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How to Solve the Housing Crisis

It might not be sexy, but the answer to the endemic housing crisis not just in Britain but across the West is something relatively simple: effective property taxes

by Danny Dorling

‘I’ll build houses for your children!’ said the man with the microphone standing at the front of the packed hall. No one had been able to really see the slides he had shown, but the images were colourful when seen from a distance. They were artists’ drawings of the proposed new development: images suggesting that it would not greatly affect the view from the city, and would be built below the ‘ridge line’. And it would all be constructed to the highest of environmental standards, he said. ‘We have to build for the next generation’, he explained. ‘Any questions?’

I put my hand up. Eventually I was chosen. ‘My children will not be able to afford your houses’, I said, ‘is that why you will not say how much they will cost?’ He looked at me partly in pity, partly in annoyance. Some of the audience laughed as they knew I was a professor in the city and they realised that the property developer was assuming I was poor.

But it was true. The housing he was planning to build would not be for any of our children, not even mine. He wasn’t going to tell us the price. He knew that he planned to sell these new-build homes to whomever would give him the most money. He knew that would not be anyone in the room, let alone any of their children. But he needed to try to minimize our complaints for when he sought planning permission. He had to be able to say that he had consulted the ‘local community’. Even he did not realize that inequalities had risen so high that the children of a university professor would not be able to afford to live in the city they had grown up in. Not unless they had some huge inheritance.

In the more affluent parts of the UK, money is made from building large detached homes for people who commute to another city, or simply buy one as an investment. The big money cannot be made out of the little people. It cannot even be made out of the average or even much-better-off anymore. Income inequalities have risen decade after decade, wealth inequalities have reached astronomical extents and almost all the 'spare' money is now held by the extremely well-off. The extremely-well-off have become 'the market'.

The man standing in front of me slicked back his hair. Most of the objections he had heard in the hall had been from elderly and better-off people complaining that his development might spoil their views.

This was what he wanted. He wanted to present himself as the champion of the underdog, the provider of homes for the young. It soon became apparent that who exactly would get those homes and at what price was none of our business - that was for 'the market' to decide. What he had to do is to ensure he was allowed to play in that market. He had to get permission to build. He was a property speculator, and this was what he did best. He looked rather pleased with himself.

Learning to Love Taxation

How do you stop speculation? How do you ensure that homes are built for the people that need them? How do you make sure that the homes that exist are well-occupied? That particular planning meeting was mostly populated by well-off elderly people who, when not attending meetings such as these, rattle around in what had once been a large family house, watching the value of 'their' property rise and objecting to any development nearby that might damage their accrued wealth.

These older, wealthy people only partly want to protect their wealth for themselves and their cruise holidays. They are also worried about their children and grandchildren and want to pass on as much as they can when they die. They see it as in their interests to do whatever they can to both maximize the price of their own homes and minimize the taxation their children might ever have to pay on what they inherit. They have been taught that being selfish is good and tax is bad. This is, after all, the generation that saw a Prime Minister pronounce that 'there is no such thing as society,' then fight a political war over that premise, and then win.

But the truth is the very opposite. Taxation is a social good — and it is our most powerful tool to solve the housing crisis. Short of a command and control economy, it has only ever been through effective taxation that the city has been well planned. Taxation preserves choice but deters speculation. Should your motive be to build to amass great profits, but such profits might be properly taxed, you will not bother to build and someone else with far better motives than you will build in your place.

Where homes are well taxed, people try to fit into them efficiently. The more people living in the home, the more there are to share the paying of the local property tax. And where a local property tax is made progressive, where it rises continuously (and preferably exponentially) with the value of the property, there is an incentive not to live in the most expensive property you can.

One factor that matters greatly is how property tax assessments are determined and how that process is influenced politically. An efficient system is one which ensures that the tax is actually being applied to the true value of the land and property upon it. One useful way to ensure this is for the state to have the power to compulsorily purchase property at the value it has been assessed for taxation. This gives owners an incentive to declare that their property is worth more and to volunteer to pay more property tax.

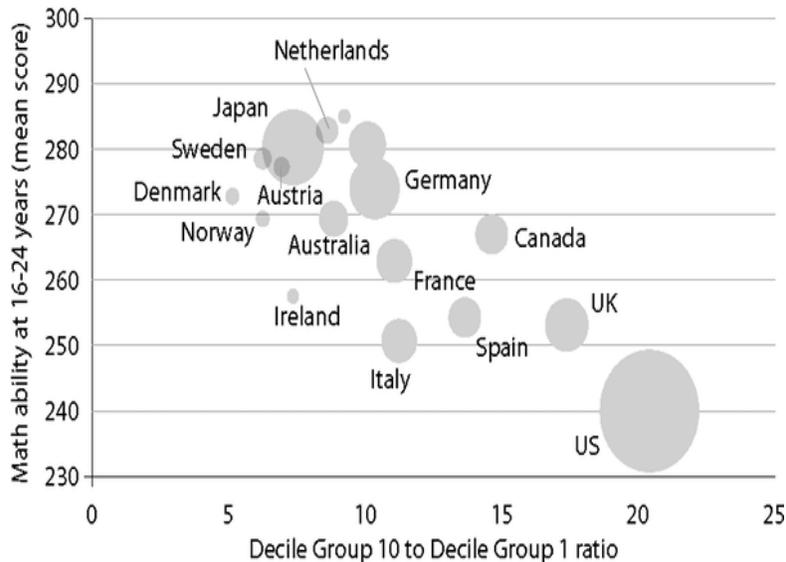
New property taxes are introduced from time to time and show what is possible. Since 2013, in Ireland, the national property tax has been 0.18% of a property's value per year. Thus, on a property worth €300,000, the owner has to pay €540 a year in addition to all other taxes. However, for properties valued at over €1 million, the rate is 0.25% a year on any value over that million. This means that someone living in a property worth €1.3 million would pay €3,040 a year. Someone on a low income in an expensive property that they own outright would have no problem paying this tax, if they secured a small mortgage on it – a mortgage which could be repaid when the home is sold.

The new rates in Ireland are quite low and 90% of properties are worth less than €300,000, so most Irish residents pay only €90 to €495 a year. There is clearly a great deal of scope to raise these taxes if a government wants to get property prices and speculation under control. Prices are currently rising rapidly in Dublin, not least because of Brexit. However a further slight increase to the property taxes, would soon soften that rise. Wealth taxes such as this are also progressive because

they reduce inequalities in the future, meaning that the rich inherit less through the taxation's effect in dampening prices.

In New Hampshire, USA, property taxes range from 0.41% a year to 0.21% a year, as a proportion of the value of the home and the county it is in. Critics argue that these 'high' taxes mean a big and inefficient government. In reality, Americans have little opportunity to get to know what a big government actually is. All of America has small government. Taxes in the USA in general are lower than in almost any other affluent country and public services are generally poor as a result. This especially harms education with Americans usually being at the bottom of international league tables by ability in mathematics (see Figure 4.14 below). In almost all other affluent nations in the world, schools are not funded by local property taxes: they are funded nationally so that poor areas do not get poorly funded schools.

Figure 4.14: Economic inequality and the mathematics ability of young adults up to age 24, 2012



Source: Dorling, D. (2017) *The Equality Effect: Improving life for everyone*, Oxford: New Internationalist

In the Netherlands, one of the countries with the most numerate populations in the world (see Figure 4.14 above), property is taxed at around 0.1% to 0.3% a year. Second and subsequent homes, however, are assumed to have an annual yield of about 4%. This is then taxed at 30% a year, meaning a total tax of about 1.2% of

the value of each second home property in the Netherlands per year. In the Netherlands, children become clever, the old live longer and land is efficiently used. You don't leave a second home empty when you have to pay such a tax on it.

In the United States, the popular narrative suggests that taxation and freedom are opposites. In reality, taxation *is* freedom because it is taken from everyone. It is the very opposite of theft. Theft is about individual loss and a criminal act. Taxation is everyone's gain. When property and land is well taxed its value does not rise and rise with speculation; homes instead become affordable, and local schools and hospitals are well funded. No one loses out because the affluent are still able to live in the same apartments as elsewhere, the apartments just cost less to buy in the first place.

In contrast, where property is not well taxed it tends to rise exponentially in value. The property in some areas and some parts of the city becomes worth much more than in other parts. Before you know it, you are building walls around your more affluent estates, to separate the children from the poorer end of the road from the richer end. At the extreme these walls can be eight-foot-high and topped with metal spikes sharp enough to kill a child. The picture below shows just such a wall built in 1934 in my home town of Oxford.



One of the two Cutteslowe walls: <https://www.oxforduniversityimages.com/results.asp?image=OHC000559-01>

Without taxation of property, social divides increase, walls begin to be built ever higher and the fear of others grows. Determining what level of taxation is best and how it can best be collected is not easy, but you can tell from the social outcome when you are getting it right. Taxation is a tool to find freedom, improve housing, enhance education, and ensure good health.

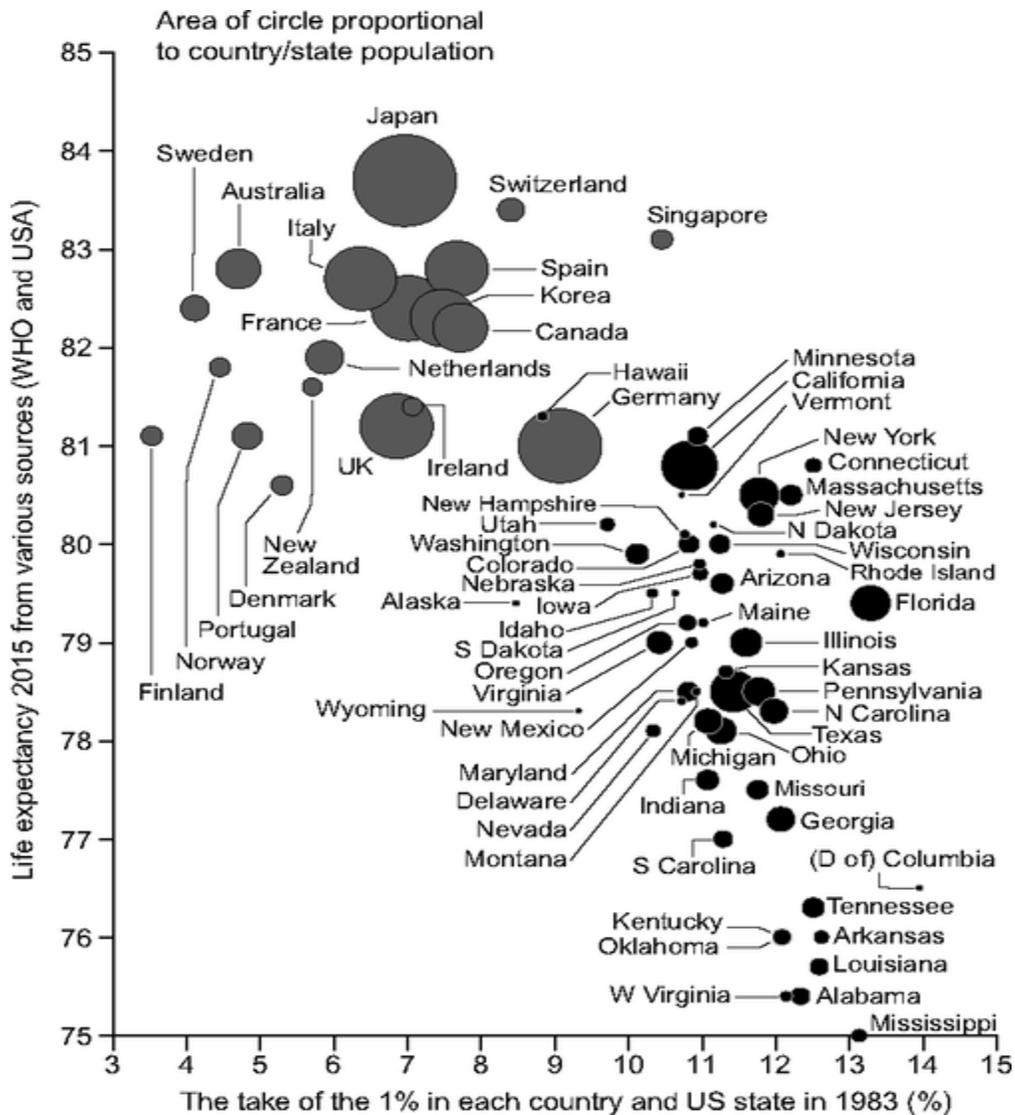


Figure 5.2 Take of the 1% and life expectancy in 19 countries and all US states

Source: World Wealth and Income Database, accessed December 2016. Infant mortality data from the Centers for Disease Control (USA) and Gapminder.

When people begin to see their freedom to choose increase; when most know they might really be able to choose where to live in the city; when there is a greater and greater mix of people and housing along a road, and also within almost all neighbourhoods; then you know something is working well.

If you want to see the greatest housing success in the world then travel to Japan and see how Tokyo works, or smaller cities like Kyoto. In Japan, the annual property tax is about 1.4% of the value of property. Over and above that there is the municipal tax of around 0.3%. Furthermore, to quote the local press, “empty land is taxed at a higher rate than land that has a residential structure on it, just as land designated for agriculture is taxed at a higher rate if it is not being used to grow something.” Societies with lower income inequalities and better property taxes tend to almost always be better housed, educated and have better health than those who do not.

In the UK, one of the most unequal countries in the rich world, people are at a loss as to how to solve the housing crisis. ‘Section 106’ agreements are now used to build the bulk of any so-called affordable housing which is only done at the whim of property owners. Taxation is still seen as a social bad, profit as good and there is a ‘this is as good as it gets’ attitude to what might be possible. Both Toronto and Vancouver now have 15% taxes being levied on foreign buyers to try to prevent speculation from overseas investors. As yet London shows no signs of even considering such a move.

The British government says it can’t introduce a property tax like Ireland’s that covers all property, because they have not quite got around to registering all the property in Britain. This is particularly the case for those that have not changed hands for a couple of hundred years or more. It is always easy to come up with such excuses. The Irish suddenly taxed all their property when the economic crises of 2008/2009 forced them to. They created a register of all property in Ireland in little over a year. Google Earth has many uses!

The Housing Pendulum

Property taxation is not only good for the less well-off, or for society as a whole. It is also a mechanism for protecting the affluent from folly. Land and property speculation inevitably eventually both end in disaster. Many people find this impossible to believe and that is part of the reason why prices can rise so high.

“Surely central London will always be one of the most desirable places on the planet?” They say. They forget what central London was like in the 1980s. They also forget that it is a major financial city of a country in relative economic decline today. They forget that home prices almost halved in the space of just a few years in central Tokyo in the early 1990s. But, most importantly, they forget the oldest of stories from the beginning of capitalism. Our current way of living began in Amsterdam in the 16th century, and that city provides the most serious warning of what happens when speculation is not controlled.

Today the Dutch live in one of the countries with the lowest rates of income inequality. Life expectancy is high and rising. People are well-housed and a majority of the population walks and cycles to work. So how on earth was this achieved in the cradle of capitalism? One answer is that the Dutch have had far longer to learn from their earlier mistakes, especially those mistakes that concerned property.

In Amsterdam there was euphoria in the early 1700s. The power that Spain had held over South America for over two hundred years from 1492 had been waning. Some Dutch merchants began to invest in companies designed to exploit the new power vacuum and profit from rapidly increased trade with the Americas. All went well for a few decades. Amsterdam was already an incredibly rich city and it began to teeter towards new dizzying heights of affluence.

The United Provinces (with Amsterdam at their centre) had seen the founding of the Dutch East India Company a century before, in 1602, that private company already dominated trade with New Guinea, Borneo, Sumatra and Java. The Dutch had colonies in the Caribbean, Brazil and in what is still known as Manhattan. Manhattan was an American development that was commissioned by that Dutch East India Company after the Halve Maen sailed from Amsterdam and dropped anchor in a convenient harbour in 1609. It only became part of a larger ‘New York’ when the English took it by force in 1664. But the English didn’t really own it for long. Four years later the Dutch stadtholder William III, Prince of Orange invaded England in what became called the Glorious Revolution. The Dutch were far more important in the past of both the USA and the UK than is commonly recognized.

Amsterdam was sitting pretty at the start of the 18th century, it was at the top of the world, but then, around 1738, there was a sudden loss of confidence and a financial crisis ensued. House prices in the Herengracht, one of the most expensive

streets, peaked that year and subsequently fell by a third in real terms by 1751. The market rallied a little to a new peak in 1778 "...and then not again for 250 years [from 1738 to 1988]," according to Neil Monnery's 2011 book *Safe as Houses*. "The middle of the eighteenth century marked the beginning of a period of plodding decline that would continue for the next two centuries." After being at the top of the world, the fall can take a very long time.

Housing prices can and have fallen for more than two hundred years in the past in the centre of Amsterdam. Think about that. That will happen again in other parts of the world, especially the parts that are today most overheated. The end result is not disaster – it is the most densely populated country of Europe relying on planning and taxation to bring about some of the highest levels of freedom experienced anywhere on the planet.

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Back in England, in the community hall near my home in Oxford, the man with the slick black hair was wrapping up the meeting. He was about to try to get permission from the local planners to develop what would soon be some of the most expensive homes to ever be built on the edge of the city where I live and work where I grew up, where my parents were young adults and where my grandfather once lived and where my children will never be able to settle down unless everything changes. He had the audience where he wanted them, opposing his housing not because it would be unaffordable, but just because they are NIMBYs. Someone asks him: what's all the rush was about? Why after all these centuries did his firm of property developers, and the Oxford College that owned the fields on the edge of the city, want to build now?

"Corbyn," he muttered and then look embarrassed, as if he had let something slip that he should not have said. A few months earlier, the shadow housing minister John Healey had announced that: "we will build for those who need it, including the very poorest and most vulnerable, with a big boost to new social rented homes. We will also build Labour's new affordable homes for those in work on ordinary incomes who are priced out of the housing market and being failed by housing policy."

Two months earlier again, it had been announced how the British Labour Party would get the land for these new homes: “Labour is considering forcing landowners to give up sites for a fraction of their current price in an effort to slash the cost of council house building. The proposal has been drawn up by Healey and would see a Jeremy Corbyn-led government change the law so landowners would have to sell sites to the state at knockdown prices. Landowners currently sell at a price that factors in the dramatic increase in value when planning consent is granted. It means a hectare of agricultural land worth around £20,000 can sell for closer to £2 million if it is zoned for housing.” A Labour government would take the land, pay just £20,000 an acre, and build the homes.

The man needed to build now because after another election it could well be too late for him to make his profit. Rather than a few large detached houses being built on those fields on the edge of Oxford the space could be used for social housing. To his mind this was the worst kind of all housing of all – good quality social housing with views into the city, housing that meant that, given a choice between renting securely and having a mortgage, you might actually choose to rent:

Housing that would help housing prices fall.

Housing that was a home.

Sometimes the pendulum swings.

DANNY DORLING

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