners in all of the UK. Moreover, large swathes of government-owned land is located in areas where people want to live. This therefore presents the opportunity to use the equity that the government has in land to help people on to the housing ladder, especially in areas where there is a high demand for housing. This essay proposes the "Land Purchase Act": a market-based policy that makes swathes of land available for people to build homes according to their own choice and preference. This policy has the potential to not only alleviate many of the problems in housing, but also serve as an example of what market-based policies could achieve for the wider housing market.

There are estimates going back a number of years that indicate public land could deliver as many as two million new homes. These estimates are based on the analysis of public records of the Central Government Estate and the land holdings of the Greater London Authority (GLA) as well as the potential for development on NHS and Local Authority land.⁴ According to Savills, government property and land could be used to deliver the following number of new homes: Central Government Estate land could deliver 600,000 homes; GLA land could deliver 100,000 homes; Local Authority land could deliver approximately one million homes; and, the reconfiguration and intensification of operational sites within the NHS estate could deliver an additional 300,000 homes.⁵ There is no reason for the government to hold all of this land, especially at a time when affordable housing is already beyond the reach of large segments of the population. Releasing surplus or underused public land would considerably alleviate the inaccessibility of housing.

The value of land in London, and other desirable areas to live in, is a disproportionate amount of the total value of a property. Thus, although the proposed policy may not be as effective in areas where land is not as valuable, it will enable those priced out by the current housing market to live where they actually want to live. Houses should be built around areas people want to live and policymakers should not try to fit the workflow of the country around existing housing stock. With this policy we

⁴ Insufficient transparency with relation to the full extent of land and property assets owned by the government remains a drawback in identifying the potential number of sites that could be released to deliver new homes. Data recorded in the central database of government property and land does not include public land holdings.

⁵ Savills (2014) 'Spotlight Public Land: unearthing potential', Savills World Research: UK Development, Autumn 2014, p.1.

can end the gimmicks, build houses where people actually want to live and, crucially, allow them to live in the types of homes that they actually want to live in.

How it works

The government will enter into a contract with the occupier who will take out a mortgage to cover the cost of building the property on the land. Under the policy, the occupier will build the home they wish to live in, rather than the bureaucratic imposition of having the government decide what is built. The occupier will be given a choice over the timescale and structure of how they gradually acquire ownership of the land. The composition of this process provides the occupier with options: they could pay some rent for the land, choose to purchase the land at set intervals over time or buy the land at a discounted rate if they have lived there for a set period of time, for instance, twenty or thirty years. This policy creatively applies free market principles to the equity that the government has in land to help people flexibly acquire housing, especially in difficult areas.

The “Land Purchase Act” would also reduce the number of planning restrictions on houses built on land made available under the policy. Currently hundreds of pages of planning legislation exist for each local authority, in keeping with the control and command economics of the original 1947 Town and Country Planning Act. Planning permissions include an inordinate number of stipulations relating to the design of houses and enforce exceedingly specific details about the development or expansion of properties. Removing such planning permissions from homes built under the “Land Purchase Act” would, however, ensure such homes respond to market demands rather than what the council or a bureaucrat thinks individuals need.⁶ This would remove the inefficiencies in building homes and allow modernisation to occur in UK land development.

To ensure the policy reaches those most in need however, a number of safeguards are necessary. Firstly, the scheme has to be long-term and mechanisms to prevent short-term property speculators from using it to generate large sums of money should be in place. One potential safeguard that could achieve this would be to only admit people to the scheme who meet a set criteria. For example, the scheme could initially be rolled out to potential occupiers who are under a certain age limit, for example, 40- years of age, employed and currently in social housing or in receipt of some form of government assistance in relation to housing.⁷ Depending on the amount of land left over after initially admitting a set cohort of the population, the scheme could then be rolled out to more people. This policy offers people a hand-up instead of another handout and puts them on a path to homeownership rather than government dependency.

Economic benefits

Making more land available to be built on would unleash a series of economic benefits that would boost the wider economy and help the disadvantaged in society. Given that the policy would be more effective in areas around major cities, the policy would help to expand major cities and boost productivity growth. Productivity is notably higher in cities than in rural areas, with some estimates putting the average labour productivity of urban areas at five percentage points higher than for rural areas.⁸ Higher productivity in major cities also translates into increased investment and the potential

⁶ The policy would mainly limit the number of restrictions over the design and development, or a combination of the two, of homes built on the land.

⁷ Although the scheme would ideally be accessible to most of the population, safeguards that limit the number of people who can access the scheme could be an effective way to ensure the policy reaches those most disadvantaged by the cost and inaccessibility of housing.

⁸ Office for National Statistics, (2017) Exploring labour productivity in rural and urban areas in Great Britain: 2014, p.2.

for greater economic specialisation. This growth would also not be limited to the boundaries of the city either, and would spill-over to boost the economies of surrounding areas. Thus, both major cities and surrounding areas would benefit from higher economic growth as their potential for expansion is increased.

Allowing more people to become homeowners as a result of the policy would considerably improve the household financial stability of the new occupiers. Making more land available at a discounted rate and lowering the cost of housebuilding by removing planning requirements is the key to achieving this. The lower cost of housebuilding would make it easier for the new occupier to be approved for mortgages that no longer deprive them of financial security. This would free up the incomes of those spending the vast majority of their wages on rent to instead acquire a home, which remains the largest asset for most households. Furthermore, making housing affordable in areas where land is particularly expensive increases the mobility of the population, as they are able to live in parts of the country where they actually want to live without breaking the bank. Lowering the cost of acquiring a home under this policy would free up the incomes of new occupiers towards other activities, for instance increasing consumption to improve the quality of life or the capital to start a business. By making more land available, thereby improving access, economic dynamism is unleashed to the lower end of the income spectrum, improving the financial stability and welfare of a greater number of households.

The wider availability of housing targeted at those currently receiving some form of government assistance would also help to alleviate the pressure on the existing social housing stock. Although a free market approach to housing hopes to see an ever increasing proportion of the population become homeowners, creating a pathway to homeownership for people receiving government assistance would make social housing more readily available to those most vulnerable in society. In addition, the wider availability of land to be built on would inevitably increase housing construction. The increase in demand for homes to be built would require additional jobs in construction, which has the added benefit of increasing the availability of jobs as a result of the policy.

Towards free market housing

For those who believe in free markets, it's an anomaly that housing is firmly under state control and provision. The only reason land is so expensive is because the government has constrained the supply of it by bureaucratic fiat. A free market in housing is the remedy to the current government-set command and control approach. Removing government restrictions and liberating the market would increase the supply of land, lower the price of acquiring a home and allow people to build homes they want and are aesthetically pleasing.

Through the mechanisms outlined above, it is clear that releasing surplus or underused public land would contribute to alleviating the inaccessibility and cost of housing. This is the right policy to force upon politicians who are only now catching up with the voters in recognising the need to build more homes. Although the idea of more housebuilding used to be vigorously opposed and unpopular where I live in the home counties, people now wonder why it is not already happening. Politicians need to accept the realities of modern-day Britain and stop standing in the way of letting people become homeowners, which remains one of the greatest markers of social mobility and increased prosperity.

The policy proposed in this essay gives politicians a solutions-orientated approach to addressing the problems in housing. The proposal does not require a political revolution to begin with, and even politicians do not have to be convinced of the arguments behind the policy. Free market proponents need to initially focus on what is achievable in housing, and gradually generate a critical mass of

people ready for free market change. Then we can tackle green belt, zoning laws and permissions to create a truly free market in housing. Let the planners and providers in Whitehall defend their record in housing; they'll be left to catch up with their electorates as housing policy moves on to its free market future.