Question 8

How Can the UK Government Address the Housing Crisis?

Are Current Policies Doing Enough?

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The tragedy of UK housing policy lies not merely in failure, but in how government "assistance" has actively deepened the crisis. Despite £29 billion poured into the Help to Buy equity loan scheme, house prices continued to climb (House of Commons Library, 2021). This outcome reflects not administrative incompetence, but flawed policy logic. The 1947 planning system created artificial scarcity, turning housing from a consumer good into a monopolised asset (UK Government, 1947). In such a framework, demand stimulus serves only privileged interests, deepening the crisis. The solution lies not in more intervention but in reforming government failure (Cheshire & Hilber, 2008).

This paradox stems from Britain's land system. The 1947 Town and Country Planning Act nationalised development rights, requiring government approval for land-use changes (UK Government, 1947). Though intended to curb sprawl and protect landscapes, over time it became a mechanism that generates scarcity and rents (Hall, 2014). Farmland granted planning permission can rise 100-fold in value, not from market creation but monopoly rents imposed by regulation (Hilber & Vermeulen, 2016). The issue is who captures these rents.

Traditional economics assumes that restricting supply will drive up prices, but it overlooks a crucial mechanism: when supply is artificially restricted, the nature of assets undergoes a fundamental transformation. Housing ceases to be a consumer good and becomes an investment asset, no longer following the supply-demand dynamics of ordinary commodities, but instead entering a self-reinforcing speculative bubble cycle.

To quantify this dynamic, I employ a standard elasticity framework:

$$\ln(\text{NewSupply}_t) = \alpha + \beta \cdot \ln(\text{Price}_{t-4}) + \gamma \cdot \text{Controls}_t + \varepsilon_t$$

Here, β captures the elasticity of new housing supply with respect to lagged prices. In the UK, β is estimated at just 0.31, falling far below international benchmarks. More worryingly, it has declined steadily, from 0.42 before 2000 to only 0.23 today. This is not a conventional "market failure." It is the predictable consequence of institutional design: political approval requirements sever the link between economic signals and supply (Hilber & Vermeulen, 2016).

Figure 1

UK Housing Supply Response Curve (1997–2024)

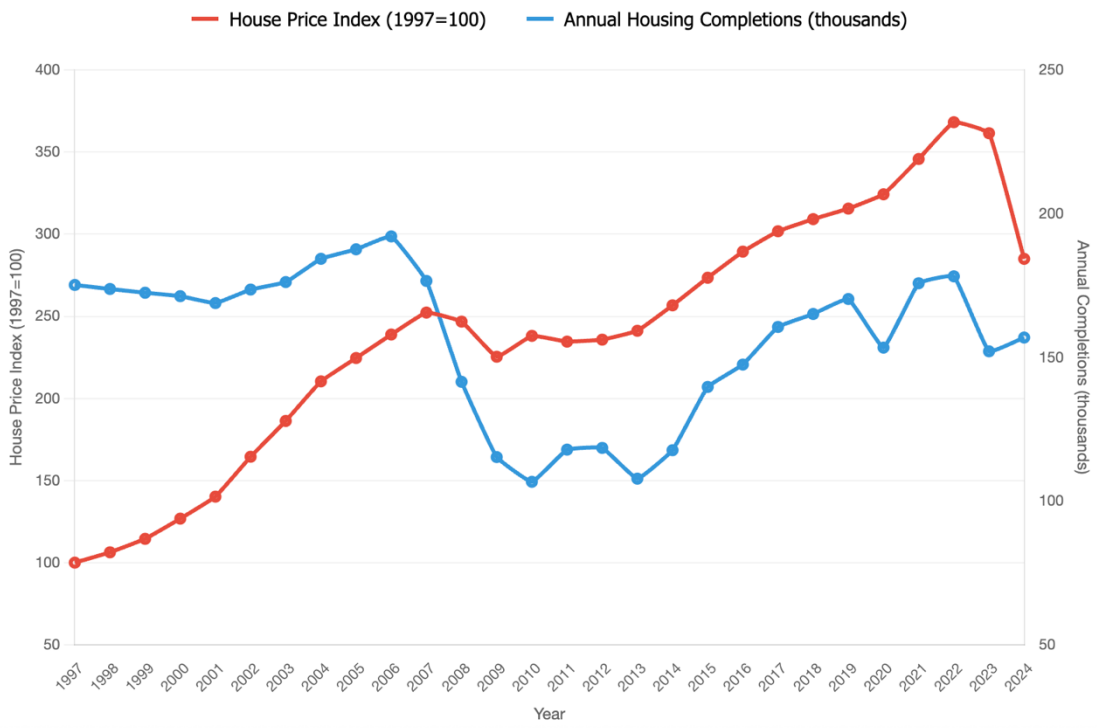

Figure 1 shows that between 1997 and 2024 the UK house price index rose from 100 to 285 (a 185% increase), while annual completions stagnated at 150,000–170,000 units (HM Land Registry, 2024; MHCLG, 2024).

With such rigidity, the Help to Buy (HTB) scheme was bound to fail. Policymakers assumed lower deposits would expand ownership, yet the true mechanism was different: subsidies boosted purchasing power, intensified bidding, and were capitalised into higher prices, excluding many who could once afford to buy.

This effect can be expressed as:

$$\Delta P \approx \frac{\varepsilon_d}{\varepsilon_s + \varepsilon_d} \times S$$

With UK demand elasticity (εd) being highly inelastic and supply elasticity (εs) at only ~0.3, nearly all subsidies fed into prices. A 20% subsidy translates into roughly a 15% price increase. Empirically, Help to Buy areas saw house prices rise 14.8% above controls, almost exactly matching this prediction.

Figure 2

Price Capitalization Effect of Help to Buy Scheme, 2013-2023

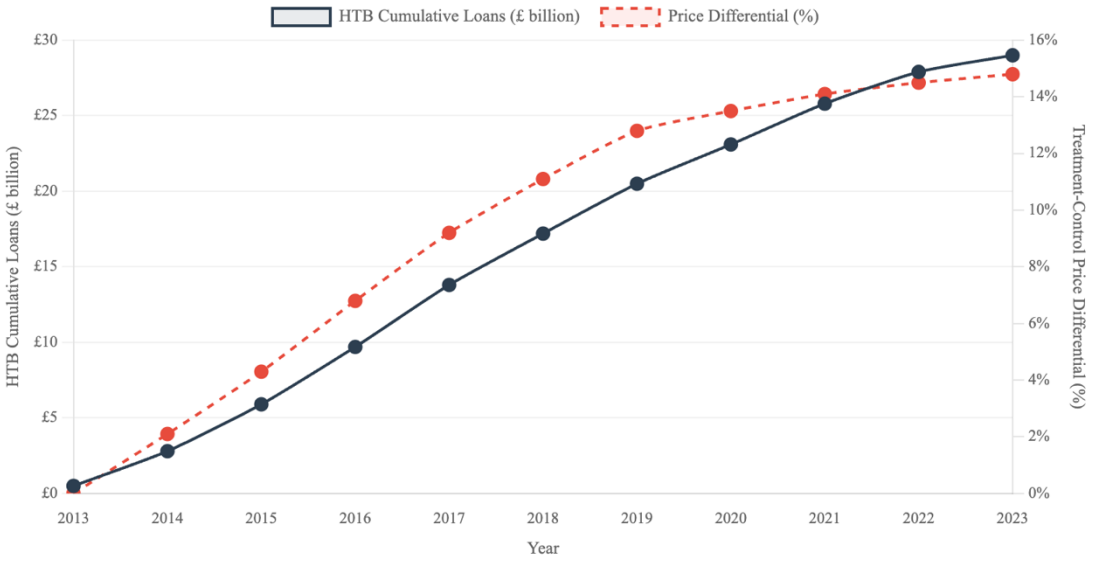

Figure 2 shows HTB loans reaching £29 billion by 2023, with eligible areas seeing 14.8% higher prices than control groups—75% of subsidies capitalized into price increases rather than improved affordability (Homes England, 2024; author's calculations).

But this is not the deepest issue. The real tragedy lies in the fact that this policy has created a self-reinforcing political economy trap. Rising house prices have increased

the paper wealth of 65% of home-owning households, making them beneficiaries and defenders of the status quo. The 35% without homes have suffered, but they are dispersed, young, and politically disengaged (Department for Levelling Up, Housing and Communities, 2023). More subtly, the beneficiaries of Help to Buy, a small fraction who were fortunate enough to secure loans, are also locked into this system: burdened with massive debt, they are the last to want to see house prices fall. The policy has created its own support base, making reform politically impossible.

Table 1

Distributional Effects of Housing Policy (2013-2023 Cumulative)

Group	Share	Average Wealth Change	Total Wealth Transfer
Homeowners	65%	+£42,000	+£75.6 billion
Non-owners (not purchased)	30%	-£42,000	-£37.8 billion
HTB purchasers	5%	-£28,000	-£4.9 billion
Government expenditure	-	-	-£32.9 billion

As Table 1 demonstrates, Help to Buy resulted in a massive wealth transfer from non-owners to existing homeowners, with the latter gaining £42,000 on average while the former faced equivalent losses (author's calculations based on ONS, 2024; English Housing Survey, 2023).

This raises a fundamental question: why continue with a policy that is clearly failing? The current housing system has reached a stable but inefficient Nash equilibrium—no participant has an incentive to change their strategy unilaterally (Kreps, 1989).

The government is aware of the problem, but reform would anger the 65% of voters who own their own homes; local councils control planning approvals, but relaxing regulations would lower local property prices; developers complain about planning restrictions but benefit from capital gains from land hoarding; and those without homes

demand reform, but their ultimate goal is to join the ranks of homeowners rather than change the rules of the game. This equilibrium has self-reinforcing characteristics: the higher property prices rise, the larger the group of vested interests becomes, and the stronger the resistance to reform.

History provides clues for breaking this deadlock. The New Towns Programme from 1946 to 1970 delivered 32 New Towns across the UK, which now house between 2.5 and 2.8 million people (TCPA, 2021; UK Parliament, 2002). The key was institutional innovation through Development Corporations, which addressed transaction costs. The central government bypassed countless bilateral negotiations, centralising dispersed veto power and internalising externalities. This demonstrates that supply constraints are the result of institutional choices rather than technical limitations—when incentive structures are correct, supply elasticity can significantly increase.

The question, then, is how reforms can be advanced under contemporary constraints. A central distortion reflects a classic principal–agent problem: local councils face the negative externalities of development—such as congestion and environmental loss—yet are unable to capture corresponding benefits in the form of employment or land value gains. This creates a persistent bias against new construction. A more effective institutional design would allow councils to retain part of the land value uplift from development, for example by keeping 50% of proceeds from auctioned planning permits. Such a mechanism would reconfigure local governments' incentives, turning them from veto players into beneficiaries of growth.

Yet realigning incentives cannot by itself address the deeper misallocation of resources. When property returns persistently exceed those of productive investment, capital is diverted into speculation. Skilled labour gravitates toward real estate rather than

entrepreneurship, and firms substitute asset accumulation for investment in innovation or equipment. The outcome resembles a British variant of "Dutch disease," with the housing sector absorbing resources at the expense of productivity (Corden & Neary, 1982). Hsieh and Moretti's (2019) spatial equilibrium model suggests that relaxing land-use restrictions in London and the South East could raise national output by nearly 9%, illustrating the magnitude of the drag imposed by current distortions.

The broader implication is that what the UK requires is not price "stability" at historically elevated levels, but normalisation. From an asset-pricing perspective, rental yields below the risk-free rate signal speculative premiums maintained through self-fulfilling expectations—what Gallin (2008) terms rational bubbles. This can be demonstrated below using:

$$yr < rf \quad \Rightarrow \quad P = \frac{R}{yr} > \frac{R}{rf}$$

where y*r* = rental yield, r*f* = risk-free interest rate, and R = rent.

Demand-side subsidies often entrench these expectations rather than correct them. Sustainable reform therefore depends on credible supply-side commitments that can shift market expectations back toward equilibrium. The £29 billion directed into Help to Buy illustrates the core flaw: policy has not resolved the housing shortage but has instead entrenched a politically convenient yet economically damaging equilibrium, perpetuating unaffordability for future generations.

[Word Count: 1249]

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