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RAISING THE ROOF

How to solve the United Kingdom's
housing crisis

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The Richard Koch Breakthrough Prize

The Institute of Economic Affairs launched the second Richard Koch Breakthrough Prize to find free-market solutions to the United Kingdom's housing crisis.

The First Prize of £50,000 was awarded to the best and boldest entry outlining a 'Free Market Breakthrough' policy to solve the UK housing crisis. Jacob Rees-Mogg MP was on the judging panel. Competitors were asked to propose a single policy initiative which would:

- Increase the number of houses built so as to markedly reduce the housing shortage in this country (this can be reduced through increased rental or ownership)
- Increase the number and proportion of property owners in the UK
- Be politically possible

Submissions were welcomed from individuals, groups of individuals, academia, the not-for-profit sector and all corporate bodies. There was also a Student Prize for which all students were eligible.

The prize pool consisted of £61,500, including a £50,000 grand prize for the winning entry.

Richard Koch – the benefactor and supporter of the prize – is a British author, speaker, investor, and a former management consultant and entrepreneur. He has written over twenty books on business and ideas, including *The 80/20 Principle*, about how to apply the Pareto principle in management and life.

This paper draws on some of the entries, which represent a wide range of perspectives on the issue. The best entries will feature in a forthcoming book.

Summary

- The United Kingdom's housing costs are now among the highest on earth, the economic and social impacts severe. Since 1970, the average price of a house has risen four and a half-fold after inflation. No other OECD country has experienced a price increase of this magnitude over this period. London is virtually the most expensive major city in the world for renting or buying a home (per square foot). People often avoid moving to work in productive sectors because nearby housing is too expensive. The proportion of Britons who need financial support for housing is almost unique.
- The 1947 Town and Country Planning Act put land use under unprecedented statutory control, and the resulting regulation has caused at least half the rise in house prices over the last generation. The 'green belts' the Act created have grown far beyond what was planned, more than doubling in size since the 1970s, taking in derelict and already developed land, leading to building on more attractive areas. The complex and bureaucratic planning system has favoured big housebuilding corporations over small builders. The resulting identikit estates have helped drive Nimbyism.
- Since the war, government has also centralised taxation. With 95 per cent of tax collected centrally, local authorities have little incentive to allow housebuilding in order to gain additional revenue from new residents.
- National-level taxes drive house prices higher: Stamp Duty hinders downsizing; tax on buy-to-let landlords increases rents; 'Help to Buy' has made it harder to buy, inflating demand and pushing up prices.

- Central government control over the housing market was intended to provide homes, preserve an attractive environment, and enhance our cities. It has failed on every count. Radical action is needed to lower housing costs. This means allowing more homes to be built by removing fiscal and regulatory barriers that hinder supply.
- Tax distortions at national level should be reversed; then government can begin the process of tax devolution. For example, Stamp Duty could be cut to 2010 levels, simplified, and then devolved to local government; non-property Inheritance Tax should be cut to the level of property, and Capital Gains Tax reduced on shares; discrimination against buy-to-let landlords should be ended.
- More government land can be used for housing. Reverse Compulsory Purchase Orders – effectively a new Right to Buy – would allow the private sector to demand its sale. In addition, a cabinet minister could be given responsibility for identifying and releasing state land.
- Where green belt land achieves none of its official purposes, it can be selectively re-classified, with a presumed right to development. Most green belt land should remain, however. This proposal should apply in particular to derelict or already-developed sites. Green belt land near transport hubs should be a declassification priority, including Metropolitan Green Belt land within realistic walking distance of a railway station. The amount of green belt land needed is very small: just 3.9 per cent of London’s green belt is needed for one million homes.
- Permitted development rights for individual streets (in cities) or villages would see residents *gain* from building, as controlling local building lets people demand the styles that research shows they want (instead of tower blocks, for example). Residents of individual streets should have the right to vote to ‘extend or replace’ permitted development rights (for example by increasing the height of houses), subject to a design code they select. Letting urban streets densify *and* beautify will remove much public opposition to expanding the housing stock.
- Urban local authorities should allow light-touch ‘notification’ to give self-builds fast-track planning permission. Residents would build according to a style guide if one were applied by a local authority or street. Style guides created the beauty of Bath and Bloomsbury. There is no reason not to use them once more. No one has a monopoly on beauty, however. Style guides should be optional.

Introduction

It is no coincidence that the United Kingdom has both the most centralised planning system of any large country in the democratic world, and one of the worst housing crises in the democratic world. Quite simply, the central planning of housebuilding does not work.

Our country's attempt to place housebuilding considerably under central state control since World War II, however well-intentioned, is, paradoxically, why the centre demands housebuilding and does not get it; it is why, when housing is built, it is so often disliked, leading to the Nimbyism that so befuddles Whitehall; and it is why, despite the business of housebuilding being so profitable, houses still go unbuilt. We build too few houses, which are too small, which people do not like, and which are in the wrong places.

This paper will describe a radical programme to cut the Gordian Knot that is our centralised planning system. When this is put into action, some of which can be done incrementally, the United Kingdom will be able to undo its almost uniquely severe housing crisis.

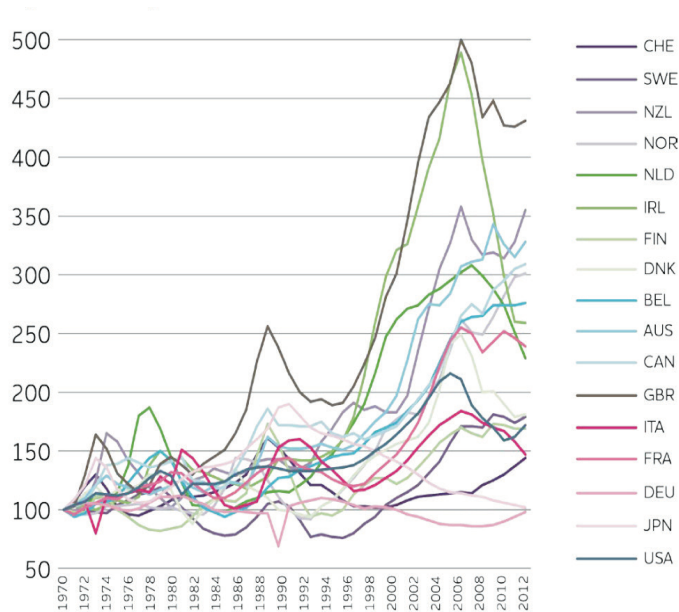
This paper has been made possible by the 2018 Koch Breakthrough Prize, whose topic was free-market solutions to the housing crisis. The excellent prize winning essays will be released in a forthcoming book, and have contributed to the options we outline, along with other works from the IEA especially.

Housebuilding in the UK: more catastrophe than crisis

At first glance, our central proposition may seem counter-intuitive. Surely the central state is exactly the organisation that can 'push through' new housebuilding. In fact, since the end of World War II, by centralising almost all taxation and much decision-making from our local governments and localities – to a degree seen elsewhere only in socialist countries – it has thwarted the free market which could otherwise build the houses people actually want. Here, a socialist system has meant the usual socialist outcome: failure. Central government is responsible for most of the United Kingdom's housing crisis.

We will discuss below how this came about after 1945, and how it can be solved. Before that, it is important to understand how serious our problem now is.

Our failure to build is often called our most serious economic problem. The evidence tells us that it is, in fact, a catastrophe. For over a generation, we have built houses at a lower rate than any other country with comparable data. Estimates suggest a shortfall below the desirable level of new-build housing of 2.5 million since 1992 (Cheshire 2018); since 1970, the average price of a house has risen four and a half-fold after inflation, where the United Kingdom is again an outlier, with no other OECD country experiencing a price increase of this magnitude over the period (Niemietz 2016). In the 1970s, the average buyer needed under three gross annual salaries for a house. Now, before interest payments, this is over seven, also making the UK unique.

Figure 1: House prices in real terms, 1970-2012 (1970 = 100)

Source: Niemietz (2015)

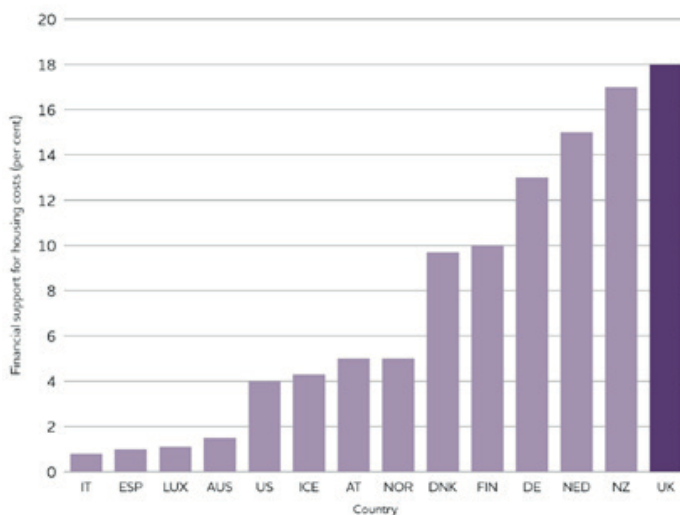
The housing costs Britons face are now among the highest in the world, and this holds for house prices or rents, in absolute terms or relative to income. There is a shortage of housing for first time buyers, in the social housing sector, and in private accommodation (ibid.). We lack houses of every type.

The housing shortage is already a cause of inequality. We lack homes (among other buildings) near the best job markets especially. This is a particularly serious problem, because young people who would otherwise move to better jobs are often, understandably, simply not prepared to bear the costs of nearby housing, so those who would work in our most productive sectors choose less productive jobs elsewhere (Myers 2017). Britain's economy is needlessly held back.

This also means Britons are increasingly barred from their own capital city. London is now virtually the most expensive major city in the world for renting or buying a home (per square foot), although other cities in the UK are also extremely expensive by world standards. The impact of house

prices on demand for housing benefit is also sadly predictable, with the proportion of our people needing financial support for housing costs almost unique among comparable countries, and the average cost of housing benefit now over £900 a year per household (Meakin 2015).

Figure 2: Proportion of the population receiving financial support for housing costs (Housing Benefit or equivalent), 2009 (per cent)



Source: Niemietz (2015)

The fact of the United Kingdom's failure to build housing is clear. It is therefore reasonable to ask how we arrived here.

Causes: how we tied the Gordian Knot

The centrepiece of the British planning system is the Town and Country Planning Act, passed by Clement Attlee's government in 1947. Combined with the system of green belts that appeared in the 1950s as a result,¹ our planning system can now fairly be described as a series of amendments around the structure of this Act (see Boyfield and Wickham 2019). Naturally, planning and building regulations existed before 1947 (some long before: it has been illegal to roof with thatch in the City of London since the thirteenth century), but the Act effectively nationalised development rights in England and Wales (ibid.). As a result, land use and ownership are now subject to more statutory control than ever in our history.

Research strongly suggests that, despite much-discussed factors that are very specific to localities (such as foreign resident demand in central London), at least half of the rise in house prices between 1974 and 2008 is due to regulatory constraints (Hilber and Vermeulen 2016), and a minimum 35 per cent of the average UK house price has arisen directly from planning constraints (the proportion is much higher in London and the south-east of England (ibid.)), with local restrictiveness by percentage of applications refused now the most important source of house price variation (Cheshire 2018); much of this restrictiveness, as we will describe, results from central government action). This regulation has been especially effective at imposing highly unusual limits on *supply* (Cheshire 2009).

Like so much central government activity, in many ways this Act was well meant. Attlee's post-war government wanted to restrict urban sprawl, and

¹ Although the earliest green belt designations appeared through the Green Belt (London and Home Counties) Act 1938, these were very small areas of land.

believed the green belts the Act instructed local governments to designate would create 'circular parks' (Myers 2017) around our cities (green belts should not be confused with Areas of Outstanding Natural Beauty (AONBs), Sites of Special Scientific Interest (SSSIs), or National Parks, all separately protected). Green belt designation involves an almost total prohibition on development, even when a local community wants houses to be built. But the green belt has grown far beyond what was first proposed. Even in 1974, green belt only covered 692,800 hectares: by 2017 it had more than doubled to 1,634,700 hectares (ibid.). Green belt now constitutes 14 per cent of the land in England, but green belt classification does not account for the actual quality of the land, whether an appropriate style of housing could beautify it, or lead to local approval for building.

With such limits on supply, central government has at various times responded to the inevitable inability of local governments to build by taking more control unto itself, then trying to force them to do so. The most direct example was John Prescott's 2004 Planning and Compulsory Purchase Act, which stripped local government of even more of its planning role (Jenkins 2004), taking rural conservation and economic development functions into the regional offices of his own department,² and saw Whitehall officials determining 'Regional Spatial Strategies'. Though now broadly revoked, these covered such areas of planning as converting farmland to industrial use, new towns and village expansion, and individual district housing targets (naturally prepared by central government).

Among its other impacts, this lack of local control is a major reason UK local election turnout is below the European average. As Simon Jenkins has written (ibid.), this:

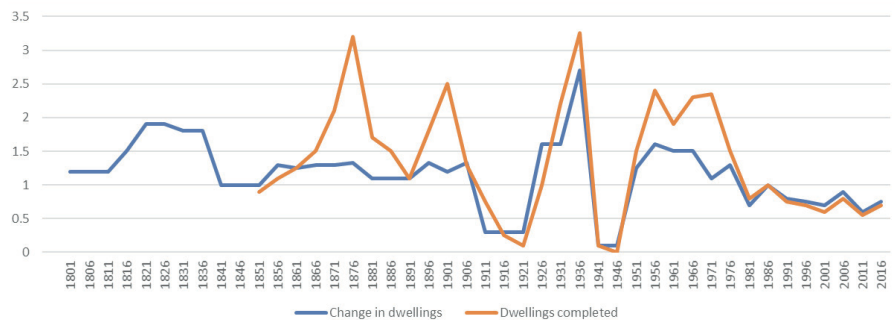
stripped the English counties of democratic purpose... The proposed system was widely ridiculed. It was likened [to] Soviet social engineering (by *The Times*) and the death of rural England (by the Green Party). Mr Blair and Mr Prescott were unmoved. The 2004 Act imposed central targets on the local planning framework to a degree unknown in England and unheard of elsewhere in Europe. It marked the end of popular control over the evolution of the English landscape, control that ran from the Middle Ages through the Industrial Revolution to the end of the 20th century. It was a return to the ancient prerogative of 'the king's forests'. Central government

2 At the time the Office of the Deputy Prime Minister, now the Ministry for Housing, Communities and Local Government.

was initiating a truly nationalised system of land use of a sort familiar only to communism.

Meanwhile, though scholars often highlight the fall in supply from 1950, the graph below is more compelling. Showing gross and net building, it outlines how government-driven estate construction in the 1960s also involved the large-scale demolition of existing homes, distorting the real picture. The overall change in dwellings shows us the persistently low net level of housebuilding since 1947.

Figure 3: Gross and net change in dwellings (as a percentage of the existing dwelling stock), England and Wales (1801-2016)



Source: Neal Hudson, Residential Analysts (2017)

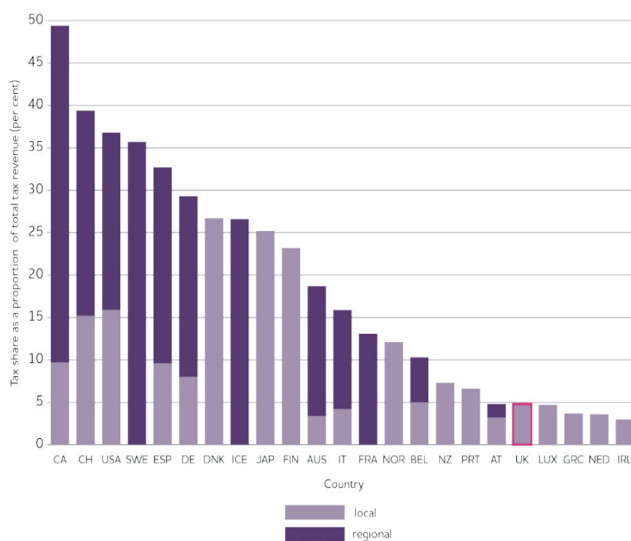
Our failure to build enough houses since the 1940s is often called a market failure, but this is not true. It is a failure of state planning. The result is that not enough houses are being built, they are too small for contemporary needs, and, as we will discuss, they are frequently not the type or style of houses that people want to live in, or want to see built in their neighbourhoods.

No skin in the game: local incentives and the homes people want

Having placed severe constraints on supply, during the same post-war period British governments made another change which is vital to understanding our problem: they took central control of tax.

The United Kingdom now has more centralised taxation than almost any other democratic country: having expanded to fight two successive world wars, with the arrival of peace, Whitehall found myriad ways to put its new-found supremacy to use, and resolved that central government needed fiscal control. Today, 95 per cent of our tax take goes to the central state (Wadsworth 2009), and, as Figure 4 illustrates, only much smaller countries are comparably centralised (in Canada, for example, this is more like 50 per cent).

Figure 4: Tax share of the local and regional levels as a proportion of total tax revenue (per cent)



Source: Niemietz (2015)

Local authorities have seen their powers reduced accordingly, increasingly becoming little more than distributors of 'grants', or the money that Whitehall deigns to give back to them. This means that where development is not proscribed by green belt status anyway, a local authority that is considering allowing houses to be built knows that it will receive relatively little direct tax benefit from housing for new residents, but it will face some of the costs of the necessary new infrastructure, and the initial administrative burden. It is liable therefore to find itself disincentivised from allowing housebuilding.³

Conversely, a local authority that blocks all new housing will bear very little cost. The tax rises that will be needed to pay for the extra housing benefit (which results from the higher cost of housing) will be spread nationwide, and back to the British taxpayer. Meanwhile, Whitehall is too distant from the level of the local community to feel the results of its actions (this is what Nassim Nicholas Taleb calls a lack of political 'skin in the game'). If central government had wanted to design a system that would drive up the cost of housing, it could hardly have done better.

When we look at our tax system on the national level, we see that it also leads to the less efficient allocation of housing. For instance, high nationwide Stamp Duty penalises property transactions, impedes downsizing, and harms labour mobility (in this case people's ability to move to the work they want to do), misallocating dwellings and causing a welfare loss. Whitehall has thrown in yet another distortion in our inheritance tax system, where in treating housing wealth preferentially to other wealth it has further inflated demand relative to supply (Niemietz 2016). But it gets worse.

Next, by exempting many homes (but not shares) from Capital Gains Tax (CGT), government has driven up house prices further, by encouraging the misallocation of savings (Myers 2017). (Here we can add the high rate of VAT on restoration (HMRC 2018), which has helped disincentivise the re-use of cherished buildings for homes, causing them to fall into disrepair, which is both a loss in itself and has driven down supply still more).

Next, tax on buy-to-let landlords. This was an attempt to boost the owner-occupied housing sector, but served as a fiscal strike on privately-rented

3 Other aspects local governments may consider could include new voters with different political leanings, but this is beyond the scope of this paper. While the dynamics of taxation incentives are complex, the evidence points us to the importance of beginning fiscal decentralisation.

housing which also made landlords scapegoats for the housing crisis (Beck and Booth 2019). A classic example of government trying to compensate for previous mistakes by making some more (while benefitting no one but itself), this is also likely to have pushed up rents (with a tiny benefit to buyers which is limited to the already wealthy) (ibid.).

Next, according to the homelessness charity Shelter, 'Help to Buy' has driven house prices even higher, by over £8,000 (so far) (Van Lohuizen 2015), because the policy inflated demand, which in any market with inelastic supply is liable to raise prices (Niemietz 2016). This is also self-defeating, and another policy that has made the housing crisis worse.

These government initiatives and 'big push' tactics all have one thing in common: they do not work. In broad terms, they fail because they attempt to treat the symptoms but fail to treat the cause. In this way they are very much like the Whitehall approach to Nimbyism.

Nimbyism: more symptom than cause

The results, on a national scale, of the inability of local governments and areas to benefit from housebuilding have been more profound than is usually understood. As we have seen, many people are unable to move where they want to work, others are forced to leave their own towns as they become too expensive. But that the incentives are to block, not approve, new homes, combined with the inability of neighbourhoods and villages to determine what kind of houses they see built, has helped cause adversarial planning processes of great length and cost.⁴ Added to the costs of tax on building in general, this means that, increasingly, only large incumbent housebuilders can make a profit, especially because a developer may need to have numerous planning applications in progress simultaneously for one to succeed.

The price of these combined planning applications must then be combined with the price of land, which means smaller developers are priced out, and that there is little margin left over for arguably the most important thing of all: the design of homes. The result has been the estates of identikit housing that have sprung up across the land, at the expense of both smaller and more local developers, as well as those companies willing to

4 The length of these processes, and the apparent increase in length of time required, are discussed for example in Ball (2008).

spend more on the housing designs that people actually want, including locally-fitting architecture. This means it is frequently impossible to build the kind of houses that would reduce opposition to building itself. (As Pennington (2002) has described, in economic terms this means housebuilding has become a special interest issue, whereby a small group captures a too-large benefit while imposing a larger cost on a larger group, while benefitting from a political process skewed in its favour.⁵)

We have thus arrived at the economic and cultural conundrum that explains why we have become unable to build the houses that people want to live in. And it is hard to deny that much of the resistance to housebuilding, and to building in general, arises because of how people expect a new building will look.

As we look at how to cut the knot, it is worth asking how this part of the problem occurred. Leaving the political question temporarily aside, it is important to recall that economics is also a field of moral sentiments. We often call these 'values', or the shared understandings of what constitutes good behaviour. For example, Britain developed first, not because of some fluke, but because our values placed a relatively strong emphasis on private property rights and freedom under the rule of law (amongst other things), and these helped people invent freely, profit from their own innovations and hard work, and re-invest without fear of being fleeced. So markets function best when the actors within them behave according to the values shared by the other participants. When one group of participants fails to trust the other, however, they are more likely to demand costly protections against bad behaviour, meaning burdensome regulations or outright bans, harming growth.

So it may also be no coincidence that the explosion, since the 1960s especially, of controls and bans on building, has coincided with a popular loss of confidence that architects will build things people want to look at: in other words that they will share their values. Indeed, a large body of research now demonstrates precisely this.

In one experiment, volunteers were shown photographs of unfamiliar people and buildings, then asked to rate their attractiveness. One group of volunteers were architects, the other was not. The groups were in harmonious agreement about people's attractiveness, but non-architects and architects

5 According to public choice theory.

had strikingly different opinions on what constituted an attractive building (Boys-Smith 2018), a disagreement that became more pronounced with experience, as if architects were being taught to dislike the very things the public found beautiful. And in recent opinion polls, when asked what they want from new homes, 74 per cent of people said their home should fit its surroundings, while only 11 per cent wanted a home to be modern even if it does not (Airey et al. 2018). Today, 65 per cent think traditionally-designed housing helps good relations in a community (ibid.).

But many architects seem determined to maintain this great divide. Royal Institute of British Architects (RIBA) prizes demand evidence of sustainability, but none of what the public actually think of a building (Boys-Smith 2018). Indeed, when asked recently why the council he worked for had chosen for housing an incoherent jumble of glass and steel towers instead of buildings local people wanted, one planner replied that the latter would win them no prizes from RIBA (one duly arrived). We seem to know this instinctively: when a traditional building appears, the joke goes, nobody likes it except the public.

So the evidence tells us that architecture has diverged from public wants. But how might this divergence have come about? A cultural trend was clearly at work in the twentieth century, and some architecture has been so unpopular that local communities have taken to the streets to prevent its construction. When we compare, at the extremes, the line and elegance of the Georgian Square (which the rich are free to choose), with brutalist estates like the now largely demolished Robin Hood Gardens (which the poor had forced upon them), we understand the development of strict rules, and frequently simply bans, to control and prevent building. We also understand that much-maligned thing, Nimbyism.

Here, the public are accused of behaving irrationally, claiming to want housebuilding nationally while attempting to block it in their own neighbourhoods. This is not irrational, however. If you know the houses being planned on the field next door will do genuine harm to your town or village, depriving it of local character, and you also know that future potential residents will agree, which will harm the value of the home in which you have invested much of your salary, you will be right to try to stop this building (note, however, that many homeowners do not even seek to maintain high prices, and oppose building simply for aesthetic reasons). You may oppose building even as you regret it, because you know that houses need to be built (Pennington 2002), perhaps for your own children.

It is too easy, then, to criticise Nimbyism, which is a symptom, not cause, of our problems. But what if the market could induce the return of loved buildings, of widely accepted architectural beauty? Then many of the interventions in this market, in which values have diverged and trust has faltered, would be rendered unnecessary.

The good news is that it can.

The centralisation of tax and planning processes that promote the types of buildings that people do not want: we can undo this. The inflation of prices through the excessive use of green belt classification, even for low-quality land where people want houses to be built, has done the same: this too can be undone. The capacity for householders and communities to elect, for example, their own style of building, has been hindered by self-defeating control: this we can also change.

Whitehall's taking control of housebuilding created and exacerbated the very housing crisis it intended to manage, harming our national beauty and pitting government against people along the way. In the two decades from the late 1950s, having chronically restricted supply, government planners also directly imposed their preferred types of housing on the British people, giving us some of the most disliked housing we have seen. Now, the tower block became a very symbol of the belief that the planner knows best. In modern Britain, there are few better examples of why markets and choice work better than state planning, and of the cruelty that results from our failure to observe this.

The historian David Kynaston has recounted how, in 1958, as fifteen new blocks were imposed on a square mile of Bethnal Green alone, a newspaper correspondent walked among the rubble of the razed streets, and saw on the remaining scraps of brickwork a silent protest: 'again and again someone had chalked on the shattered walls "I lived here"' (Kynaston 2015).

In Birmingham, as mass relocation to tower blocks gathered pace (from housing which had clearly needed improvement), the chairman of the city council's Planning Subcommittee decided that 'it is understandable that people cling to the old idea of things [but] we shall overcome this prejudice'. In Sheffield, a Marxist sociologist decided that 'the success of the new tall blocks suggests that the traditional attitude is not permanent' (ibid: 48-49).

Just as the evidence of the harm tower blocks were doing became unignorable in the 1960s, devotion to them in government became unstoppable. Mass petitions against these buildings, such as from 11,500 citizens in Bristol, were ignored. When a BBC programme in 1961 investigated the growing incidence of depression among the out-of-town high-rise estates to which communities had been uprooted, one architects' journal responded with irritation at local people's opinions having even been asked: 'good scripting and good camerawork could say far more about architecture than any amount of interviewing of tenants', while one GP complained of the 'excessive demands for his services' among residents. A correspondent noted breezily: 'There are, of course, social objections to compelling families with young children to live in high flats', but this was not allowed to intrude on 'integral plans' (ibid: 49).

On the rare occasions when their opinions were asked, people were massively against the new tower blocks, and wanted their own houses. In a 1962 opinion poll in Leeds among people whose houses were to be cleared, only five per cent wanted high-rise flats, which they were inevitably given. Another newspaper report, 'The Sky Prisoners', surveyed sixty-two new blocks in the London area, and found that fifty-two per cent of two- to five-year olds played only inside the flat. One mother despaired that her child could not go out to play because they were high up and near a main road. Even though she was at home, 'in desperation... I have put him in a nursery and now feel I am missing the best years of his life'. In Oldham, one member of the Housing Committee stated: 'I know that many people do not like flats, but... the sooner [they are] accepted by the townspeople, the happier they will be about it' (ibid: 672-3).

The housing consultant Elizabeth Denby had 'plenty [of] evidence to show that [people] really wanted the type of building they had before... a house and garden'. She also found in her analysis of four London squares that 'family houses with a reasonably large common garden and good private gardens can be grouped at the same density as family flats, costing less and giving greater satisfaction'. Whereas tower blocks were an approach 'in which architects delight', she had 'yet to find one who lives in such a block himself' (ibid: 48). The evidence was simply dismissed.

State control over building, like much else, divides society into a 'who' and a 'whom'. Socialist ways of doing things tend to mean power for the planner and penury for the planned-for: the state's imposition of ugliness and isolation on the British households who, in the twentieth century, lacked

a choice about where they could live was no exception. But we believe that the best vehicle to provide beautiful and well-liked homes for all is choice. Just as a relatively free market in advanced technologies has made these available to virtually everyone in our country, a free market in beauty can mean the same for homes that people will want to see built.

It is also certainly time to be more assertive about beauty itself. We can propose one way: *take back pastiche*. For too long, 'pastiche' has been a term of abuse. No longer. The truth is that all good building is pastiche: Inigo Jones re-invented Vitruvian symmetry to create a (very inaccurate) pastiche of classical temple architecture.⁶ In turn, the Palace of Westminster is a Victorian pastiche of Medieval Gothic. Within a few years, no one remembers that a building was pastiche. It is simply enjoyed for its beauty.

But by freeing a market (while maintaining the necessary rules on building safety), the housing that people find fitting will appear organically anyway. When we describe the rejuvenation of a free market for building, we describe the capacity of freedom itself to generate beauty, and then of beauty to regenerate support for building, or more freedom: one virtue will sustain another.

Therefore, to solve the problem, we should clearly understand the Gordian Knot, which in summary looks like this:

- The central state took control of taxation and denied local governments the incentives to allow more houses to be built, generally leaving them only the costs;
- It then asked many of them to prevent any housebuilding on large areas of land called green belt;
- Planning processes locally then became so difficult that big incumbent housebuilders took the advantage, leading to indentikit housing estates across the country;
- Nimbyism grew, making housebuilding harder still;
- Whitehall then decided Nimbyism itself was the problem, vowing to 'push through' housebuilding, which has caused more

6 A Roman, Marcus Vitruvius Pollio, established Vitruvian proportions in *De Architectura* in 30-15 BC. The book was itself a pastiche of the architectural concepts of the Greek Golden Age around four centuries earlier. It was re-discovered in a Swiss monastery by the Florentine Poggio Bracciolini in 1414, before the English translation that inspired Inigo Jones appeared in 1547. All style is pastiche.

resistance, while all the time a free market could be building the houses we need.

Solutions

The outcome we need is relatively straightforward. We need to reduce house price increases, which means we need to build many more houses, but without causing the value of people's homes themselves to fall,⁷ instead aiming for a gradual stabilisation of prices nearer the normal multiple of three times earnings. This means rolling out a programme of reform incrementally, demonstrating in one or two major cities first, for example, that the reforms are both beneficial and will not lead to negative equity (meanwhile, although fixed rate mortgages have become more popular, it is important to remember that an interest rate rise closer to normal levels would see many homeowners' repayments become more demanding).

That the current system has been so detrimental does not mean a choice between continuity and no restraint at all, however. Individual and voter preference means that local governments and communities will continue to impose restraints on building, in terms of both place and style. The need, then, is to change the centripetal dynamics of a system that simply does not achieve the necessary outcomes. The solutions proposed here would, incrementally, reform our failing system of central planning for housebuilding.

⁷ It is important to avoid negative equity for many reasons, not least its implications for the stability of the financial system.

Cutting tax, decentralising tax

Fiscal decentralisation is an important part of the solution. The centralisation of our property taxes deprives local government of incentives to allow building or to ensure the quality of the environment, while the structure of fiscal incentives at the national level badly distorts our housing market.

The solutions begin at the national level itself, where seeking more home ownership does not justify attempting artificially to inflate it by creating tax burdens elsewhere, such as Capital Gains Tax (CGT) on shares that leave homes exempt. This simply increases house prices, and this distortion can be reduced by lowering CGT on shares (Wadsworth 2009).

High Stamp Duty also harms people's ability to move and to buy. As James Mirrlees described it, this tax '[defies] the most basic of economic principles by taxing transactions and produced inputs respectively' (Beck and Booth 2019). Stamp Duty can therefore be reduced to 2010 levels, then devolved so that local governments have the capacity to reduce it further (though not to increase it back above 2010 levels). As we have seen, VAT on maintenance and restoration also harms supply, and can be abolished (see Meakin 2016).

Stamp Duty is also too complex, with lower rates for self-built homes, and properties left empty or allowed to become derelict,⁸ creating an incentive for people to leave properties vacant. The latter harms supply and the capacity to move, while making it difficult for buyers to pay the right tax (although the first-time buyer exemption, which does help people to buy, should remain).

Meanwhile, as Beck and Booth (ibid.) have proposed, investment in property should be treated like investment in any other business, with all business costs deducted before taxable income is determined, and with no discrimination between different vehicles for holding property.

It is also important to consider the role of brownfield site redevelopment. Some caveats are important here. The redevelopment of some of this land into housing would be economically feasible only with subsidy, which we do not propose. Furthermore, many post-industrial brownfield sites

8 Following a recent tribunal ruling: <https://www.smithcooper.co.uk/news-insights/a-win-for-developers-tribunal-rules-dilapidated-and-derelict-houses-are-not-liable-for-stamp-duty-surcharges/>

are found in areas of the Midlands and North East especially, where there is less demand for housing. However, a better tax system can still help housebuilding on brownfield sites. Corporation tax relief is supposed to be available to clean-up contaminated and derelict land, but the small print deters investors, with considerable detail on what can and cannot be claimed. Meanwhile, tax relief is only obtainable on profits, but the cost is paid at the construction stage, before any profits appear against which to claim relief. These are obvious areas for reform (Haslehurst 2014).

Beginning with a degree of fiscal devolution would see local authorities rewarded for cutting Stamp Duty (thus easing a restriction on supply) by attracting more residents to become net contributors to local budgets, so blocking development would have a greater cost (ibid.).

Local governments would also be rewarded by being able to keep the revenue they generate when they allow housebuilding: more houses would then mean more residents and more council tax-take, for instance.

It is important to achieve proof of concept first, through an incremental approach that could begin, for example, in Birmingham and Manchester, generating support for a nationwide roll-out.

A new Right to Buy: reverse compulsory purchase orders

We have seen how the scale of the green belt creates serious problems for supply, and we return to this below. Another constraint on supply is that six per cent of land in England and Wales (about 900,000 hectares) remains in direct state ownership. This vast land holding includes 170,000 hectares of Ministry of Defence land (itself over one per cent of the land area of England and Wales), while NHS Property Services and NHS Trusts also own at least 4,500 hectares (Boyfield and Wickham 2019).

Among urban local authorities, where demand for housing is often most severe, fifteen per cent of land is owned by the public sector (ibid.). In eight local authorities (Brighton and Hove, Barking and Dagenham, Eastbourne, Rushmoor (comprising Aldershot and Farnborough), Gosport, Leicester, Portsmouth, and Stevenage) the public sector owns over forty per cent of all land (ibid.), an extraordinary figure.

Yet progress on land disposals has been slow. According to a National Audit Office study of the public land sold from 2011 to 2015, only 200 new

homes had been completed on a sample of sites with the capacity for 8,600 homes, suggesting that housebuilding is far below the overall capacity of 109,500 homes from all these sites (NAO 2016). The government target is now to sell land for the construction of 320,000 homes by 2020, which currently appears very optimistic.

There are obvious ways to change this. It is important to be radical in order to build houses on these great tracts of land, transforming the Right to Buy to apply to government land; a mechanism to allow people the right to demand the sale of government land is needed, without which progress is liable to be slow. Government can also reverse the compulsory purchase procedures it has used to acquire land, using Disposal Orders for public sector land to create entrepreneurial opportunity: compulsory purchase orders in reverse.

As Boyfield and Wickham (2019) propose, the Government Property Unit in the Cabinet Office can accelerate the Government Estate Strategy, which has sold little public land so far, with a senior cabinet minister made responsible for identifying and releasing public land for housing⁹ (we can also review whether the £45 million given to the Local Authority Land Release Fund has been good value for money (ibid.)). Small housebuilders, who are also vital for these sites, would also benefit from exemption from Community Infrastructure Levy (CIL) and Section 106 payments (except for safety) (ibid.). There is also an argument that this land should be sold off at land value, not building value. Importantly, unlike for brownfield sites, much of this land is in high-demand areas, such as in the south-east of England.

Making the green belt do its job

Sadly, the very language we use about housing now suggests central command: housing must be ‘driven through’, or ‘forced upon’ a locality, as if we were describing a patient who does not know what is good for him. As we have seen, this is the result of a half century in which the British people have learned that new housing will lack a sense of place. It need not be this way.

The green belt has expanded well beyond what was originally intended. Some Metropolitan (London) Green Belt land is now twenty miles from a

9 This is also recommended by the House of Lords Select Committee on Economic Affairs (2016).

London borough (ibid.). Local authorities can already ‘amend’ their local green belt (Myers 2017), but if a local authority has decreed that the green belt boundary is a ‘strategic policy’, which they often do, this will simply not happen.

It is also important to remember that development on greenfield sites other than green belt is more harmful to the environment and to people’s wellbeing (Papworth 2016), but this ‘green belt hopping’ into rural areas beyond the green belt is precisely what is taking place, and failure to reform the green belt will exacerbate this. Selective green belt reclassification nationwide is therefore necessary. The purpose, however, is not the complete scrapping of the green belt, which is unnecessary. Most green belt would remain; that which is declassified can, through appropriate housebuilding, become *more* attractive.

The green belt is too big, and it often fails to achieve its purpose of aesthetic and environmental preservation. But it has served *some* purpose, in preventing the growth of huge conurbations at the expense of individual character: we do not intend for Bath to become a south-eastern suburb of Bristol, for example, nor should the larger city devour the Somerset countryside on its southern flank.¹⁰ By the same token, the green belt preservation of Sheffield’s Pennine river valleys clearly serves an environmental purpose. Reclassification would not remove all green belt designation.

The National Planning Policy Framework (NPPF)¹¹ states that the green belt has five functions:

1. Checking the unrestricted sprawl of large built-up areas;
2. Preventing neighbouring towns merging into one another;
3. Helping safeguard the countryside from encroachment;
4. Preserving the setting and special character of historic towns;
and
5. Helping urban regeneration, by encouraging the recycling of derelict and other urban land.

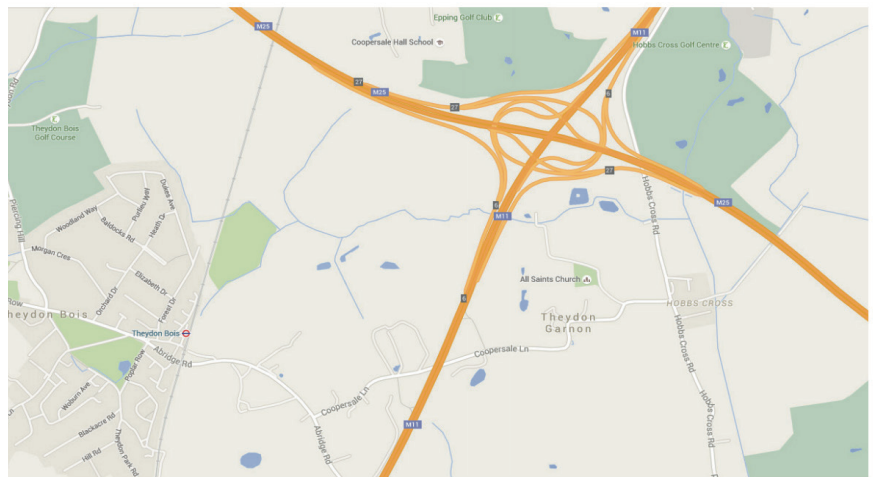
10 For a deeper discussion of the economic and philosophical questions raised by the green belt, see Pennington (2002).

11 Available at: https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/807247/NPPF_Feb_2019_revised.pdf

Therefore, areas of green belt that do not support a single one of the five NPPF purposes may be declassified.¹² This would include green belt land that has already been developed: in many such cases, continued green belt classification prevents beautification, and many examples illustrate how ongoing green belt designation is actually preventing the maintenance of an attractive environment.

Figure 5 shows one example in Essex, a slither of farmland between Theydon Bois station on London Underground's Central Line and the M25-M11 junction, where green belt designation is preventing housebuilding to very limited environmental or aesthetic benefit. Meanwhile, Figure 6 shows that green belt land does not always prevent urban sprawl.

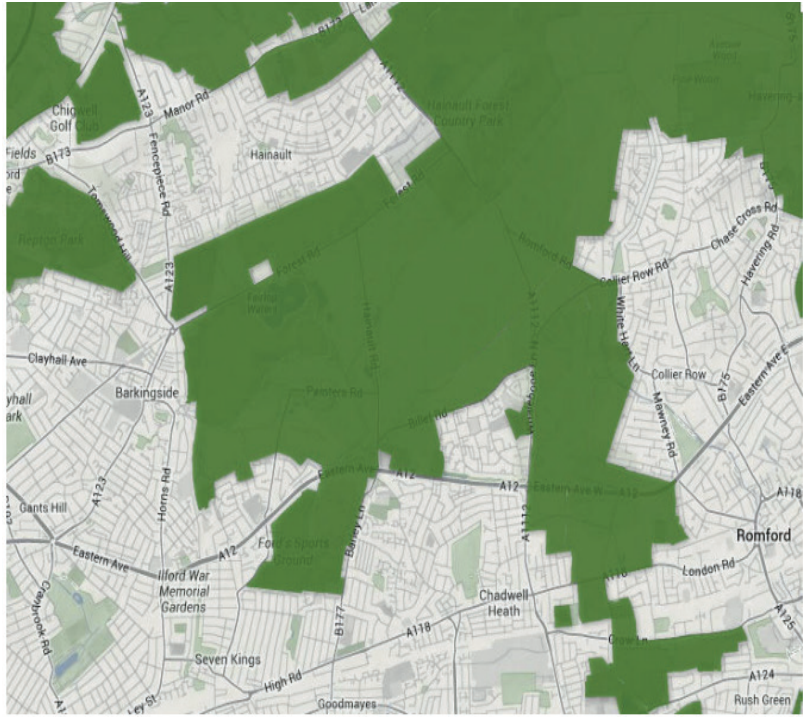
Figure 5: An example map of a green belt location



Source: Papworth (2016)

¹² We acknowledge that it may be argued that green belt land always fulfils function 5, however our emphasis here is on derelict land within the greenbelt, and the tendency of wrongly classified greenbelt land to cause green belt hopping instead of urban regeneration.

Figure 6: Green belt land in the London Borough of Redbridge



Source: Papworth (2016)

The photographs in Figure 7 are examples of poorly selected green belt land, and demonstrate how classification often fails in its objectives of environmental and aesthetic protection.

Figure 7: Examples of poorly selected green belt land



Source: McDonagh (2018)

This means that for re-classification (or 're-zoning') to work, central government will need to categorise where green belt land has become low-quality. This implies initial central activity to help free a local market, but where green belt has not succeeded in its aim of environmental and aesthetic preservation,

it is logical that it can be declassified. The majority of the green belt will remain, and will still be able to prevent disliked urban sprawl.

Releasing green belt land near transport hubs would also be a priority. This would include Metropolitan Green Belt land within realistic walking distance of a railway station (Papworth 2016). Even excluding locations with other protective designations, meaning places with genuine environmental value, there are approximately 20,000 hectares of green belt land within 800 metres of a station (*ibid.*; Meakin 2015). At current density levels of 50 houses per hectare, 20,000 hectares on greenfield sites within the outer circuit of the Metropolitan Green Belt (with 400,000 homes assumed to be within Greater London) would mean space for almost one million homes (*ibid.*). It is therefore untrue to claim that declassifying some green belt means the widespread 'concreting over' of greenfield sites.¹³ In total, the Metropolitan Green Belt covers over 514,000 hectares, four times the built-on urban area of London. Building one million homes on green belt land would mean developing merely 3.9 per cent of this Metropolitan Green Belt land (with a presumed half as much again becoming private gardens) (Papworth 2016).

Green belt land that is already built on, that has been allowed to become derelict, and other brownfield areas within green belt, would also be declassified. While this housing could in theory be built on non-green belt greenfield sites, for example, this would be more harmful to the environment. For example, of 'metropolitan greenfield' land, 35,180 hectares are green belt, with the other 25,000 hectares classified as Metropolitan Open Land (with the same protection as Metropolitan Green Belt), or parkland and other areas, which are much more frequently used by local people (*ibid.*). Using (some) green belt land will in fact preserve the most cherished places. In the de-classified zones of former green belt, there would be a presumed right to development.

This means that communities could in fact 'green' their green belts, by developing the sections which have been allowed to become less attractive. It is this capacity for communities to select housing that blends in that will allow more houses to be built in the long run. We will next discuss mechanisms to allow this to happen. This reform of the green belt would,

13 Cheshire (2014) states that 50 houses per hectare is 'the current norm'. For comparison, new London developments mainly in the inner city had an average density of 120 per hectare in 2012/13. See Papworth (2016).

we propose, begin with London, as well as Birmingham and Manchester. Gradualism is vital to demonstrate the benefits of these reforms.

Choice not bureaucracy: freeing the market in beauty

Granting permitted development rights to individual streets or villages (the former in cities, the latter in rural areas) to ‘build and beautify’ would mean residents could *gain* from local building, by placing control over this construction with actual communities. This would give back the advantage to small constructors, working as they can at the community level, or, in villages, the parish level.

In cities, this is a vital part of increasing urban density, but in desirable ways, for an urbanism rooted in freedom. However, like other local governments, London’s Mayor cannot yet grant individual streets or communities control over housebuilding, which as John Myers of London Yimby has discussed, would need to change.

The need is clearly there. Swathes of our cities consist of two-storey houses built over the last hundred years; half of London homes are in buildings of one to two floors. Extending these upwards – or replacing them, with the support of a community, to create more homes – could increase dwelling space in a suburban street *fivefold* (ibid.). Let individual streets decide to award themselves the right to extend or replace homes and, over time, we can see five million more homes in the capital alone (ibid.). This would require individual streets being given the right to vote to give themselves permitted development rights to build upwards up to, for example, six storeys. Like other reforms that we describe, this would help end the big developers’ virtual cartel.

The law can therefore be amended so that any residential city street could give itself additional development rights to ‘extend or replace’ up to a permissible height (with voting limited to absolute majorities of residents who have lived there beyond a certain time) (ibid.).¹⁴ Meanwhile, designations such as Areas of Special Residential Character would remain, and not all streets will vote for these rights, simply where residents perceive more certain improvements.

¹⁴ The limits on height would help prevent excessive spillover effects, such as loss of light, overlooking or congestion.

There is little need to fear that residents would simply block development, however. When residents are asked whether every household on their street should be able to build upwards (by one to two floors), they are very often in favour (Airey et al. 2018). Aside from the incentive for residents who would gain from the increased value of larger properties, developers are perfectly capable of meeting local style needs when they too have the incentive. Devolving this power all the way to communities has the added benefit of cutting council costs and tax, and letting developers devote less resource to planning departments, more to the extra cost of good design (see Evans 1988).

This local control over building, including upwards, can solve much of our housing problem in cities. London on average has half as many homes per square mile as Kensington and Chelsea or Westminster, two of the boroughs considered most attractive.

When streets and villages can choose precisely this building, we will find much public opposition unlocked. Streets of suburban semis could, when owners wish, become denser streets of attractive mansion blocks or terraces, with a dramatic increase in square footage and value for the average suburban street into the bargain. Because in our cities, we already know how to build higher-density housing that people want to live in. The elegant proportions of Georgian terraces in these boroughs make them the most loved homes in London. They were also built at speed and volume (Terry 2018), precisely what is needed now.

No one has a monopoly on beauty, however. The more *dirigiste* approach would be to mandate that local authorities have a design and style guide. These should be optional, for local authorities, or for streets and villages. Some boroughs and other authorities will choose them, some will not, just as some streets will vote for them. When local governments set design codes in the past, the result was the construction of some of our finest cities, such as Bath, while London also had a number of codes before the twentieth century, like in Bloomsbury. But it is important to note, like Stephen Davies, that 'the urban growth of [Victorian Britain] was voluntary and owed nothing to state plans... It was driven by private initiative and speculation, directed by property rights... the outcome was a process of urbanisation that was orderly but unplanned' (Davies 2002). The point is that, with the right local incentives (and rules on the safety and good condition of houses), there is no reason we cannot build cherished buildings once again.

Self-build would probably only be a relatively small part of the greater project of reform. Nonetheless, given individual owners' relative difficulty in negotiating planning processes, planning permission for self-builds could be fast-tracked, with a light-touch 'notification' process, with the presumption that people can build their own homes, under a style guide where a local authority agrees one (with local authorities given time to decide on one before new rules are brought in). We call this BIY: Build It Yourself.

Our failure to build houses is therefore a problem the market mechanism can solve. We do not need to *mandate* better building. That this is what the public want means that, if allowed to, the market will provide. The reforms we outline will bring down the cost of planning and increase the number of providers. This will increase competition, given the need to spend less before receiving planning approval. A less restrictive market will mean better building, and better building will itself reduce restrictiveness.

Cutting the Gordian Knot might therefore be done as follows:

- Devolving some taxation would benefit local property markets;
- Declassifying non-functioning areas of the green belt would also release some of the most severe constraints on supply;
- Allowing still more local devolution of some planning powers, such as to the street and village level, would give the advantage back to smaller firms of constructors and architects;
- This freedom will mean more houses, and houses that people want to live in and among;
- This will reduce resistance to housebuilding generally, rejuvenating productivity, home-ownership, and our property-owning democracy itself.

The beauty of freedom

This paper, and forthcoming book, describe how replacing market freedom and local decision-making with central planning has caused the national crisis that is our failure to build houses, and how reforming this system, in a staged and steady manner, will undo this. In this essay we have set out what we believe can be done at this stage: we have not outlined every possible reform or devolution that may take place in due course. And while this is a free-market agenda that returns power to the locality, some central direction will be needed, in the first instance, to return it. Naturally, we also acknowledge that some scholars and decision-makers cleave to the central planning of housebuilding for understandable reasons: central government is clearly not incapable of building at all times. Hayek (1945), however, should perhaps have the last word on why decisions should not be with the central planner, whose knowledge can so often be illusory:

[The] knowledge of the circumstances of which we must make use never exists in concentrated or integrated form but solely as the dispersed bits of incomplete and frequently contradictory knowledge which all the separate individuals possess. The economic problem of society is thus not merely a problem of how to allocate 'given' resources — if 'given' is taken to mean given to a single mind which deliberately solves the problem set by these 'data.' It is rather a problem of how to secure the best use of resources known to any of the members of society, for ends whose relative importance only these individuals know. Or, to put it briefly, it is a problem of the utilization of knowledge which is not given to anyone in its totality.

Much of our country's finest housing was created before the late 1940s, when the government took control. When it did, the housebuilding that research shows people find attractive — those Georgian terraces and Edwardian mansion blocks, for instance — ground almost to a halt. Now,

the British people should be able to expect homes that they will want to live in.

The moral case for action is manifold. It is a great irony that our crisis was created by the over-mighty state behaving in socialist ways, but that its results are fuelling support for more socialist-inspired policies, such as rent controls and subsidy, which will only make the problem worse. These will lead to another generation of renters, prevented from joining our property-owning democracy. Our failure to build is already harming our children and grandchildren. Instead, like the home ownership project of the 1980s, radical action to build houses and increase home ownership is needed once more. We propose that the programme we have outlined will do much to solve the great national challenge of our times.

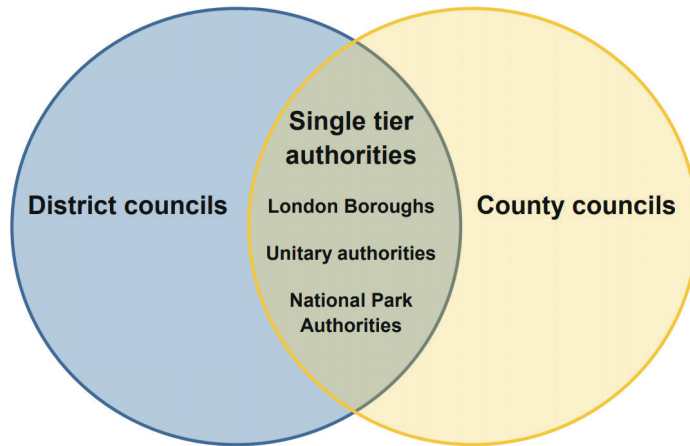
Appendix: Outline of the current planning system

The following outline describes the general structure of the planning system (some elements refer to England especially).

First, the local planning authority depends on the form of local government. Many places have three local government tiers: county councils; district, borough or city councils; and parish or town councils.¹⁵ District councils deal with most planning matters (although areas such as transport are usually county council responsibilities), but where single tier authorities exist these are responsible for the planning issues otherwise dealt with by districts and counties. In London the Mayor is responsible for some strategic planning applications (while in National Parks the park authority has planning responsibilities).

Local councillors' role depends on whether they are members of the decision-making planning committee; the local planning authority also appoints planning officers, who make around 90 per cent of decisions on planning applications. Decisions over larger developments are typically made by the planning committee, with officers making recommendations. Local authorities also provide planning enforcement services.

¹⁵ Plain English guide to the planning system (Department for Communities and Local Government, 2015). https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/391694/Plain_English_guide_to_the_planning_system.pdf



Source: DCLG (2015)

Where parish and town councils still exist, they may comment on planning applications and participate in producing Neighbourhood Plans (below), but otherwise have little formal power (where there is no parish or town council, local community representatives may apply to begin a neighbourhood forum to prepare a Neighbourhood Plan).

The Secretary of State for Housing, Communities and Local Government oversees the planning system generally, with responsibility for a small number of decisions involving appeals and major infrastructure projects. The Planning Inspectorate for England and Wales (an agency of the Ministry of Housing, Communities and Local Government¹⁶) decides most appeals on behalf of the Secretary of State. Also at the national level, local governments need to take into account the 2012 National Planning Policy Framework in preparing Local Plans and Neighbourhood Plans. A separate planning framework exists for infrastructure projects of national significance, including major transport infrastructure.

At the local level, the Regional Strategies that imposed requirements on groups of local planning authorities have been removed, although the London Mayor is responsible for creating a strategic plan, and the capital's Local Plans must conform to this.

¹⁶ Formerly the Department for Communities and Local Government.

Local planning authorities outline their intentions through a Local Plan, examined by an independent inspector who assesses whether it meets legal requirements¹⁷ (these may be informed by Neighbourhood Plans (since 2011), which are voted on in local referenda where they comply with local and national policies and legal conditions).

Local authorities can also apply the Community Infrastructure Levy to developments; and Section 106 (of the Town and Country Planning Act 1990) for developers to provide affordable housing or fund services; central government also pays the New Homes Bonus to local authorities to encourage them to build houses.

Planning applications are not required in all circumstances. When an application is required, the local authority usually makes the decision in the first instance. Applicants may appeal decisions to the Secretary of State through the Planning Inspectorate (where deemed as justifying ministerial attention, appeals can be 'recovered' from the Planning Inspectorate by the Secretary of State).

17 Especially Part 2 of the Planning and Compulsory Purchase Act 2004 and the Town and Country Planning (Local Planning) (England) Regulations 2012.

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