Policy Implications

MIND THE £££ WEALTH GAP
Intergenerational Justice and Family Welfare

The Policy Context

Housing wealth - its formation and distribution - lies at the heart of the modern political economy of housing. Indeed, in both spoken and unspoken forms, housing wealth often underpins broad political strategies. Historically, the political and intellectual arguments for housing policies, including the first arguments for pro-home ownership policies in the 1930's, were rooted in a desire for more equal housing outcomes, or at least better and more affordable provision for poorer households. Now, the political economy of the present protects the interests and assets of the better-off two thirds, or some estimates suggest the wealthy 80 per cent, of households.

Our research concludes that around a fifth of UK households are likely to be permanently excluded from owning housing assets. At the same time home-ownership can imply problems of unaffordable payments, negative equity and deteriorating housing for home-owners, especially the half of Britain's poor people who are home-owners. In the UK, and many other OECD countries, housing market outcomes since the 1980's have reinforced rather than reduced inequalities of both wealth and income. Rising real house prices have been also associated with increasing economic instability as was so widely demonstrated through the recent global financial crisis. Now, as the economy edges back to growth through the long austerity there is a growing recognition that rising real house prices shape saving, debt and spending in the economy in ways that do not foster innovation and the growth of skills. Britain works hard to invest in its past rather than its future and high and rising house prices preclude opportunities to raise overall incomes in the longer term.

The reaction of governments to the unfortunate alignment of these trends in housing outcomes, population change and the long recovery from 2008 has been to put public debt reduction strategies ahead of improving housing outcomes for low income households. They have also tried to stimulate housing market activity, both to boost employment and stabilise, then raise, household asset values. At the macroeconomic level, the policy stance has been to sharply tighten fiscal or budgetary policies (cutting spending) whilst maintaining monetary policies with record low interest rates to encourage borrowing but, at the same time, with new loan sanctions to encourage safer borrowing. If the economy is to grow whilst public investment and spending is cut then this requires private borrowing to rise, thus shifting the debt burden within the UK from government to individuals and businesses. This policy strategy has significant implications for the importance of housing wealth both now and in the longer term.

Policy outcomes: winners and losers

The long period of record low interest rates has been of great value to households who are in the net borrowing rather than net saving phase of their life cycles, but who have some established asset base that underpins further borrowing. That is existing home owners with mortgages and outright owners with an interest in purchasing further housing assets (generally to let). Individuals with uncertain or low growing wages, fixed-term contracts, those facing rising living costs (including education costs) and renting rather than owning housing, have been relative losers from the macro policy stance - leaving aside the well documented effects of reductions in welfare and social security spending. The broad thrust of macroeconomic policy, despite the low interest rates, has not been pro-housing investment for lower income households, younger age groups, households with children and those in insecure jobs. It is difficult to envisage any future growth path for the UK economy in the next decade that will change these realities. Inequalities in housing wealth will, if anything, be more likely to grow than to reduce.

Government action in the UK, and indeed the key proposals from most of the opposition parties, have misplaced the emphasis for future housing policies on shifting assistance away from housing for the poorer fifth of UK households and towards middle-income households. Help to Buy has raised demand and activity in a wide spread of regional housing markets but done little to help supply side activities. New first time buyers now rely on family wealth or the state to get round the income/savings provisions of 'safer' lenders in ways that will curtail social mobility in Britain. Stamp duty charges are more efficient than in the past but may remain capitalised into house prices in many local markets. Extending the Right To Buy to housing association tenants, as the new government suggests, will massively redistribute assets from non-profit bodies and charities (not the state) to improve the asset position of older and better-off (but still below middle income) tenants. However, younger age groups currently in the growing private rental sector will find it even harder to acquire housing wealth through that route. Whilst this may spread wealth it does so at the cost of reducing the real, lifetime income potential of those who are left to clamour for adequate housing amidst the growing queues for the declining stock of social rental housing.

The future for housing policy

The broad thrusts of UK housing policy require three new emphases. The **first** is that housing policy has to be rethought, not as an inconvenient adjunct to social security policy, but as essential infrastructure for economic development. There has to be a much more integrated thinking of housing, transport, other infrastructure and employment policies to provide a doubling of housing output in a relatively short time scale - especially in a scenario of a growing population and ongoing urbanisation. There has to be a major redistribution of policy and planning interest from existing to potential households, and owners too. The presently nebulous discussion of new towns, garden cities and the like has to be quickly grounded as real, delivered, quality settlements.

The **second** is that supply side and tax arrangements for housing should be geared towards promoting wealth accumulation through effort and saving rather than 'sleeping' and speculation. This will benefit firm formation and innovation more widely in the economy but it will also reduce instability effects and give space to an expanded, adequate rental sector. In the light of growing wealth inequalities we also have to think more about taxing wealth as well as income. This could include tightening rather than reducing inheritance taxes and assessing the potential for some taxation of housing capital gains. An unwillingness to stimulate supply expansion and, or, to reduce the favoured tax status of housing gains tax will simply perpetuate the problem of housing wealth as a source of excess and unfairly distributed returns in the UK economy. Income tax alone cannot change the underlying wealth inequalities. With local suburban home-owner majorities gaining increasing powers to stop or slow new supply and a predominance of home-owners voting in national elections there can be little optimism that more elastic housing supply or taxation of unearned gains will emerge.

The **third** key policy challenge in the housing sector is to shape an efficient rental sector that relies more on longer term professional managers with access to efficient financing, and that has appropriate tenancy arrangements for the rising numbers of households living longer in the sector. Rethinking rental housing is especially important for households with children. There is clear evidence that poor quality homes and neighbourhoods associated with frequent early age moves erode the capabilities of children to learn and form human capital to underpin their future incomes. Buy-to-let expansion is in many respects simply an extension of uneven wealth and rising real house prices. There needs to be a new policy emphasis to shape a market rental sector with patient investors, such as larger housing associations recently attracting equity investment from pension funds, who can manage homes and neighbourhoods efficiently as well as raise capital at low interest rates.

The UK government, housing lobbies and providers have to look at the longer term trends of the last two decades that have seen the home-ownership rates eholds fall for households aged under 35. This pattern, with some exceptions, has been apparent in other high income-high house price economies with large ownership sectors. Government has to recognise that the falling ownership rate for younger households is not a post 2008, temporary effect. Rather it reflects how the interplay of changes in lifestyles, demographics, global wage shifts, changing education costs as well as rising real land and housing costs have fundamentally shifted the entry-points into home ownership. It is population ageing that has given weight to ownership growth, not growing real demands from younger households. These demands are being played out as Generation Rent, but they are being met in a rental sector increasingly pressured by *Generation Austerity* that is being supplied by *Generation Rentier*. The goal should be to have a housing sector that encourages households to save and accumulate assets for old age, but not to reward speculation that relies on the impoverishing the next generation to make the gains real.

At the same time governments cannot look to individual asset based welfare based upon housing gains forever. Our research suggests that the net effect of population ageing after 2025, with a rising number of households passing away, will be to exert a downward pressure on UK house prices. However such effects will be more apparent in the less pressured price regions of Britain and they are likely to be attenuated or even reversed by changes in other policy areas such as immigration and housing construction. These longer term price effects, and their different regional magnitudes, suggest that there are limits to households providing their own asset-based welfare that need to be further explored.

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