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Yet again, today's politicians are ignoring basic economics

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These past two weeks have been a grim time for economists.

From Transport for London's decision to revoke Uber's licence, to Jeremy Corbyn's call for rent controls, culminating in Theresa May's commitment to pump more money into the Help to Buy scheme, policymaking shows a continual disregard for basic economic principles.

Take housing. Britain has seen sharply rising house prices in recent decades, and now has among the highest prices per square metre worldwide. Demand has risen primarily due to higher incomes and population growth, but building has simply not kept pace.

The UK's housing supply curve is "very inelastic" – meaning the provision of new homes seems unresponsive to change demands.

This screams that we have a supply-side problem: our planning laws produce blockages and restrictions, resulting in incredibly small homes by international standards and houses not being built where they are wanted.

The solution seems obvious: a see-change liberalisation in planning and density regulations so more houses are built, and new frameworks which relieve the tensions from the spillover effects of new developments.

So what do our wise leaders do?

The Prime Minister has chosen instead to increase demand-side subsidies by £10bn by expanding the Help to Buy scheme. Those lucky enough to participate will find houses more affordable, and overall building will rise a tad. But the main effect will simply be to lift prices and rents further, to the benefit of existing property holders and the detriment of everyone else. In other words, exacerbating the existing problem.

Are Corbyn's solutions any better? The Labour leader talks about supply, though inevitably thinks the answer is a new generation of council houses. But again he misses the key problem. If the government faces the same planning laws and local opposition to new developments as everyone else, chucking public money will do little good.

His solution would only work if councils could circumvent the rules and ride roughshod over opposition to ensure council houses get built. But if they have that power, why not change the rules for all tenure types?

Corbyn's belief in the need for rent controls for private rented accommodation is further economic illiteracy.

The results through history have been clear, from Stockholm to Israel, San Francisco to Britain: holding rents below market rates means less rentable accommodation available in total, a decline in the quality of accommodation (and hence further regulation imposed to counteract it), and cronyism and corruption in the allocation of scarce properties.

That's why 95 per cent of an IGM Chicago economists' survey panel oppose rent controls – a rare consensus for economists. More benign short term “rent regulation” schemes can be dreamt up, of course, but these do nothing to solve to constrain the general upward trend in rent caused by restricted supply.

Bad economics is not confined to housing policy. As if Londoners' cost of living problems were not challenging enough, mayor of London Sadiq Khan's decision to revoke Uber's licence will reduce choice and increase prices for consumers moving around the city.

Whatever one thinks of Uber's compliance with Transport for London's regulations, economists from the same IGM Survey overwhelmingly believe that ride sharing apps raise consumer welfare (98 per cent to two per cent agree to disagree), and that existing taxi regulations in major European cities work against the consumer interest (85 per cent to zero per cent, with 15 per cent uncertain).

The failure to consider the impact of the ban for customers demonstrates, yet again, a decision taken without economic analysis.

Why do politicians ignore basic economics like this? One might just suspect ignorance, but in the case of housing, the underlying problems are so widely acknowledged they are impossible to ignore.

This raises more unedifying prospects: either appeasing electoral interest groups plays a much bigger role in decision making than “doing the right thing”, or our current leaders are susceptible to cranks with bad ideas.

Maybe May favours demand rather than supply-side housing solutions because lots of current Conservative voters and MPs oppose green belt reform and own their own homes already, and so benefit from high prices.

Maybe Corbyn favours council house building because he wants a new generation of voters who owe fealty to government.

Maybe Khan was sanguine about revoking Uber's ban because the left-wing unions dislike Uber's business model and because Transport for London is beholden to the interests of the black cab trade.

In politics, one should always be careful about attributing motive. But absent coherent economic explanations for their decisions, we are merely left to speculate as to what exactly our leaders are thinking.

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