

*Discussion of the OECD's
“Brick-by-Brick: Building back Better”*

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- This is a *holistic approach* to ‘Housing, the Economy and Society’:
 - a stunning example of evidence-based policy formulation,
 - drawing on a vast treasury of comparative analysis by OECD economists over many years and on recent years’ investment in expanding the evidence base.
- There are immense benefits from this holistic approach:
 - for dealing with the climate emergency;
 - for efficiency, sustainable growth, improving intergenerational inequality and reducing social exclusion, and for financial stability.
- But there remains *great resistance* to implementing such policies:
 - ‘know-nothing’ climate change deniers, long financed by the fossil fuel industry;
 - from entrenched land-owning interests;
 - from myopic, individualistic ideology that denies externalities and denies ‘Society’;
 - from monopolistic media that promulgate mis-information.
- *General equilibrium* - many inter-relations, spill-overs, feedbacks and possible unintended consequences:
 - most citizens do not understand GE;
 - the OECD report is brilliant in uncovering these features.

- The OECD report highlights *3 aspects of sustainability*:
 - Coping with climate change.
 - Financial stability.
 - Reducing inequality of income and wealth within and between generations.
- *Protecting liberal democracy* against a rise of populism also needs consideration:
 - The sustainability agenda, if pursued, would help protect against the rise of populism.
 - Causes of the rise include:
 - ‘*Socialism for the bankers and wealth owners*’, but ‘*austerity for the rest*’ after the GFC;
 - trend rise of inequality and fear that the young will be worse off than their parents;
 - pressure of mass immigration from poor countries, already affected by climate change.
 - *Housing policy reform* is linked with many of the solutions.
- Many of the reforms discussed in the report are *politically controversial*.
 - The OECD report ‘pulled some punches’ – less outspoken than it could have been.

- The OECD report has an excellent chapter on *housing and the environment*.
- However, it *does not mention* the words ‘climate crisis’ or ‘net zero’.
- Scientists fear approach of a catastrophic *tipping point* in the global climate:
 - [“Climate tipping points — too risky to bet against”](#)
 - [Crushing climate impacts to hit sooner than feared: draft IPCC report](#)
 - [2019 UN Emissions Gap Report](#)
- *Amplifying feedback loops* increase the probability of mass species extinction, major sea-level rises and other disasters:
 - *Melting polar ice caps, Himalayan glaciers*: reduce reflection of sun’s rays, increasing global warming.
 - *Melting permafrost in the Arctic tundra*: releases trapped methane, about 30 times more potent a greenhouse gas than CO₂ (in the short run).
 - *Tundra soil*: warming will release large amounts of buried carbon over a longer time scale.
 - *Rain forests*: when stressed by drought, they reverse the carbon cycle (incl. by wildfires) and release CO₂ instead of absorbing it.
 - *Oceans*: major absorbers of CO₂, but their warming reduces this stabilising capacity.

- Excellent analysis and many good policy recommendations - but *too sanguine*.
- *Report says that the residential sector (buildings and construction) accounts for:*
 - 28% of global final energy consumption; 17% of total CO₂ emissions; and 37% of emissions of fine particulate matter.
 - “Yet, in 2018, two-thirds of countries still lacked mandatory building energy codes. High-performance buildings, such as near-zero energy buildings, still make up less than 5% of new construction”.
- Report highlights *complex links* tying housing policy with environmental agenda:
 - land-use policies;
 - regulation, subsidies and taxes to reduce the carbon footprint of construction and improve the energy efficiency of the existing building stock;
 - environmentally-related transport policies affecting housing;
 - But such policies potentially increase affordability problems and social exclusion.
- *Missing phrases* include ‘climate crisis’, ‘net zero by 2050’:
 - The world needs to hit net zero by 2050, and earlier for rich countries.
 - Also, earlier for housing sector than others more challenging to address (e.g. aviation).
 - New houses: should be ‘net zero’ or ready to be made ‘net zero’ - or risk becoming “stranded assets” (whose value will fall); mortgage pricing needs to reflect these risks.

- The report *omits to mention 'carbon capture and storage' (CCS)*.
 - Likely to be critical in solving the 'climate crisis'; in particular, for housing policy reforms.
- *Use of wood as a building material for 'carbon capture and storage'*:
 - Wood is a superb carbon store! For evidence and citations:
 - [2019 UN Emissions Gap Report](#) and [UK Housing: Fit for the Future](#)
 - Timber is amenable to off-site modular construction methods, reducing construction costs – needs reform of building codes.
 - New technologies example: 18 storey timber-construction student residence in British Columbia.
 - Wood-burning adds to CO₂ emissions and generates dangerous PM2.5 pollution, therefore build rather than burn!
 - para 141 and <https://woodsmokepollution.org/>
- Under-emphasis on the potential for *green property taxation*:
 - Para 168 & table 7.8 mention 'green' and split-rate property tax.
- Under-emphasis on *new regulation, taxes and subsidies to speed adoption of new technologies*, bringing down costs in medium-term.
- *All these have the potential to resolve the conflict between affordability & equity and meeting climate goals.*

- OECD Report:
 - *“Relying less on housing transaction taxes and more on annual taxes on immovable property while shifting the base of these taxes from the value of structures to current land prices would bring multiple benefits. The move away from transaction levies towards recurring taxes would lower obstacles to mobility, facilitating labour market adjustment and boosting economic growth. Shifting the basis from the value of structures to current land prices would encourage construction in valuable developable areas, helping to address supply-demand mismatches. Many countries are underutilising recurrent property taxes and have substantial scope for increasing these levies.”*
- *Need for tax shift has never been greater, exacerbated by the COVID-19 pandemic:*
 - Pandemic generated huge structural changes in employment patterns and in housing preferences, many long-lasting.
 - Spatial patterns of employment and residence need to adjust.
 - High quality OECD research confirms transactions taxes are a serious impediment to desirable adjustment.
- More generally, the need for *tax shift is driven by affordability criteria.*
 - Large pre-pandemic rises in house prices relative to incomes (esp'ly in Anglo-Saxon and Scandinavian countries).
 - Priced many younger citizens out of home-ownership, esp'ly with tougher down-payment requirements after GFC.
 - Upward pressure on rents in many countries.

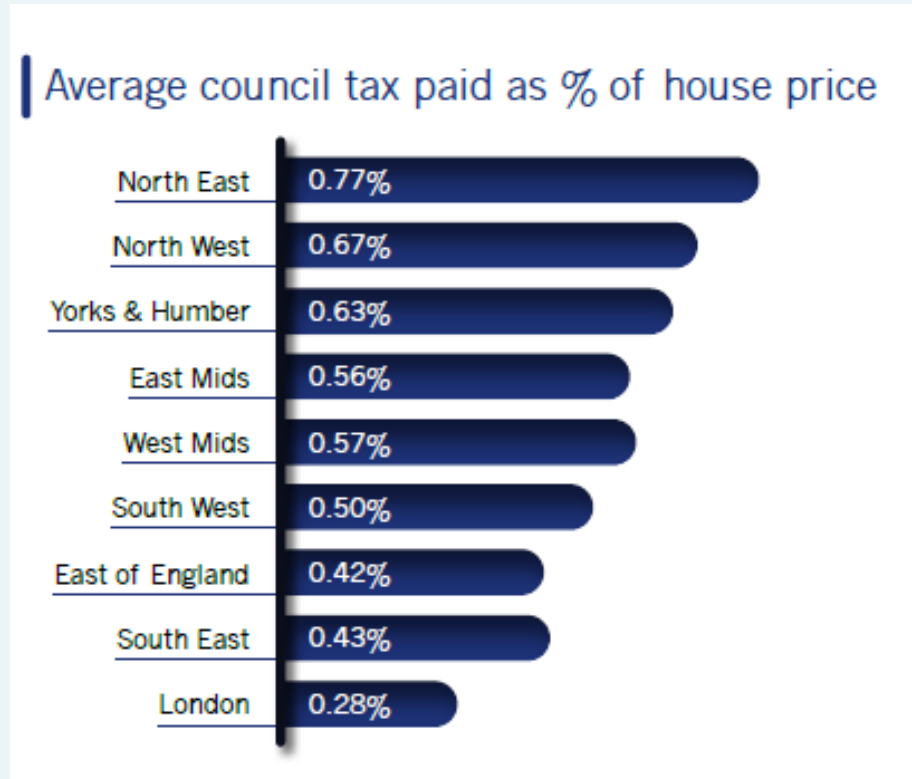
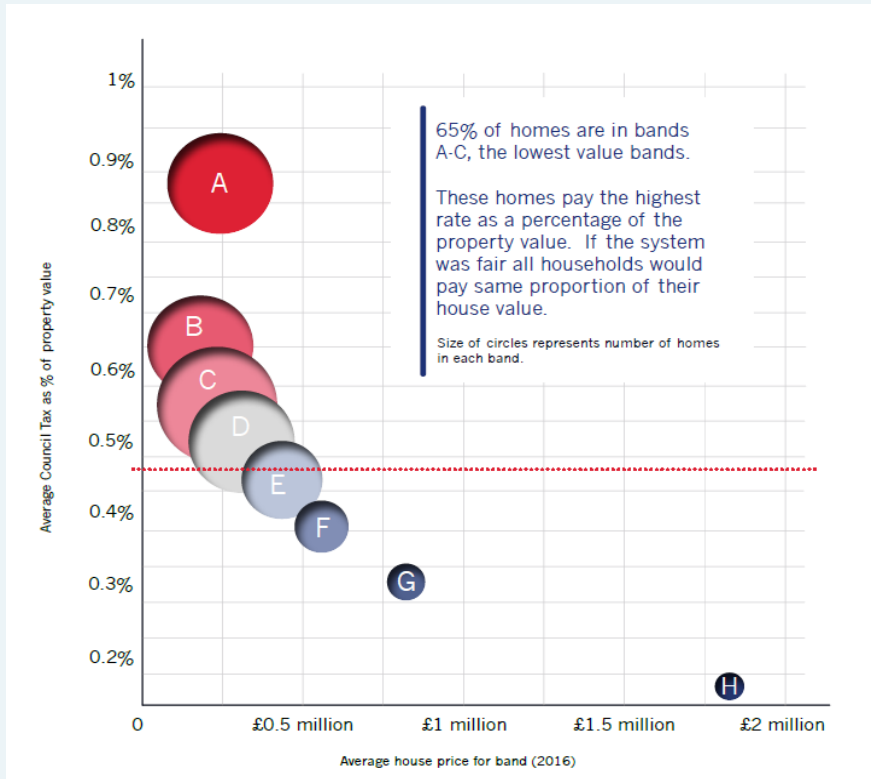
- *Easy money policies* pursued by OECD central banks in response to the pandemic have fuelled further large wealth gains for property owners relative to the rest.
- *Intergenerational inequality has widened further*, especially with the younger and the less affluent so disproportionately affected by the pandemic.
- Local house prices *reflect more heavily than ever* access to good transport, education and a healthy environment.
- The increasing unaffordability of housing has *increased social exclusion for those w/o wealthy parents*.
- The OECD report highlights the need to keep valuations for property taxes in line with market prices of property.
 - It rightly calls for a shift in the basis of valuation to land rather than to structures for environmental benefits, and to improve incentives for investment.
 - Drawing on earlier OECD research, the report confirms that annual property taxes linked to recent market values improve macroeconomic stability and long run rates of growth.
 - As governments across the OECD have accumulated massive debt burdens since the pandemic began, the advantages for economic growth of recurrent property taxes for *raising revenue* compared to income or consumption taxes come to the fore.

- Annual property taxes linked to recent market values, combined with macro-prudential limits on household leverage:
 - *reduce the incentive for property speculation* based on expectations of high rates of return (tend to be based on recent property appreciation);
 - as explained in our forthcoming *Journal of Economic Literature* [survey](#) on house price cycles.
- Benefit not only macroeconomic stability – esp’ly at risk where home equity withdrawal is easy - but also *dampen down drivers of higher regional inequality*.
 - Why? Rises in land prices in growth hotspots *should* deter in-migration and further growth at those hotspots, acting as an automatic dampener of widening regional inequality.
 - *However*, many potential migrants to the hotspots will *keep coming* in anticipation of further capital gains, and residents sitting on large capital gains will *postpone moving* to cheaper locations to cash in those gains.
 - Annual property taxes dampen such speculation, which otherwise *prolongs swings in widening regional inequality*.

- Reducing man-made obstacles to construction in high demand areas could also dampen regional inequality.
- Para 89, OECD Report:
 - *“In areas where housing demand is strong, these obstacles become binding constraints and push up house prices. These dynamics also occur within regions, for instance, between highly demanded city centres and areas in the corresponding commuting zones. Such divergences favour **segregation between those than can afford a dwelling close to economic and social activity and those that cannot. Segregation has dire consequences for current and future generations as it undermines equality of opportunity and depresses intergenerational mobility**”.*
- Para 90, OECD Report:
 - *“One way to assess the extent of segregation is to compare commuting times between privileged citizens who can afford living close to good-paying jobs and unprivileged citizens that accept the burden of long commuting times. A caveat is that the relationship between commuting times and segregation is likely to be non-linear and multi-faceted....Nonetheless, **average commuting times reflect inefficiencies in spatially aligning housing demand and supply and are a measure for many citizens' difficulty to move close to the centre of economic and social activity, often due to unaffordable housing in these areas.**”*

- Praiseworthy feature of the report is marshalling of international evidence on how policies and structural features differ among countries.
 - In this benchmarking exercise, the UK has high levels of restrictions on land supply, but relatively low levels of rent regulation.
- *Is the OECD rent regulation index subtle enough to pick up dysfunctional aspects of UK rental markets?*
 - e.g. short contracts, little tenant security, inadequate quality controls, and high tenant dissatisfaction levels.
 - By contrast, German system has long tenures and flexible rent controls.
- Another OECD benchmark: *“marginal effective tax rate”* for owner-occupied, debt-financed housing investments.
 - The UK has a relatively high METR partly because it removed tax relief on mortgages almost 20 years ago.
 - The METR measure is misleading in the UK: valuations for Council Tax are 30 yrs out of date and tax is highly regressive across property valuations and by region.
 - <https://fairershare.org.uk/council-tax-a-story-of-inequity/>
 - Adverse economic and social consequences.

- Many Northern households in low-priced housing pay as much as 2 percent of value in tax, while some wealthy Londoners pay as little as 0.01 percent.



- Apart from a highly dysfunctional Council Tax system, the *UK has relatively high transactions taxes on housing*.
- Unsurprisingly, UK has *by far the highest commuting times* of European countries.
- Huge *housing affordability problem* in the UK.
 - Structure of taxation and land supply restrictions help explain why the UK had largest rise in the G7 since 1970 in house prices relative to per capita household disposable income.
- Must hope for *maximum influence of the OECD report* on UK Government policies.
- OECD's holistic policy recommendations *closely aligned with 4-part approach* to address the UK's pressing housing problems, set out in [Muellbauer \(2018\)](#).
 1. Far better capture for society of the rise in land values induced by the granting of planning permission;
 2. Could help fund an expansion of social house building, whose collapse since the pre-Thatcher era has exacerbated affordability and social exclusion.
 3. Incentivise local authorities to give planning permissions.
 4. Radical reform is necessary of the UK's property tax system, among the most dysfunctional in the world. Shifting from high transactions taxes to a **green** annual property tax has multiple potential benefits for efficient use of the housing stock and improving access for the young.

- The **Green LVT**.
 - A standard per square metre charge on the land plus a surcharge on the building depending on its energy usage, zero for an energy-neutral building.
 - Revaluation annually or bi-annually to discourage speculation and to avoid cliff-edge changes that occur after long-delayed revaluations.
- Deferral.
 - To protect *cash-poor but land-rich households*, all would have *the right to defer the tax*.
 - In return, the tax authority would register a proportionate interest at the Land Registry equal to the unpaid tax for each year deferred, to be settled when the property was sold or transferred.
- Discounts and surcharges.
 - No discounts for single persons or second homes.
 - A 25% higher tax rate on owners not UK tax payers or pensioners to *discourage foreign speculators*.
 - To make the tax a little less onerous in high-priced regions, *an allowance linked to regional land prices could be given*.
- Radical tax reform would need to be *phased in over several years*.
 - With higher revenue from the **Green LVT**, transactions taxes would be cut.
 - Tune proposals to anticipate push-back from the 'haves' and the special interests.