

# *Housing, Debt and the Economy: a Tale of Two Countries*

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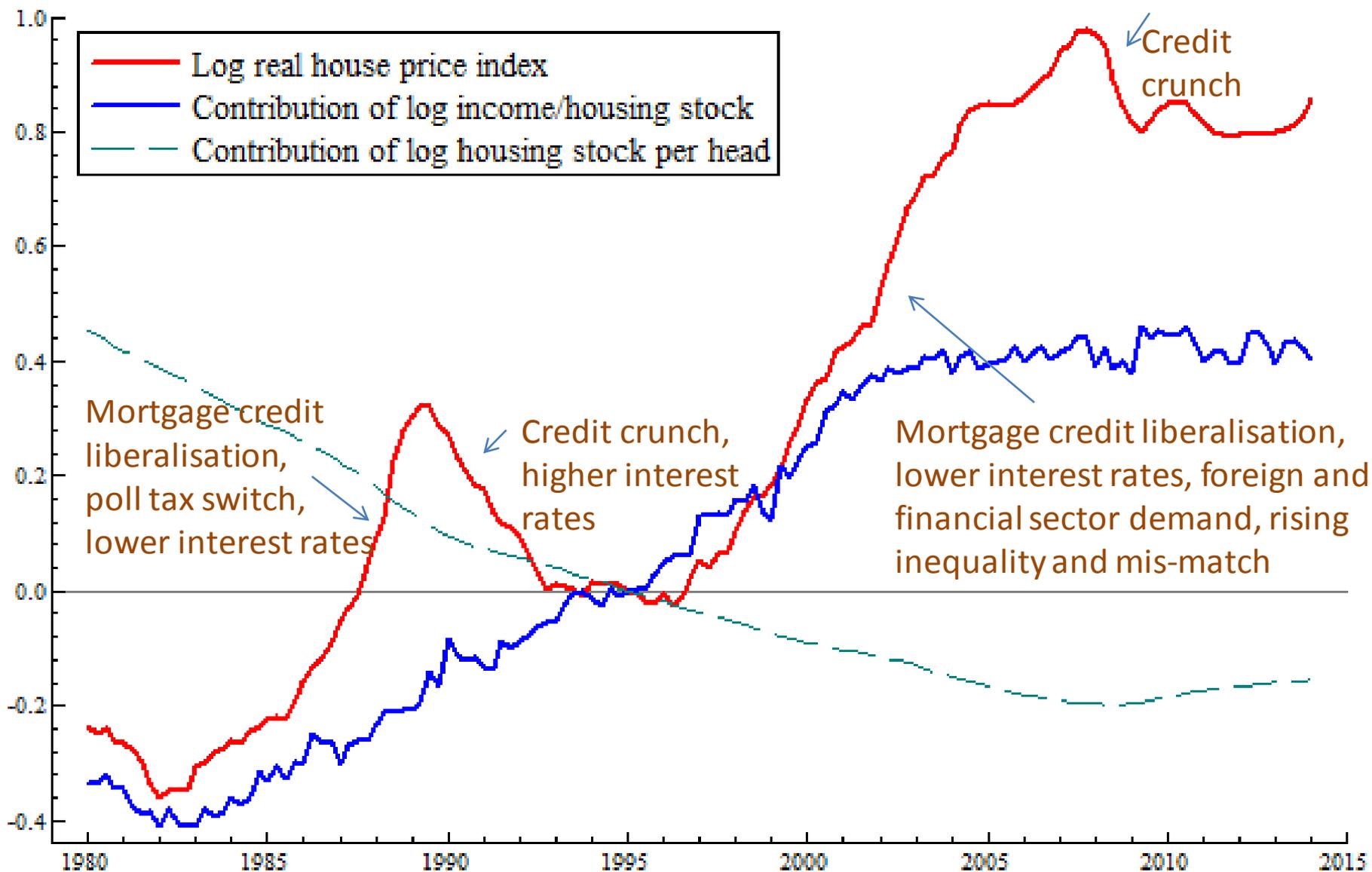
*NIESR 'The Broken Housing market'*

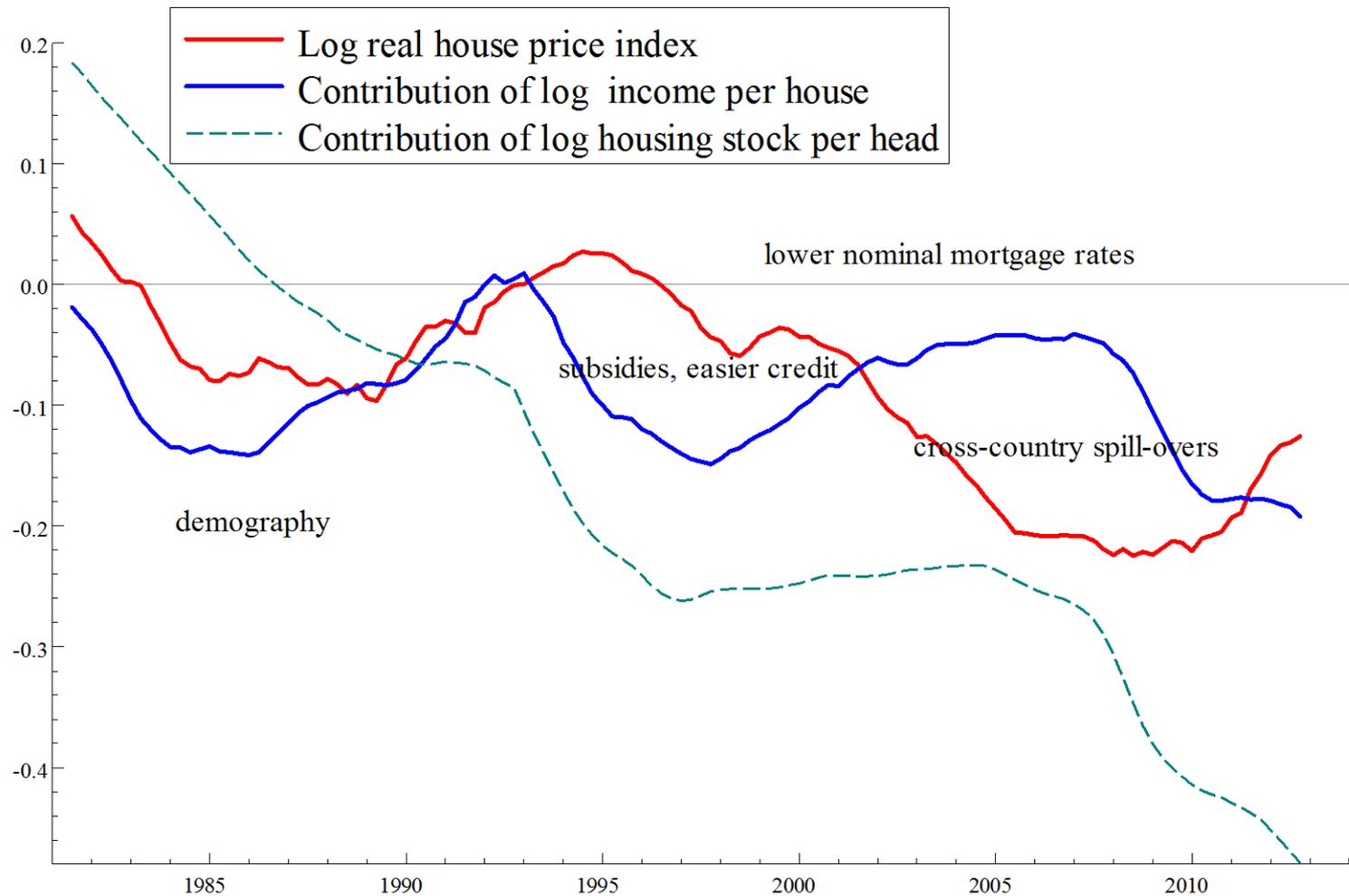
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- Rise in inequality between generations in the UK:
  - 'lost generation' born after Mrs Thatcher came to power in 1979
  - privileged opportunities for children of wealthy
- Macro-consequences:
  - instability for the UK financial system and for households
  - lower growth
- **Germany benefits from the converse.**

- It's now official: **'the UK housing market is broken'**.
- UK had largest rise in house prices/average disposable income in G7.
- Problems both on the supply side and the demand side.
- Contrasts with Germany.
- Learn from S Korea: land-banking.
- Learn from Denmark: stabilising property tax.

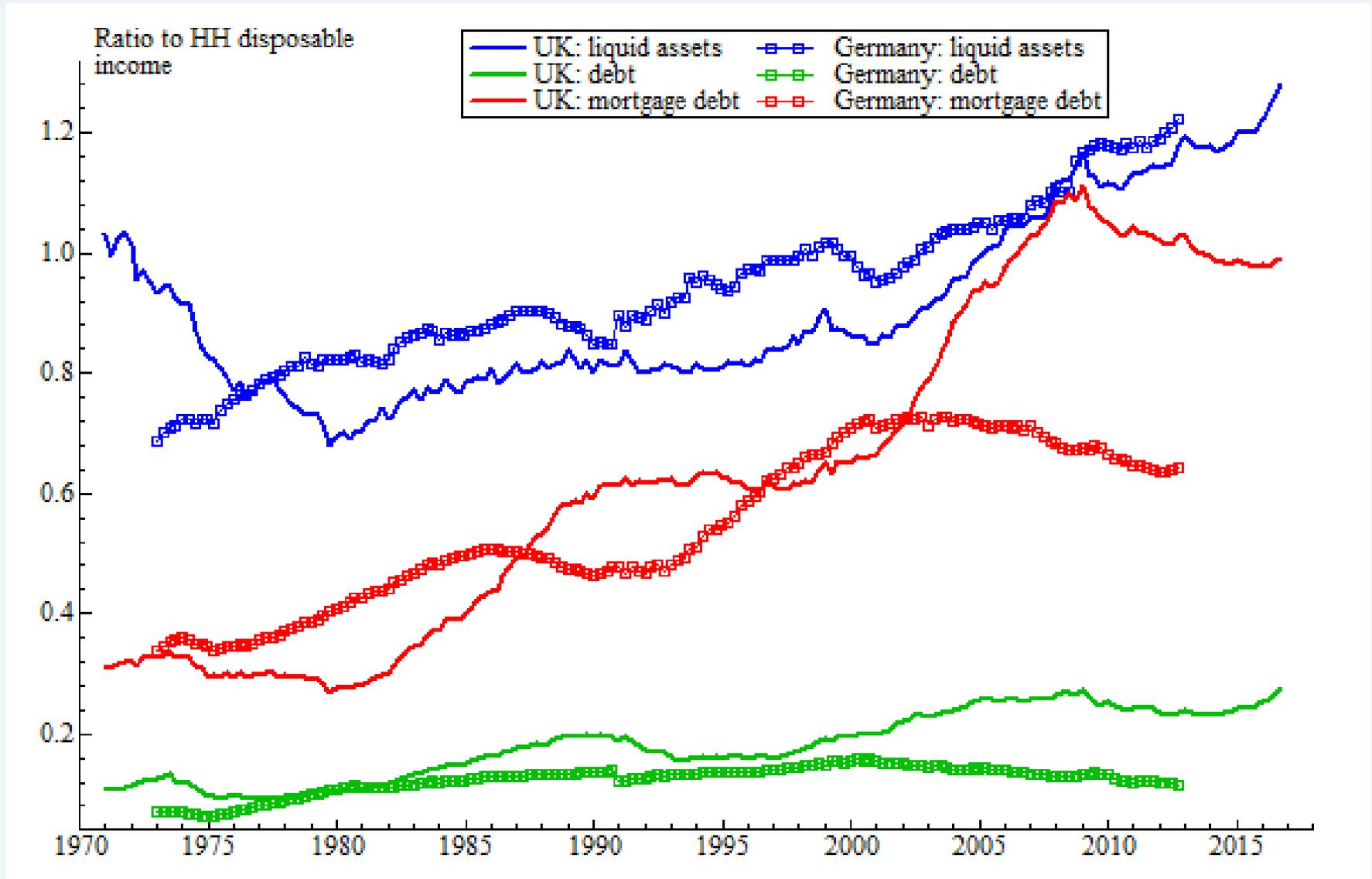
# Key drivers of UK real house prices



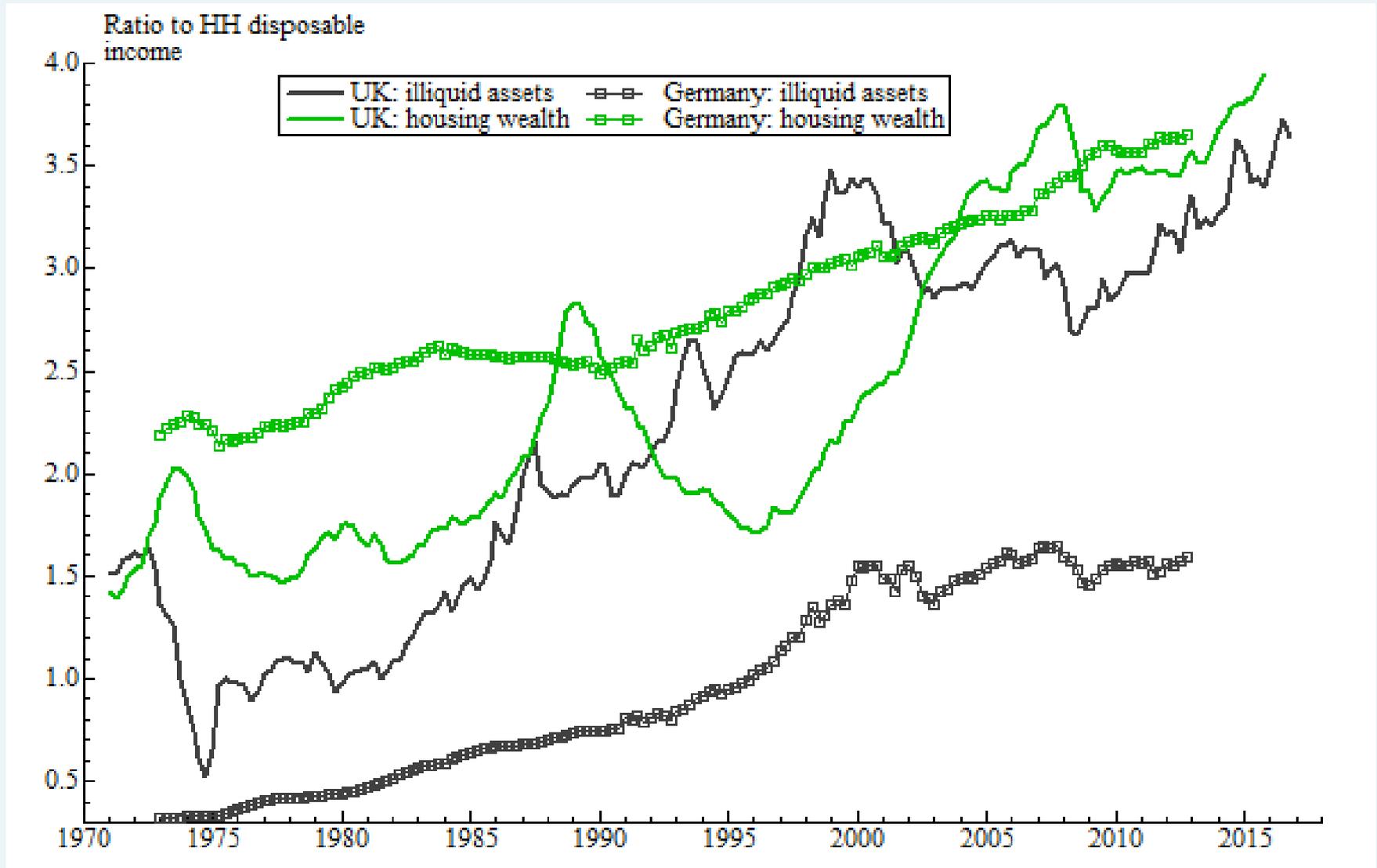


- In the UK, housing and debt contributed to economic and financial instability (though US and Ireland were even more extreme)
- Amplifying feedback loops of the financial accelerator include
  - residential construction
  - consumer spending (**but not in Germany**)
  - bad loans of banks restricting credit flows.
  - **These mechanisms were missing in the fashionable academic theory and models used by central banks!**
  - **German mortgage lending is more conservative: tighter LTVs, LTIs and hardly any home equity withdrawal.**

# Household balance sheets: more debt in the UK



# Germans have housing; Brits have high house prices



- Germany
  - Local authority caps land values at pre-permission prices at the time planning permission is given.
  - Hence acquires land for infrastructure at reasonable cost.
  - Captures part of ‘planning gain’ to fund infrastructure.
  - Planning gain can be 10-fold.
- UK
  - The land-owner receives the planning gain.
  - Planning gain on UK greenfield land can be 200-fold.
  - Has cumbersome procedure to try to claw back a bit of the planning gain to help fund social housing and infrastructure (slow negotiations under ‘Section 106’).

2014	<i>Homes receiving permission</i>	<i>Homes built</i>
Germany	285,000	245,000 (86%)
England	261,000	125,000 (48%)

- The private rental sector in Germany over 2x as large as the UK's.
- Age structure balanced in Germany, disproportionately young in UK.
- Small-scale landlords dominate ownership in both countries (a bit more so in UK).
- UK rental contracts are mostly 'assured short-hold tenancies'- security of tenure for min<sup>m</sup> of 6 months, more usually 12 months. Average duration 2.5 years, less in London.
- German contracts underpin indefinite tenancies: average duration in Germany is 11 years. Supports social cohesion and stability.
- Flexible rent controls in Germany: restrict scale of rent increases during a tenancy. Landlord can set rent for new tenancies.
- Reform of UK rental market is overdue.

- UK Council Tax based on 1991 valuations:
  - **UNIQUE IN THE OECD!** The highest tax rates are paid on the poorest housing; most expensive housing paying no more than moderately expensive.
  - Council Tax Relief for poor families: poverty trap problems.
  - Discounts for second homes and for single people.
  - Results in **inefficient use of space**; encourages conversion of multi-family dwellings into single luxury mansions, reducing supply.
  - Poorest local authorities tend to set highest rates.
  - Raised 4.8% of total UK tax revenue in 2015.
  - In the UK: Stamp Duty Land Tax progressive rate: 2-12% on homes above £125,000; since 2015, an extra 3% on second homes and buy-to-let.
  - **Discourages labour mobility, matching of supply and demand** e.g. down-sizing.

- Simplest: return to pre-1989 Domestic Rates (like property taxes in most countries, owners pay, no single person or second home discounts) BUT with **regular revaluation** and **deferral** option.
- Deferral means that every year of non-payment increases public's stake at the Land Registry: with 0.5% of value tax, 5% after 10 years. Settled when ownership is transferred.
- Destroys use by the wealthy of the 'cash-poor widow in expensive home' argument against property taxes.
- Super-tax to catch 'trophy homes' of foreign residents, discounted for domestic income tax payers.
- More radical: land value taxation but would have to offer green discount to avoid 'garden tax' jibe.
- For more, see <https://www.ifs.org.uk/publications/mirrleesreview/> (2011)
- 'Property taxation and the economy' (EJ 2005)  
<https://ideas.repec.org/a/ecj/econjl/v115y2005i502pc99-c117.html>

- Fix planning system and property law (1961 Land Compensation Act) so that much more of planning gain -**land value capture**- accrues to **society** to fund infrastructure, schools and social housing.
- Reform fiscal rule so that marketable public assets such as land are netted off gross debt: makes public land banks affordable.
- Remove inequity and inefficiency of Council Tax, cut Stamp Duty.
- Ensure foreign investors are taxed properly.
- Reform rental contracts and regulation to encourage long-term.
- Reform pension system to reduce the take of the asset managers.
- **But where is the political party to take up the cause of the increasing post-Thatcher cohort and the elderly who care about their offspring?**