From castle to cage: what to do about the housing crisis?

JEM BENDELL 22 April 2015

Spiralling house prices are trapping people in lifelong debt while politicians ignore the root causes. Even the United Nations is alert to the Britain's growing housing crisis.

The Heygate Estate, London. Image: Flickr/ Lucy Anne

"An Englishman's home is his castle". The phrase originates from 17th century England, when it referred to the principle of being able to refuse entry to your home. If you are browsing this article from home right now, you might question if that principle is particularly well applied in a time of mass surveillance. But today, when we say a person's house is their castle it is usually to suggest that it is natural for us to buy a house – particularly if we are British. The implication is that we won't feel safe and secure, certainly not prosperous, unless we own a home. This emotional connection to home ownership is something that politicians can be keen to connect to. Yet recent evidence shows unrestrained mechanisms for home ownership are actually an enemy of our prosperity.

How so? Let's consider prices. When the costs of basic services like heat and light go up, we complain. Odd then, that when the cost rises for the building that we heat and light, we are told this is good for us. With measurements like GDP including house price inflation, it means such costs are counted as progress. For the majority of us, rising house prices means higher mortgage repayments and rents, which means diminished lives and, for some, poverty. In London in 1996, an average of 22% of 1st time buyers' take home pay was spent on a mortgage, which had risen to 66% by 2007. The impact of such debts and loss of available income means people may give up on their dreams, stay in jobs they hate, just to pay a mortgage. No amount of gardening or DIY can mask how our heavily mortgaged homes are less like castles than dungeons for our hopes and creativity.

Some homes now even look more like dungeons. Recently an 8 square metres apartment in London was sold for a quarter of a million dollars, according to one report. That's smaller than a typical prison cell in the UK. Micro-housing is booming, with firms like 'Pocket Living' building micro-apartments of between 15 and 20 square metres, often for couples. A double occupancy cell from Her Majesties' Prison Service is typically just smaller at 13.6 square metres. Investing in the private development of micro-housing is a key policy from local government in London, with Mayor Boris Johnston providing a 21 million pound loan for Pocket Living. For Boris, is it progress that an Englishman's home is now more dungeon than castle?

So, what's the answer? Some argue for more social housing to be built, which provides subsidised rents. Yet as the cost of land increases, cash-strapped local authorities find it difficult to keep pace. Instead, the trend in the UK has been to sell off social housing. In some cases organised activists have attracted media attention with the support of celebrities like Russell Brand, and saved their homes. Yet these are exceptions, and constant campaigning on individual estates is not sufficient – the battle needs to move to the underlying cause.

The author, presenting at the UN Economic Commission for Europe last week

As the UN Charter for Sustainable Housing was officially adopted at the United Nations last week, I shared four key steps to turn the tide of unaffordable housing damaging city communities. First, I called on the UN to do more to highlight the baseless ideology that higher house prices make us more prosperous. The data shows the opposite. In addition, we can articulate the simple principle that in a civilised society, having a place to rest your head should not cost an arm and a leg. Moreover, that property ownership should be enabling not caging our aspirations.

Second, we need to understand the cause of the problem. House prices are not rising as a result of market forces but the result of the power of banks in most economies, particularly those with deregulated and highly consolidated banking sectors. In the period 1996 to 2008, the supply of housing increased more than the population in the UK. Prices rose for other reasons, in particular the nature of our banking and monetary system. In the ten years before the financial crisis, lending for mortgages quadrupled. When I say “lending” I actually mean new money, as when a mortgage is issued by a bank, this is entirely new money created by that bank. The vast majority of new money for the general public in the UK is created to buy houses, and that is why property prices rise far faster than the cost of other items, or wages. In countries such as Germany, with tighter regulations on mortgages, and where the banking sector includes more public-purpose banks that create more credit for business than for property speculation, the prices have not risen anything like in the UK.

Third, those with responsibility for social policy, housing and city governance, need to raise their awareness and voice on monetary and banking policy and demand changes that will curb the credit-fuelled expansion of property prices. At a minimum, this should involve credit guidance to banks, requiring them to reduce the proportion of their credit-creation that goes into property loans. Such guidance was powerful tool to guide the development of the Asian Tiger economies before the turn of the millennium. Another solution is to nationalise the process of new money creation, so that banks can only lend money that already exists.

Fourth, local governments should create their own local banks, to diversify the type of credit creation in society, so that it is not so distorted by an increasingly small number of large profit-maximising banks. In Germany, there are many more local banks than in other European nations, partly owned by local governments, and with a focus on lending to job-creating private sector, rather than for spiralling house prices. In the UK, a fast way to rebalance banking would be to open out RBS into hundreds of small, locally-owned banks focusing on the real economy.

Together these efforts would slow down future house price rises, and give governments the opportunity to deliver more social housing. Unfortunately, as most politicians do not understand monetary systems they don’t understand these key policy options, and that’s why I explained the importance of monetary reform for sustainable economies in my book *Healing Capitalism*. Some politicians say they will build more homes, some say they will privatise more homes, while the key driver of unaffordability is ignored. The inability of leaders to have an informed discussion is indicative of a wider problem where people confuse the means of keeping score, called money, with actual wealth and wellbeing. So in addition to campaigning and policy measures like those I presented at the UN, we urgently need to rethink prosperity as a whole. That’s why at the University of Cumbria we are convening people to explore new approaches to leading wellbeing.

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