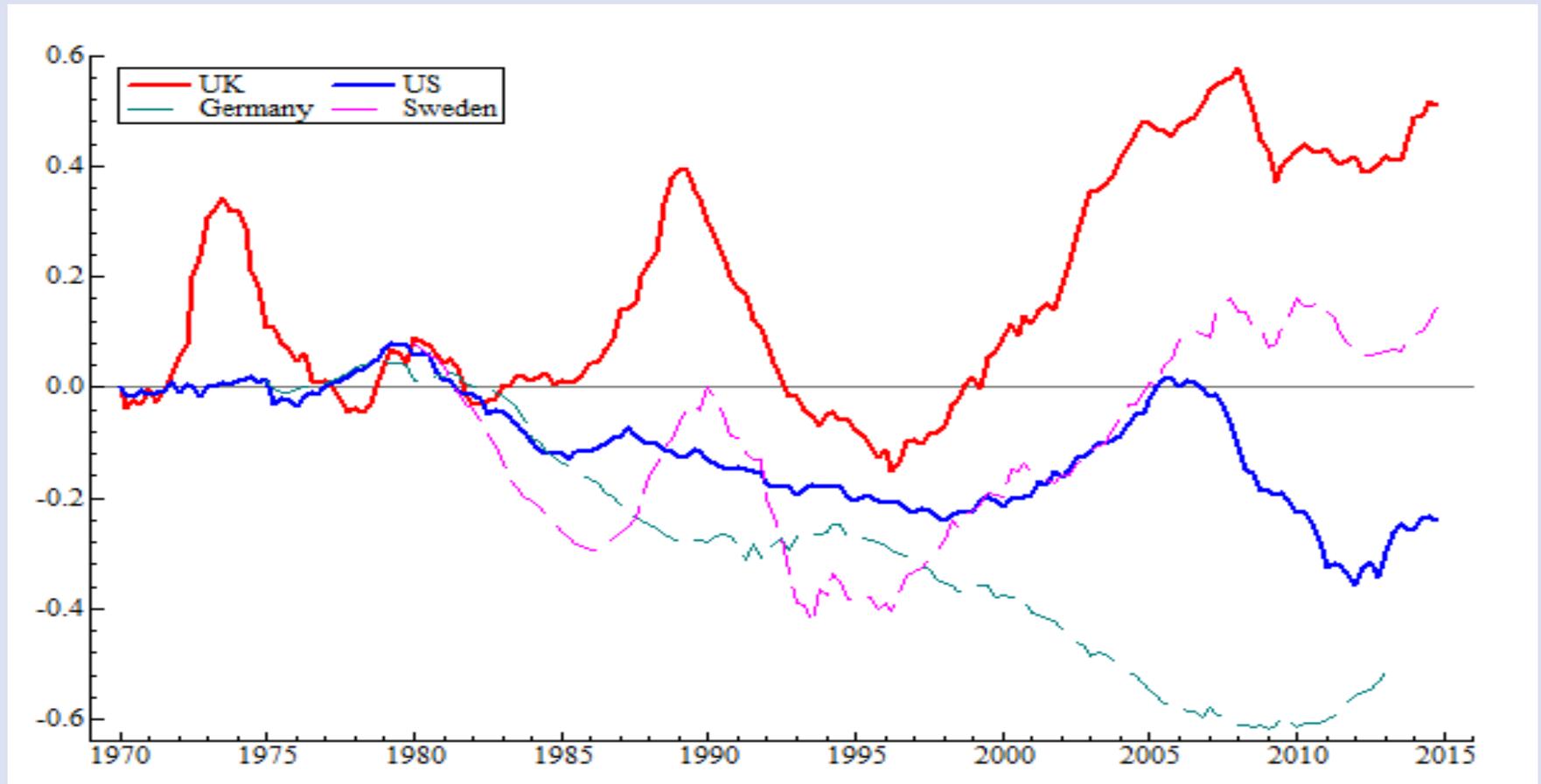


*The Housing Market and Macroeconomic
Policy: Britain's Housing Affordability
Crisis*

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Housing affordability in UK, US, Sweden and Germany house price/income ratio (log scale)



The UK housing market: unstable and over-priced

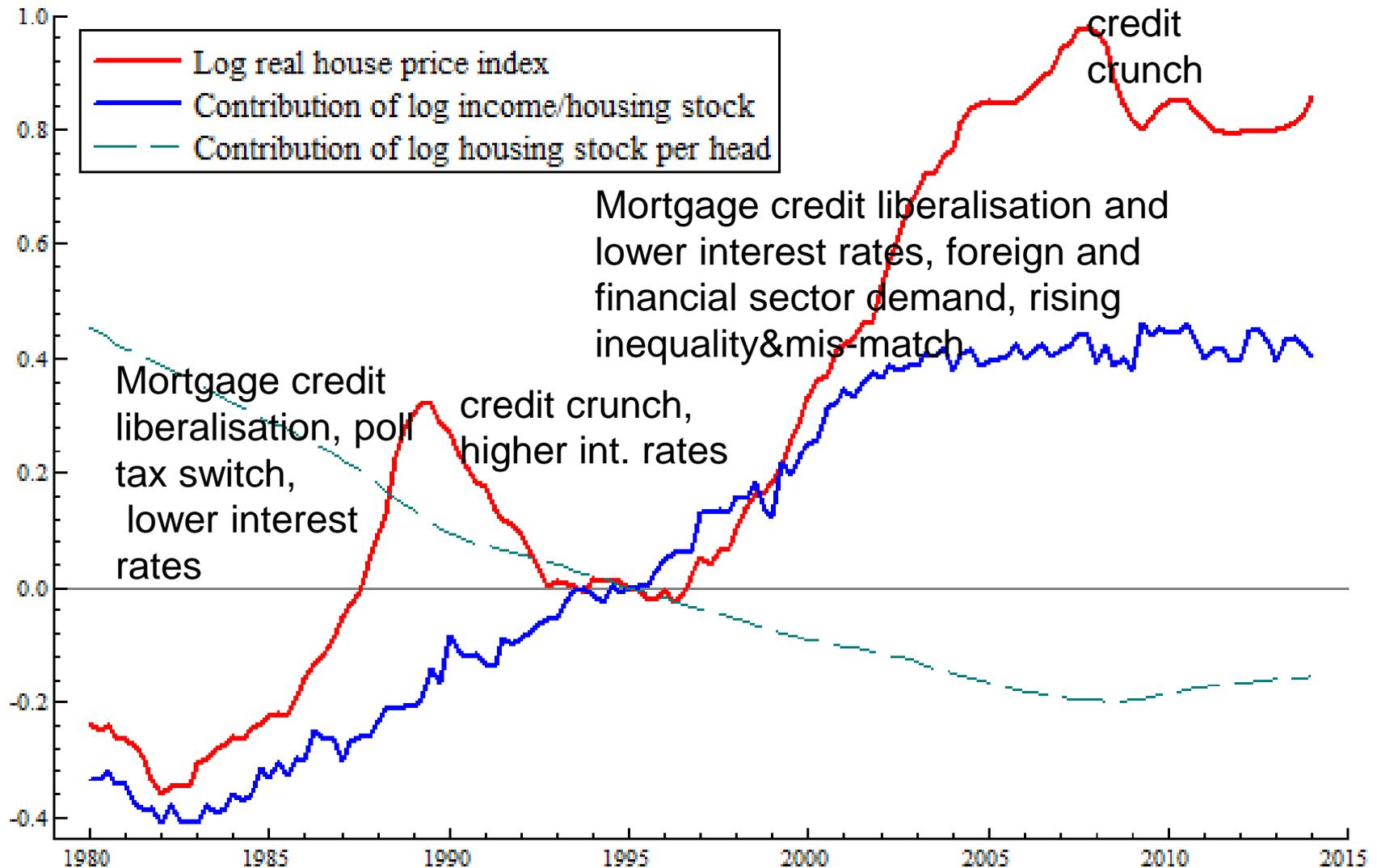
- Rise in house price/average income ratio in the UK from 1970 to 2014 holds the G7 record.
- UK ratio using median income rises even more – since income inequality rose.
- US ratio declines, though roughly flat for house prices/median income.
- German ratio declines sharply both for mean and median income.
- Since 1985, Swedish experience remarkably close to the UK. Many similar problems.
- Population densities: UK 660, Germany 593, US 85, Sweden 54 (pop/sq. mile)

Some consequences

- Huge inter-generational redistribution in the UK: the ‘lost generation’ born after Mrs Thatcher came to power in 1979.
- Home ownership for the young in radical decline.
- House prices reflect access to good schools, transport, clean environment: privileged opportunities for children of wealthy.
- Fundamental problem of supply, but also of demand.
- Macro consequences: risk of financial instability; lower growth rate because of weaker international competitiveness, lower productivity growth, less flexible economy and missing source of low-import-dependent growth from residential investment.

Bi-partisan UK housing policy 'achievements' since 1997

- **Redistribution of wealth to the older 'haves'.**
- **Financial crisis worse** than it need have been and **vulnerability** continues.
- **Possessions and arrears crisis** only averted by the most dramatic monetary and fiscal interventions in history.
- Falling owner occupation, **lowest fraction of FTBs under 30** since records began in 1968.
- **Lowest recent house-building levels** since 1920s.
- Property tax reform and supply side reforms are needed: **lack of joined up thinking** on macro-pru, monetary policy, fiscal policy and structural reform.



Supply: learning from other countries

- The lack of UK supply response is the key: **planning, incentives and social housing.**
- South Korea is a fine example of effective supply and demand management: the Korean Land Corporation's **national land bank allows most of planning gain to accrue to the nation, solving both supply and funding problems.**
<http://www.voxeu.org/article/six-fiscal-reforms-uk-s-lost-generation>
- Macro-prudential regulation used effectively to limit bubbles, especially in Seoul.
- In Germany, income relative to the housing stock has trended **down** since 1980 because far more housing land has been released.

How to obtain planning gain for the nation

- Key is to change fiscal policy focus to NET debt/gdp, where (at least) saleable assets, incl. land, in public ownership are netted off gross debt.
- Land acquisition on open market of land w/o housing consent has to be on a large scale to make subsequent switch of planning consent viable-otherwise nearby land owners will demand (via Judicial Review) equal grant of consent.
- New Towns Act (incl. compulsory purchase for hold-out land parcels) should be used on far larger scale (could be updated <http://www.tcpa.org.uk/data/files/NTA2015.pdf>)
- Extend brownfield focus of, e.g. Old Oak Common and Park Royal Mayoral Development Corporation (MDC), Ebbsfleet Urban Development Corporation (UDC) and Regional Housing Zones, to greenfield development.

Two references

- For discussion of financial stability risks including macro-feedback loops via house building, consumer spending and credit supply (and why feedback loops differ across countries) see **“When is a Housing Market Overheated Enough to Threaten Stability?”**
- <https://ideas.repec.org/h/rba/rbaacv/acv2012-07.html>
- For extension of simple model to a system of regional house price equations, see our DCLG affordability study paper **“Was there a house price bubble: evidence from a British panel”** with G. Cameron & A. Murphy
<https://ideas.repec.org/p/oxf/wpaper/276.html>
- One implication of our work: regional mis-match increases average house prices/av. income.