



Tuesday, 24 September 2013

## Politicians and Housing

[Posted by Prof Henry G. Overman]

As the housing crisis continues, politicians continue to say silly things about housing.

Here's a round up of [three efforts from the middle of last year](#). I was reminded of this by Harriet Harman on the Today Programme this morning. Talking about improving housing affordability she was asked if she would like to see housing prices fall. This is, of course, a tricky question for a British politician - and she dodged it by saying that house price falls would be bad but that Labour were committed to increasing supply and improving affordability.

Unfortunately, this really doesn't make any sense. 'Affordability' is essentially determined by the price of housing relative to incomes and the availability and cost of mortgage finance. As we know, availability is an issue for some buyers at present. Fixing this would improve the situation for those buyers but, in the absence of any increase supply, would raise prices overall. This is the central problem with the government's [help-to-buy scheme](#). The cost of finance is at a historic low and you would put your money on that cost increasing rather than decreasing in the medium to long run. We would, of course, like incomes to rise but general increases in income will also raise prices overall in the absence of a supply response. Fixing affordability requires housing poor families to see their incomes rising faster than housing rich families. Desirable, perhaps, but I'd like to know how that's going to be achieved in practice.

In short, fixing the general affordability problem requires government to do something to get house prices to *fall* relative to incomes. With incomes growing slowly, this will require absolute falls in house prices unless we are willing to wait a very long time for housing affordability to improve. Falls in house prices (absolute or relative) will require increased supply. This, in turn, is a key component of labour's housing policy (they are pledging to build 200,000 more houses). Setting aside whether that policy will be effective in increasing supply - something for another day - to be effective in improving affordability it will have to lead to falls in house prices. The Coalition is trying to achieve exactly the same thing through some of its planning reforms.

Of course, it would be a brave politician who acknowledged that they want to increase supply sufficiently to see prices fall - because existing owner occupiers stand to lose if prices fall. In turn, this is the reason why home owners tend to oppose new building which constrains supply and causes affordability problems. There are no easy answers to this policy dilemma, but unfortunately denying that it exists is unlikely to get us very far in solving the housing crisis.

Posted by Prof Henry G. Overman on Tuesday, September 24, 2013

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**Tom Chance said...**

The safer line is to say they want to stabilise prices, but that leaves open the question of what you do for people who remain trapped in the private rented sector for the decade or more that it takes for wages to catch back up with house prices.

24 September 2013 at 13:43



**Lee Crawford said...**

Looking forward to your comment on the likely effectiveness of the Labour policy....

25 September 2013 at 00:50

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