



## **Gove is poised to dump radical supply side reform. And subsidize younger peoples' mortgages instead.**

Ryan Bourne

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Michael Gove's appointment to what was the Housing, Communities and Local Government Department last week received an uncertain reaction among Westminster's free-marketeers. The optimistic case is that the former Education Secretary's record of ministerial effectiveness, if channelled into the much-needed cause of land-use planning reform, could snatch victory from the jaws of defeat. Sadly, I find the pessimistic case more convincing: that his appointment further reflects the Government's backtracking on the issue.

Renaming the Ministry the "Department for Levelling Up, Housing and Communities" already seems to reveal a shift in emphasis away from housebuilding. Gove has reportedly gone out of his way to play down the role of a constrained housing supply in driving recent house price inflation. It has been claimed that he will abandon the government's "do or die" approach to watered-down planning reforms too – instead meeting backbenchers concerned about "over-development."

Westminster's mood changed with the Chesham & Amersham by-election, which crystallised the political risks of a planning reform overhaul. In the wake of that shock, spooked Conservatives began scrambling for fashionable theories to explain away the economic dysfunction caused by our archaic planning laws and so the need for reform. Now even Gove, it seems, echoes the talking points of the Tony Blair Institute's Ian Mulheirn. The prospects for meaningful liberalisation are increasingly grim.

We all know the anti-planning reform lines by now: that the housing supply has kept pace with household growth since the 1990s, implying a housebuilding drive today would produce socially wasteful "surplus" stock; that planning can't be the problem because permissions granted regularly exceed net additions to the housing stock; that new supply would take time to dent prices significantly, so wouldn't do much for home ownership in the near-term.

These are alluring for Conservatives worried about the politics of land use liberalisation, because the conclusion is that mortgage affordability, not planning reform, is key for the Tory goal of a nation of homeowners. If planning genuinely doesn't constrain how much and where housing occurs, then it's difficult to see what anyone really fears by liberalisation.

But when has consistency mattered in politics? The convenient conclusion instead is that planning reform can be shelved, replaced with the tried-and-tested method of demand-side subsidies to first-time buyers from the Treasury. What could go wrong?

These planning-sceptic arguments are mostly non-sequiturs, of course. A functioning market doesn't allocate by "need," but by matching what people want and are willing to pay for with what suppliers are able and willing to provide. In that sense, the number of households is not synonymous with demand. As Paul Cheshire, a housing expert, has explained, as we get richer we tend to want more housing and more living space, often including gardens. A planning system using household numbers as a determinant of how much land to allocate for housing therefore systematically supplies too little and in the wrong places.

A well-functioning market, in fact, would see supply responsive to demand, not just in terms of the number of dwellings, but their type and location too. If half-a-million people really want to live in apartments in a commuter-friendly South Eastern town, then it would be densified, just as Kensington and Knightsbridge reached six or eight storeys in the Victorian era. That there's new bungalows in Carlisle is hardly relevant.

Indeed, one would hope "market friendly" Conservatives would understand price signals. Today they scream that people want more land for residential use in London, the South East, Cambridge, and Oxford. Yet our planning system is tone deaf. Not only does it generally restrict land availability or prevent potential densification, but it does so more stringently where people actually want to live. Cheshire, again, has shown house completions have been much lower in Oxford and Cambridge over the last 40 years than in Barnsley and Doncaster, despite much larger population growth in the richer university towns.

The landbanking bemoaned by many is a consequence of the uncertainty of our very discretionary regime. As Ant Breach of the Centre for Cities told me, developers are plagued with the risks associated with not knowing whether developments will actually be approved given the blocking potential at local level. With the supply of land slow and unreliable, it makes sense for them to keep a buffer – a point made way back in 1988 in the IEA's No Room.

The date of that publication indicates that Britain's land use and planning policies have had badly damaging consequences for decades, leading to structurally high rents and house prices, irrespective of what drives more recent trends. So yes, house prices are now highly responsive to falls in interest rates, with housing demanded as an asset in itself.

But history shows if interest rates fall and the housing supply is elastic, we get a building boom, like in the 1930s with 'cheap money.' If housing supply is restrictive, we get the price boom. We today reap what our planning system sows.

The case for fundamental reform of land use and planning in a liberalising direction therefore remains overwhelming. Peer-reviewed academic literature has repeatedly confirmed that tight supply restrictions on housing reduce affordability, constrain the growth of productive regions, create macroeconomic instability, and a host of other economic problems.

It's not as if the Government's controversial reforms took aim at all of this, either. They were mainly about replacing the discretionary approach with a more explicit rules-based system to remove uncertainty, with developments automatically green-lighted if they met locally-determined, democratically approved requirements under the designation of the land (a form of zoning).

Were those proposals perfect? Of course not. Plenty of U.S. cities have zoning, but still suffer from a horribly inadequate supply of housing, as the rules are too restrictive. This meant whether the reforms produced new housing in reality was largely dependent on the "market socialism" of affordability signals creating centrally-determined housing targets in the style of the old Yugoslavia. This algorithm driven-process naturally raised question marks over how the very real bargaining needed about the impacts of development on local communities would occur.

What we are hearing today though are not critiques of the mechanisms that might produce more housing, but outright denials that the planning system is even a bottleneck to it. Faced with political resistance, the Conservative party seems to be abandoning not just the policy but its understanding of the problem.

And this backsliding has a self-reinforcing dynamic. The more that reform gets watered down, Breach tells me, the more even reforming Conservatives will regard the lesser economic reward of what's left to defend as unworthy of the inevitable political grief. And so the Government will reach for the comfort blanket, once again, of fiddling with mortgages. ser attention to central committee elections.

*Ryan Bourne is Chair in Public Understanding of Economics at the Cato Institute.*