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# Towards a new age:

## The future of the UK welfare state

**Editors: Ben Franklin, Cesira Urzi Brancati and Dean Hochlaf**



# In defence of the welfare state and the role of active housing policy

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The UK welfare state is under attack. Those attacking it vehemently hate the idea of collective responsibility and have grown up with a particular belief, almost religious, that only markets are efficient. This group will age and disappear in time. Those who are younger than them have a very different experience of growing up, paying extortionate rents, being exploited by the market rather than fantasising about how good it could be. The young of the UK have been taught about market failure the hard way. That younger generation may well be the salvation of the welfare state as regards housing. They may bring in the rent regulation that the private sector so badly needs. But, before they become middle aged and are able to do this, there will be a battle.

It is easy to forget whom the welfare state should be for and what it should provide. The word welfare has been tarnished to the point that it is now equated with scrounger and malingerer. Benefits are now talked about as charity rather than as a right.

The welfare state is for all of us, but it does need to change. All of us can find ourselves suddenly in need. We can all fall ill, find that our loved one no longer loves us, or that our employer does not want us anymore. Even the incredibly economically successful need a welfare state. They need it not only to live in a society they need not be afraid of, but because (no matter how hard they try to hoard their wealth) some of their great-grandchildren or great nieces and nephews will come to rely on it. No rich family in history has ever managed to protect all its progeny for long. You can spend as much as you like on your children's education, but that will not secure their grandchildren's futures.

The welfare state is required for those goods that are too large, complex or rarely purchased for individuals to become experts in. No amount of information and transparency is a substitute for actual market experience. It is when you

learn from your many mistakes that the market works. We learn how to operate in markets from buying the wrong clothes, eating out in the wrong places, and listening to the wrong music. However, in cases of rare purchases you are usually a dupe and you need help because you do not know what you are doing. Children only have one shot at an education; none of us should want to learn from our mistakes by choosing the wrong heart surgeon. It is also not enjoyable to make the wrong choices in housing - we don't want to move home so frequently that we become experts at it. In all these areas there are sharks that will try to exploit the ignorant (and to a certain extent we are all ignorant) for profit. The welfare state protects us from the greedy and delivers goods and services that are accessible to all.

Fair future delivery models for health and social care, for pensions, for welfare, for housing and education should be based on those that are most successful in other countries with a welfare state. Unfortunately, (for us) our record is now very poor in all these areas, but should tell us we need to search for better alternatives to how we have allowed our welfare state to corrode. Consider for instance, our pensioners who are destined to mostly subsist in poverty if they live long enough. The Table below shows the most recent median incomes of better-off tax paying pensioners in London. An income of £11,000 a year (in Hackney) is £30 a day. Our elite are so ignorant of the simplest social statistics that they have no idea that the average tax paying pensioner, including those pensioners living just a few miles from the Houses of Parliament, survive on so little.

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### Income and tax by borough and district or unitary authority, 2012-13 (taxe payer only)

County and district / unitary authority	Self-employment income			Employment income			Pension income		
	n	Mean	Median	n	Mean	Median	n	Mean	Median
<b>London</b>	568	31,000	12,200	3,140	36,800	24,000	663	16,800	13,300
<b>Barking and Dagenham</b>	10	15,300	14,200	60	23,500	20,700	11	11,200	11,700
<b>Barnet</b>	31	29,400	12,700	129	35,500	23,000	37	17,100	13,300
<b>Bexley</b>	13	16,100	12,700	85	28,500	23,500	31	14,900	13,400
<b>Brent</b>	23	18,300	11,600	116	26,200	19,900	19	12,800	11,200
<b>Bromley</b>	23	23,700	13,500	122	35,400	26,200	48	19,100	15,600
<b>Camden</b>	18	87,800	14,500	85	55,800	27,900	15	22,400	14,100
<b>City of London</b>	2	144,000	81,400	7	116,000	55,100	1	26,400	15,000
<b>Croydon</b>	21	18,100	10,800	133	29,700	24,000	41	16,800	14,800
<b>Ealing</b>	25	20,700	11,700	129	31,000	22,600	25	15,100	12,700
<b>Enfield</b>	19	22,200	12,500	110	28,400	22,400	30	15,200	12,800
<b>Greenwich</b>	16	18,500	11,200	93	30,400	22,900	19	15,200	13,000
<b>Hackney</b>	18	22,500	11,100	84	30,300	24,100	9	12,200	11,000
<b>Hammersmith and Fulham</b>	12	41,100	11,700	78	49,400	25,700	11	18,700	13,100
<b>Haringey</b>	23	25,500	11,600	97	32,400	22,400	16	17,300	13,200
<b>Harrow</b>	20	22,900	12,600	94	29,800	22,400	26	15,700	12,500
<b>Havering</b>	17	20,500	14,700	91	30,600	24,500	36	15,100	13,900
<b>Hillingdon</b>	16	18,300	12,400	106	29,000	23,000	29	15,900	13,400
<b>Hounslow</b>	17	24,900	11,700	109	30,300	22,100	20	13,100	11,600
<b>Islington</b>	15	45,000	13,400	90	43,200	27,200	11	18,100	12,400
<b>Kensington and Chelsea</b>	12	122,000	12,500	55	113,000	34,000	12	26,000	12,500
<b>Kingston-upon-Thames</b>	11	27,800	12,000	65	38,000	26,300	18	17,600	14,300
<b>Lambeth</b>	19	23,800	11,700	130	35,400	25,400	13	15,400	12,300
<b>Lewisham</b>	17	16,600	11,100	100	29,600	23,100	18	14,700	13,200
<b>Merton</b>	14	44,400	11,600	84	39,500	25,200	18	17,400	13,400
<b>Newham</b>	20	13,700	11,500	108	23,000	18,800	9	12,800	11,500
<b>Redbridge</b>	19	20,100	13,100	97	30,500	23,900	26	15,800	13,200
<b>Richmond-upon-Thames</b>	15	39,800	12,200	78	54,800	30,900	25	20,900	15,400
<b>Southwark</b>	17	27,200	10,900	117	35,000	24,300	13	15,900	12,500
<b>Sutton</b>	13	18,500	12,500	74	30,700	25,200	21	16,900	15,400
<b>Tower Hamlets</b>	12	20,900	11,100	104	37,600	24,500	7	16,600	12,200
<b>Waltham Forest</b>	23	15,100	12,500	93	26,000	21,900	16	14,800	14,100
<b>Wandsworth</b>	20	48,400	12,500	131	49,600	29,200	20	18,300	13,300
<b>Westminster</b>	14	106,000	14,200	82	75,900	29,800	14	29,600	15,000

Source – HM Revenue and customs, Nation Statistics (approved by ONS) last updated March 2016: "National Statistics: Income and tax by borough and district or unitary authority, confidence intervals"<sup>173</sup>

### Taking action: How can we solve the housing challenge to support equality?

We look long-term. If we look to the United Provinces (the richest place on Earth before the United Kingdom became so rich) at their heart, in Amsterdam in 1699, a house sold for 28,100 guilders. This was a very fine house. Its

<sup>173</sup> <https://www.gov.uk/government/statistics/income-and-tax-by-borough-and-district-or-unitary-authority-confidence-intervals>

equivalent would be found in Kensington today. The house in question was number 20 Herengracht, on a street that was situated on the most sought after canal in the city. That sale represented a real terms rise of 15% on its 1669 sale price. It was valued then, in today's money, at just under half a million Euros. The world as a whole was far poorer then so this was a true fortune. The value of the house rose again to peak in 1738. For seven decades' prices had risen and risen. The Dutch elite must have believed they could never fall.

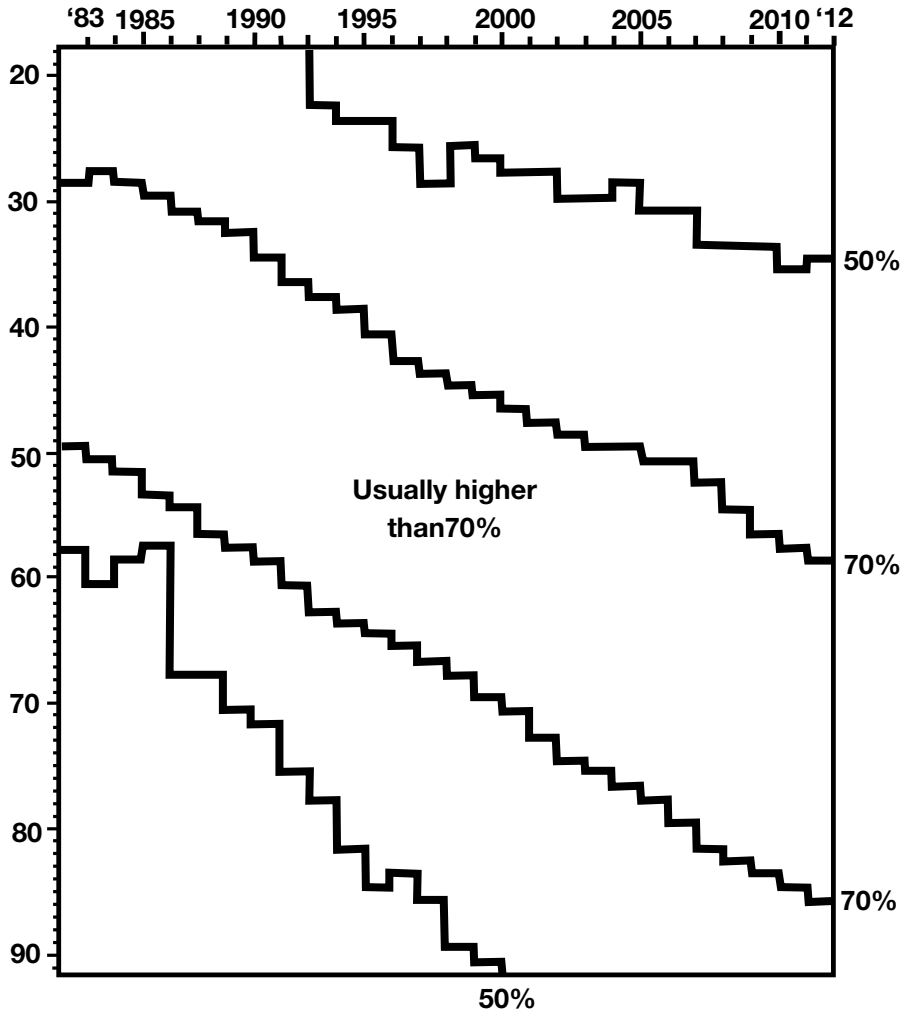
Prices on Herengracht fell by a third to 1751, and then as Neil Monnery, who documents all this puts it succinctly, they fell again and again : "prices would reach their 1740s levels once more in 1778 and then not again for 250 years"<sup>174</sup> You could look more recently at Tokyo in 1990, or at Dublin in 2008, or all around the world but London. A 1980s degree from Oxford in modern history doesn't teach you stories such as this. George Osborne may well still not be aware of the possibilities. We all need the welfare state not only because none of us can foresee what might happen to us individually, but because markets (and especially housing markets) are unpredictable and stability is far from common.

Figure 1 is a simplified version of a much more complicated graph first published in the Telegraph Newspaper. In the figure, each cell represents people of a particular age and the numbers outside those cells represent the proportion of that age group at that time who were homeowners (i.e. buying a home with a mortgage or owned it outright). Housing has become unaffordable, which is why the lines slope down to the right. But that does not mean that most people will now rent forever, it suggests that a market correction is over-due. It means that house prices are now unsustainably high. By 2012, more than 50% of people in their twenties and early thirties were renting representing a dramatic change from only a decade ago when most lived in mortgagor households. If the trends shown in Figure 1 continue, then in ten years' time a majority of people in their forties will be renting privately, and in another ten years, a majority in their fifties will be. This is why Figure 1 is so important – it shows us where we are currently heading. If there is not a market-correction then most people will be renting, and paying very high rents, until they die

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<sup>174</sup> Monnery, N. (2011) *Safe as house? A Historical Analysis of Property Prices*, London: London Publishing Partnership. Pages. 84-85.

**People with a mortgage or who own outright in the UK by age 1983-2012 (% within single year of age and year group)**



Note: Data missing for 1988 and 1992, the trends have been interpolated over those years

Source: Analysis by the author of the British Social Attitudes Surveys

So what can we do? The answer is an enormous amount. A renewed welfare state could incorporate private renting but control it. The standard length of private rented tenure in the UK should be lengthened to three years, or five

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years for people with, or who subsequently have, children. Rents must not be increased during this period, since people should not be losing more than a third of their disposal income in rent; a huge number of recent reports and studies make this claim and cite an enormous amount of data in support of it.<sup>175</sup> Social housing rents should be subject to regulation, to ensure that they are not excessive: again, not more than 30% of disposable income. Tenants who might wish to leave their tenancy early could still do so, but landlords could not insist that they do. If the quality of accommodation is substandard, tenants should have the right to improve it, deduct the cost from their rent, and extend their tenancies by more years in proportion to how much they had to spend. That would give the landlord an incentive to ensure the accommodation was up to standard. It would also ensure our housing stock was improved. If you think this is impossible consider how the right to roam was introduced. The land in England is still owned by the landowner, but we all have a right to roam over it and they have a duty to keep the paths clear and the styles well repaired. Lives can be improved by improving rights without the need to nationalise land or housing.

### **Under-occupancy**

Housing is in short supply because it is now being used in Britain in a way that is more inefficient than at any time since good census records of our use of housing began in 1911. A higher proportion of homes are empty or more rooms in them are under-used than ever before. Almost all of this inefficiency is in the private sector and mostly found among those who own outright. It is largely due to older homeowners holding on to large properties that are too big for them, but they keep them for the rising asset value, possibly hoping to pass that on to their children when they die – to try to protect their children.

Annual wealth (including housing wealth) taxation is needed because the alternative is that a small group becomes ever wealthier to the detriment of the rest, or that we stoke up the size of the eventual crash to be from even dizzier heights. Progressive property taxation would achieve a great deal, as could a flat tax on the value of property owned or proportional to total land value.

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<sup>175</sup> See the final report of the London Fairness Commission of 2016: <http://londonfairnesscommission.co.uk/>

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### **Building more homes**

We have to build because our population is rising and we are lucky that it is. We have to build retirement apartments with lifts near to where we currently live that are attractive enough for people to occupy by downsizing to. I am writing this chapter from the 17<sup>th</sup> floor of a tower block in the middle of the city in Berne in Switzerland. The tower-block has wonderful views of the city and the mountains around it. It is located by the main railway station and by the medical institute where I am working today. All the residents on the floors below me are very old. Proposals that may appear impossible in England have long ago been implemented elsewhere in Europe.

We have to build homes in and near cities where people will not need more cars to use those homes. And we have to ensure that the value of housing begins to fall towards normal European levels so that there is a disincentive to hoard. The purchase of housing to leave empty as an investment should be made unaffordable by increasing taxation on empty homes and ensuring that capital gains tax applies to all property. We also need decent pensions so people don't bet on housing for their retirement income.

### **Rent regulation**

In the Netherlands tenancies are regulated; the quality of rented housing is higher; price is lower. In France, rented homes are much more spacious, on average, than in the UK. In the US, property taxes are fairer. In Japan they are decades ahead of us in terms of planning housing to fit public transport, so for decades' car use there has been falling.

Housing in the UK needs to be for homes again, not for investment and speculation. We need to look abroad to see how to do this. We need to look at how housing policy in other countries has also contributed to better mental health in those countries. Of course, there is much more to do than this. For instance, the Swiss choose to dedicate twice as much, per head, on health spending compared to the British – but that is not the only reason why they are healthier. Nowhere is perfect, but so many places are so much better than we are in the UK. The entire continent of Europe now provides examples of many different variants of the welfare state. Although the UK was the first country in Europe to adopt this model we have forgotten how valuable it is and have become complacent. The same has happened in New Zealand that introduced



a welfare state before us. The future will not be a re-run of the past. All good ideas are adaptations of ideas at least partly tried out first somewhere else. So let's look out and learn from our immediate geographical neighbours. To see what would happen to us if we do not just consider the USA as our model, because so many people are so insecurely and poorly housed in the USA<sup>176</sup>. There is no need for us to be so stupid in future.

In conclusion, large and difficult changes will need to be made if we are to sustain and renew the welfare state in future: educate all children well, house everyone well, maintain a decent health service and good employment prospects for all, as well as good pensions.

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<sup>176</sup> Dorling, D. (2016) Evicted: Poverty and Profit in the American City, by Matthew Desmond, The Times Higher, March 3<sup>rd</sup>: <https://www.timeshighereducation.com/books/review-evicted-poverty-and-profit-in-the-american-city-matthew-desmond-allen-lane>