A large, hand-drawn circular scribble made of many overlapping black lines, located on the left side of the slide.

Rethinking the economics of land and housing

BSP-IIPP public lecture

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Foreword by JOHN MUELLBAUER

RETHINKING THE ECONOMICS OF LAND AND HOUSING

Josh Ryan-Collins, Toby Lloyd
and Laurie Macfarlane
with the New Economics Foundation



WHY ARE HOUSE PRICES in many advanced economies rising faster than incomes? Why isn't land and location taught or seen as important in modern economics? What is the relationship between the financial system and land?

In this accessible but provocative guide to the economics of land and housing, the authors reveal how many of the key challenges facing modern economies – including housing crises, financial instability and growing inequalities – are intimately tied to the land economy. Looking at the ways in which discussions of land have been routinely excluded from both housing policy and economic theory, the authors show that in order to tackle these increasingly pressing issues a major rethink by both politicians and economists is required.

'This excellent book is both thorough and comprehensive. I am convinced that it will quickly become an important reference for the general public and for economists, and hopefully also for policymakers.'

—MICHAEL KUMHOF, senior research advisor, Bank of England

'A fresh and comprehensive look at the problems created by a failure to consider the role of land in the economy of the UK.'

—KATE BARKER, author of the Barker Review of Housing Supply

'This important book analyses land and housing with excellent clarity. Read it and you will understand the crucial underlying drivers of rising debt, increasing inequality and financial crises.'

—ADAIR TURNER, chairman of the Institute of New Economic Thinking

'A lucid and convincing explanation of why a free-market approach to the land problem makes little sense, why the state needs to intervene, and the wide range of policy options available.'

—DANNY DORLING, author of *All That is Solid: How the Great Housing Disaster Defines Our Times, and What We Can Do About It*

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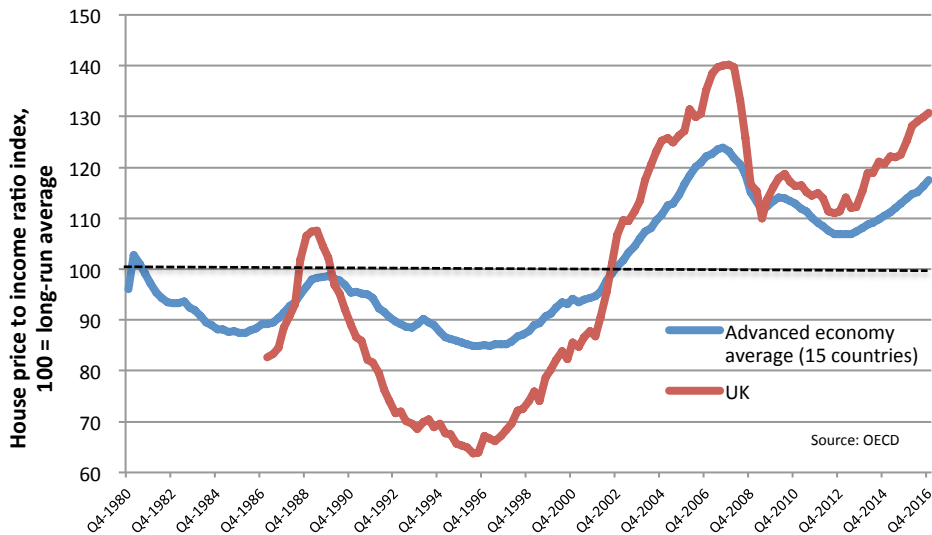


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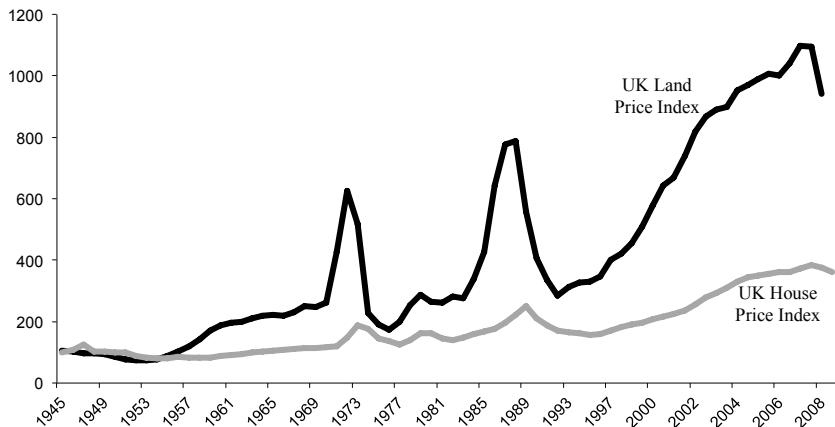
UCL

House price-to-income ratios in advanced economies



House prices driven by land values

Real land and house price indices for UK, 1945-2008 (1945=100)



Source: Ryan-Collins, Lloyd & MacFarlane (2017: 8) based on data compiled by Paul Cheshire



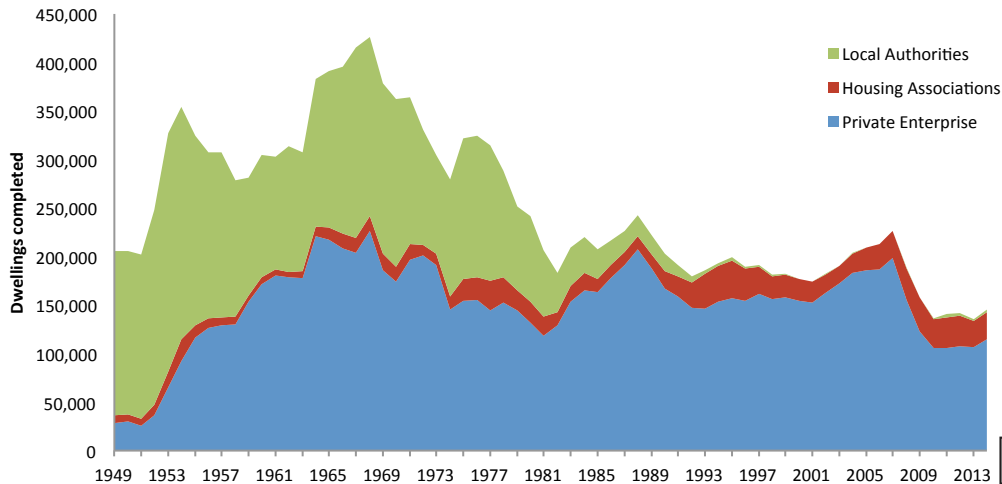
“The rent of land, therefore, considered as the price paid for the use of the land, is naturally a monopoly price. It is not at all proportioned to what the landlord may have laid out upon the improvement of the land, or to what he can afford to take; but to what the farmer can afford to give.”

Smith, Adam (1776) *Wealth of Nations*, p162

Land is not 'capital'

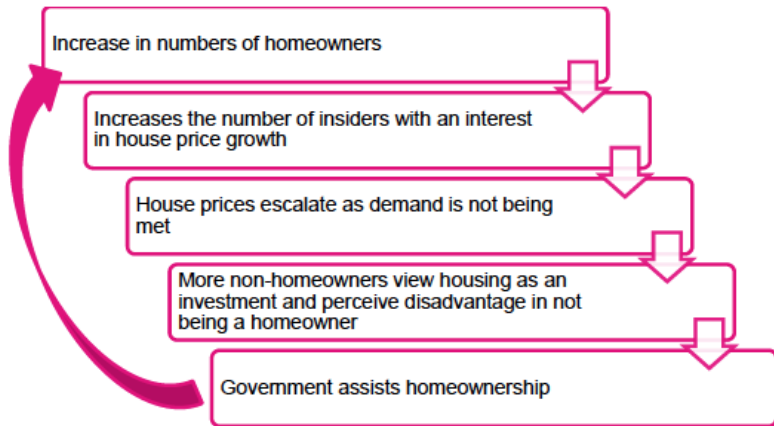
Land	Capital
Finite supply	Supply constrained by labour/energy only
Fixed/immobile	Highly mobile
Appreciates in value with economic growth	Depreciates (wear & tear and technological innovation)
Ownership enables extraction of economic rent derived from collective investment	Rentier profits constrained by competition, depreciation, innovation
Multiple & conflicting economic uses: consumption good, store of value, source of collateral	N/A

The withdrawal of public home building

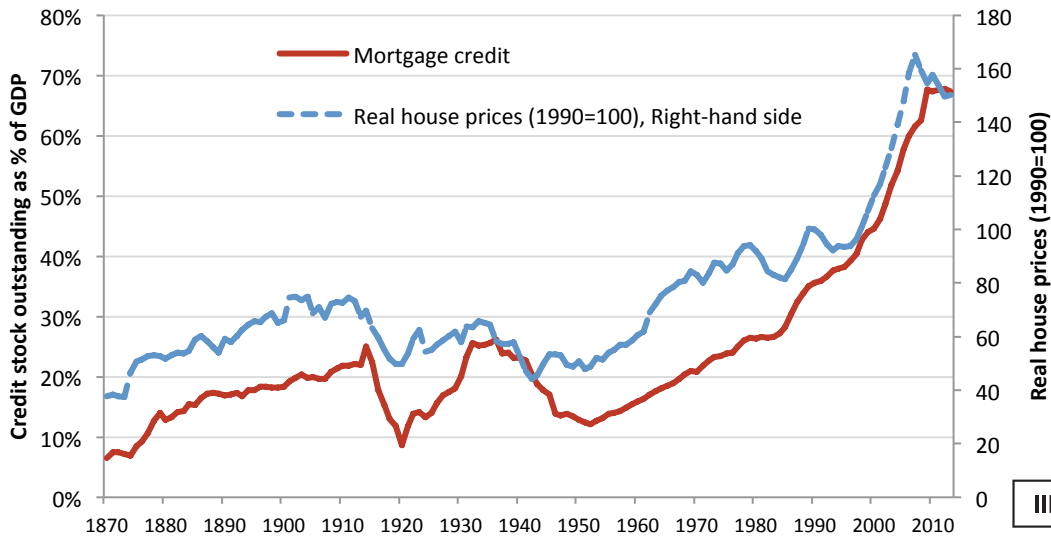


Source: Office of National Statistics in Ryan-Collins et al. (2017, p82)

The low-supply equilibrium

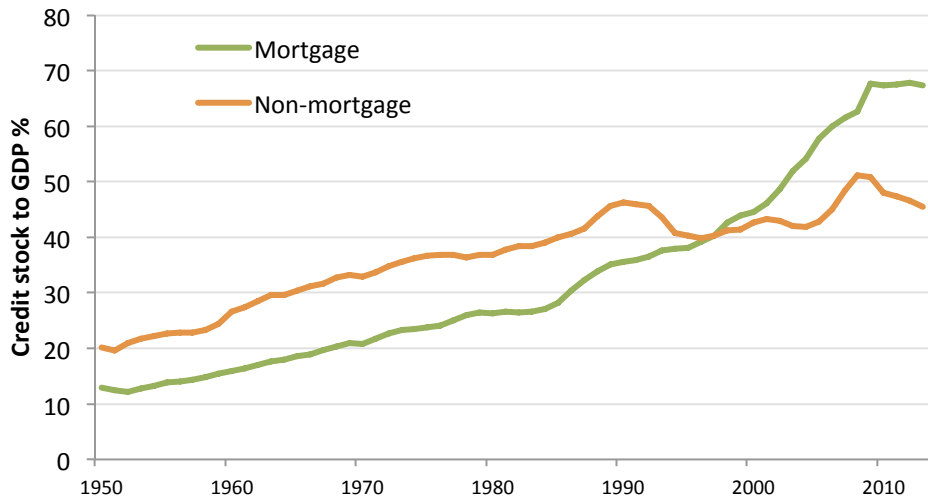


House prices and mortgage credit over 130 years in advanced economies



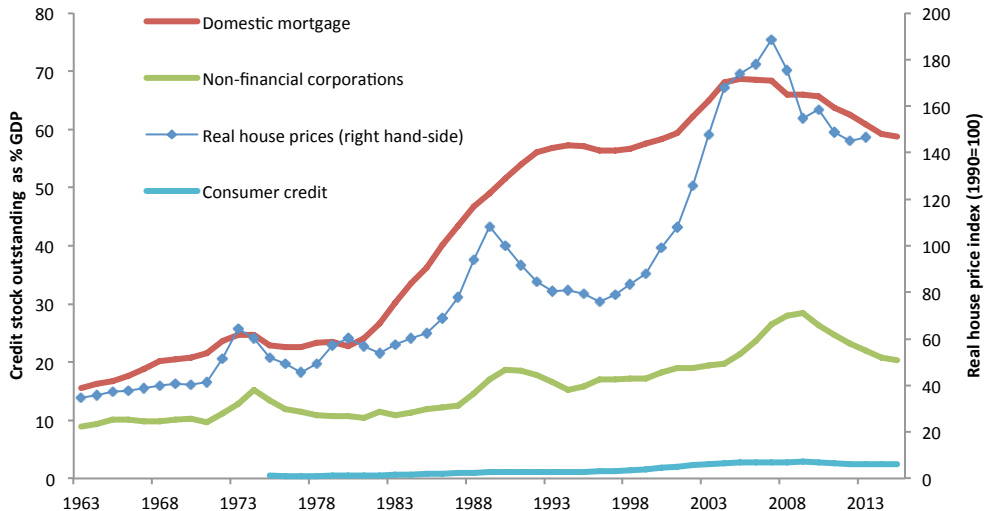
Source: Jorda, Schularick and Taylor 2017

Mortgage credit and non-mortgage credit (commercial and domestic) outstanding in 17 advanced economies, 1950-2013



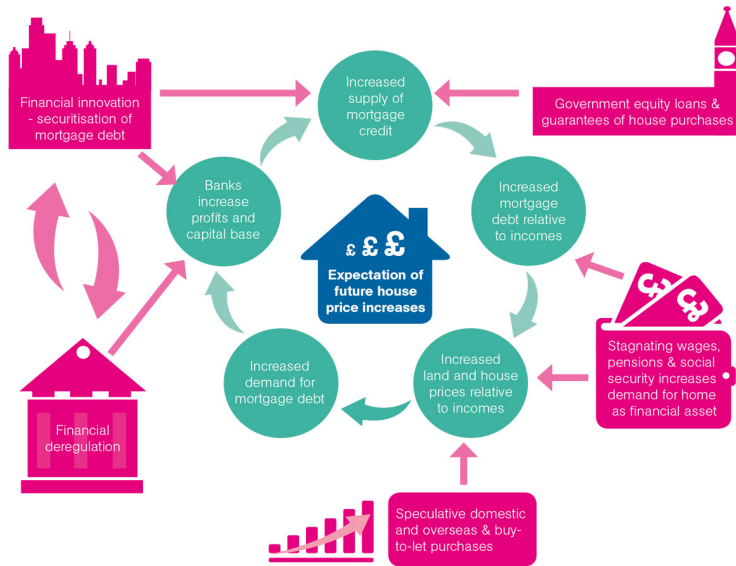
Source: Jorda, Schularick and Taylor 2017

UK bank credit allocation and house prices since 1963

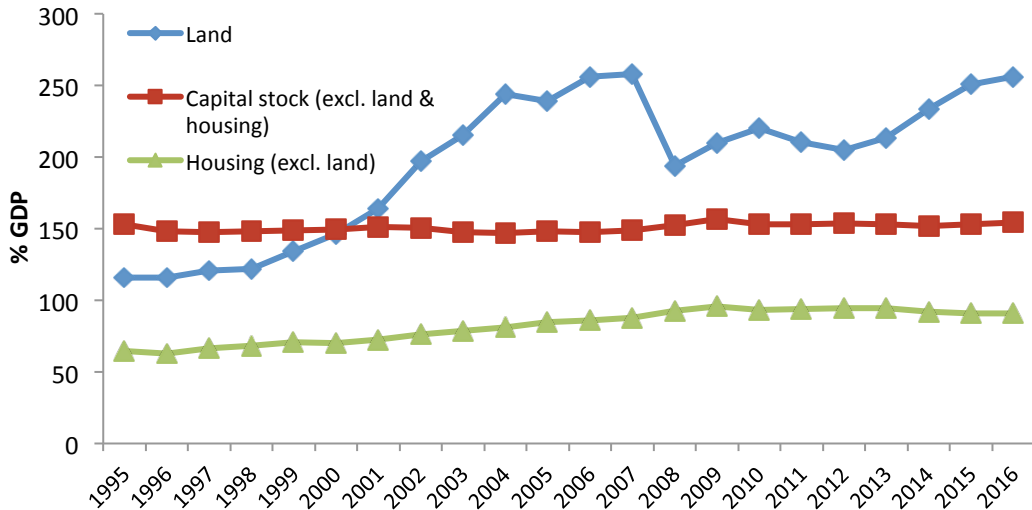


Source: Bank of England interactive database & Knoll et al (2017)

A house price-finance feedback cycle

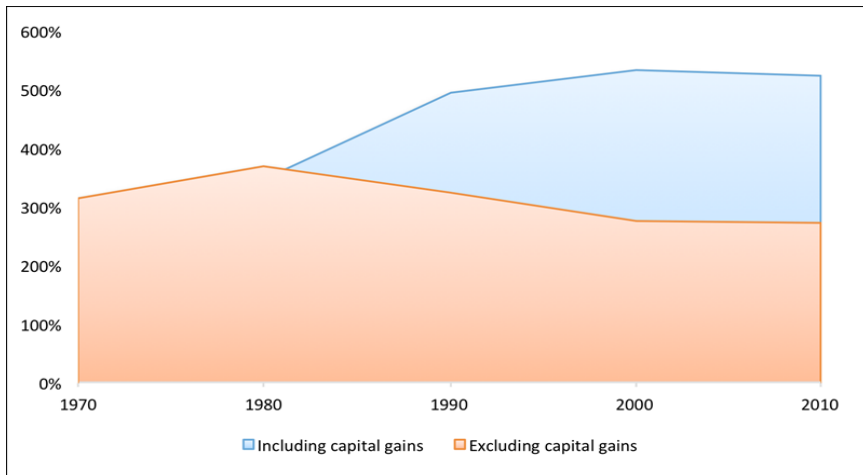


Non-financial assets as % GDP in the UK



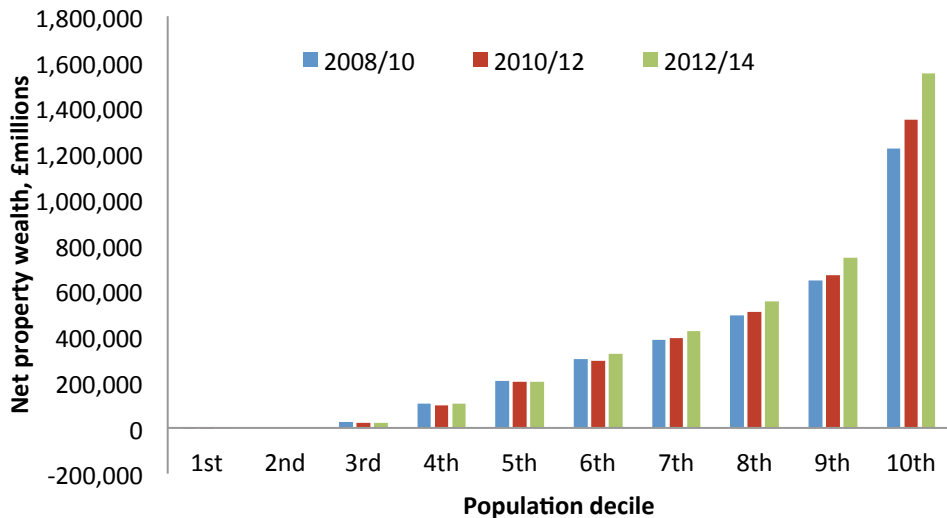
Source: ONS Blue book National Balance sheet 2017, table 9.2

Wealth to income ratio in the UK including & excluding capital gains

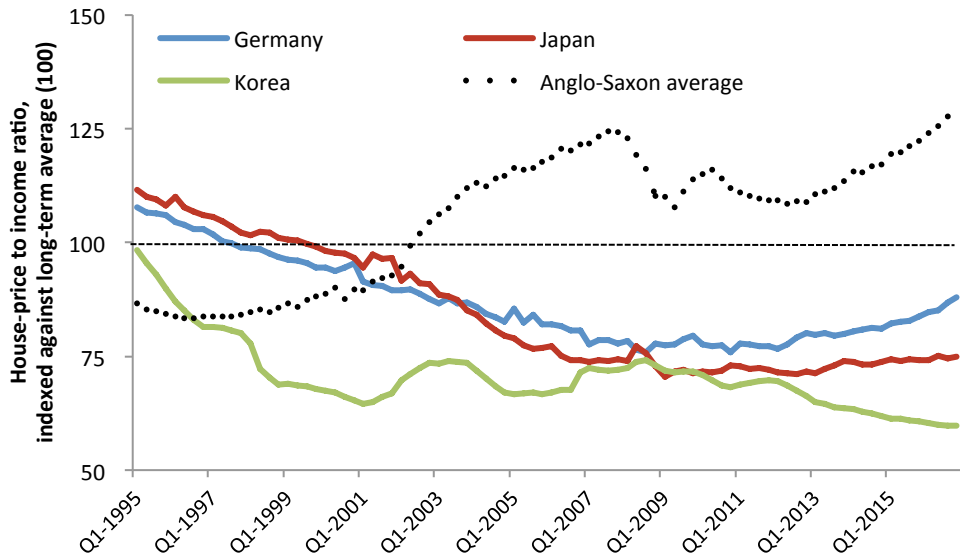


Source: Ryan-Collins et al. (2017, p172), original source: Piketty and Zucman (2013)

Net property wealth in the UK by decile



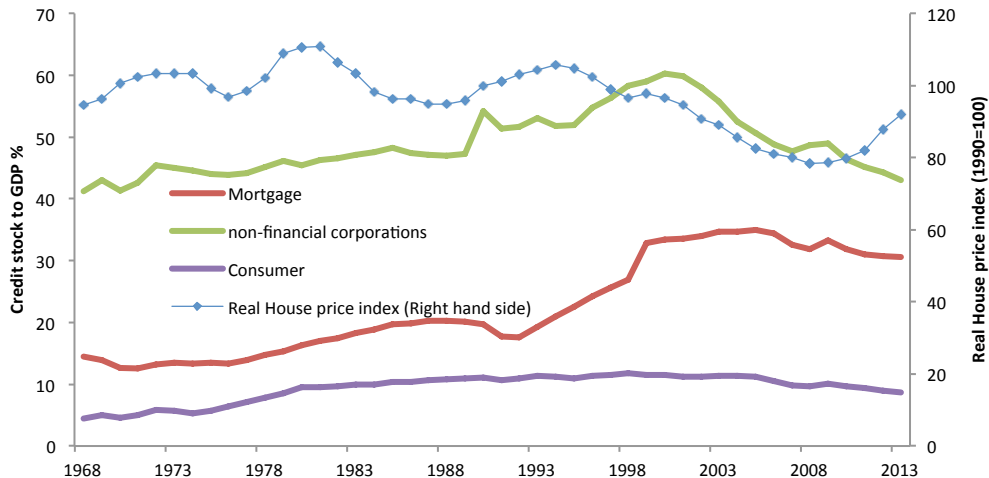
Where things are different



Development Corporations to assemble land and capture public value



Germany house prices and credit allocation



Source: Bundesbank & Knoll et al (2017)

Trends in tenure in London, 1981-2016

