A large, hand-drawn black scribble on the left side of the slide, consisting of many overlapping, circular and curved lines.

Breaking the housing-finance cycle

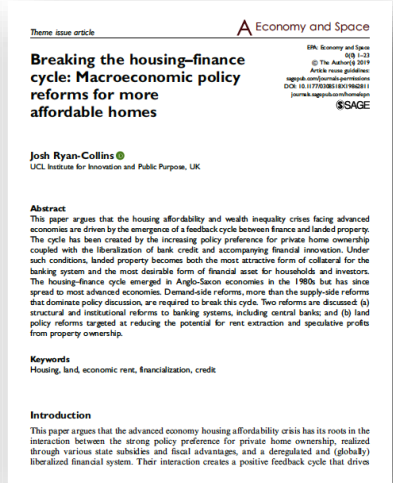
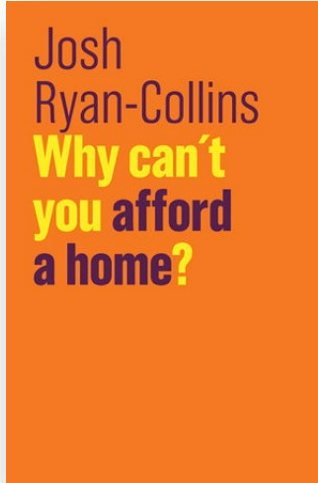
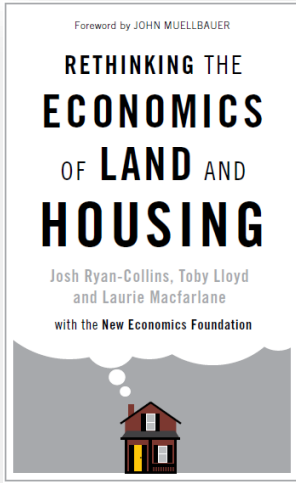
Vienna

22nd October 2019

Josh Ryan-Collins

UCL Institute for Innovation and Public Purpose (IIPP)

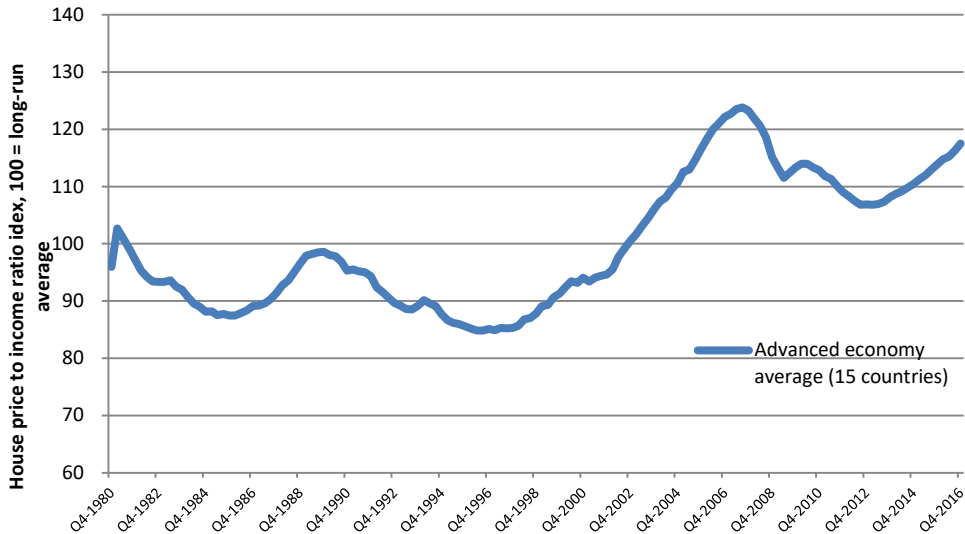




- Ryan-Collins, Lloyd and Macfarlane (2017) *Rethinking the Economics of Housing and Land*, Zed Books
- Ryan-Collins (2018) *Why can't you afford a home*, Polity
- Ryan-Collins (2019) "Breaking the housing finance cycle", *Environment & Planning A: Economy and Space*

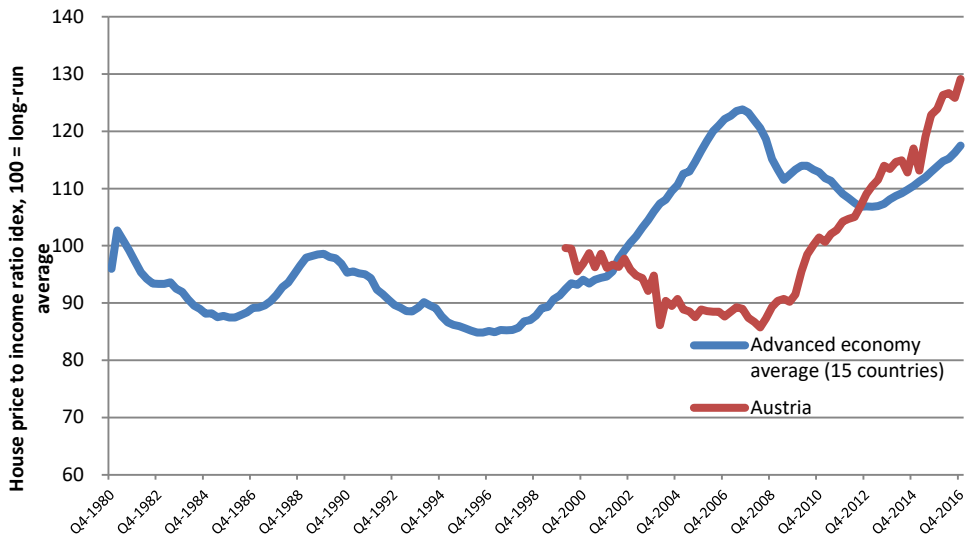


House price-to-income ratios in advanced economies, 1980-2018



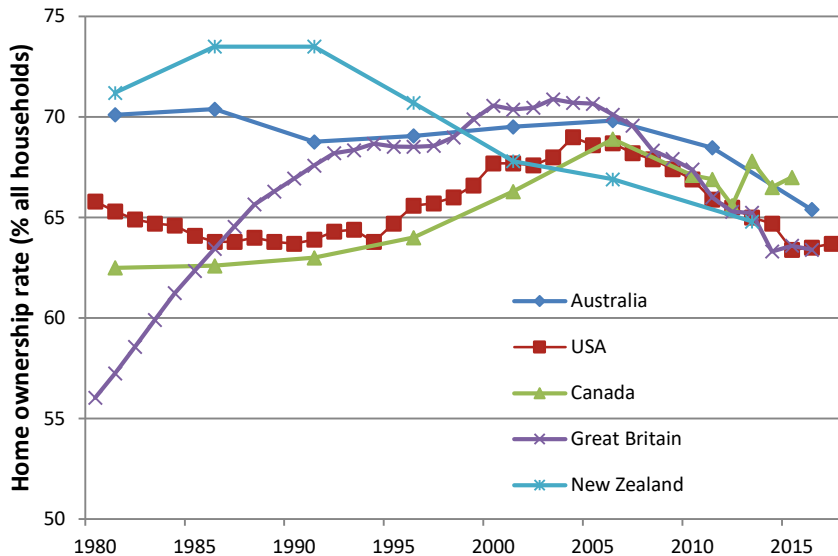
Source: OECD Analytical house price database. Data is averaged across 15 advanced economies, market prices.

House price-to-income ratios in advanced economies, 1980-2018



Source: OECD Analytical house price database. Data is averaged across 15 advanced economies, market prices.

The decline of the 'home-owning democracy'?



Source: Ryan-Collins (2018) *Why can't you afford a home?*, Polity, p3

Land and credit – a dangerous mix

	Land	Credit/money
Supply	High inelastic – desirable location inherently limited	Highly elastic: determined by banks' confidence & regulation
Mobility	Fixed/immobile	Highly mobile, increasingly global
Value through time	Appreciates in value with economic growth, enabling rent extraction	Depreciates unless invested or lent
Economic role	Conflicting economic uses: consumption good (housing) OR financial asset	Supports capital investment & productivity OR inflates existing assets

Land and credit – misunderstood in neoclassical economics

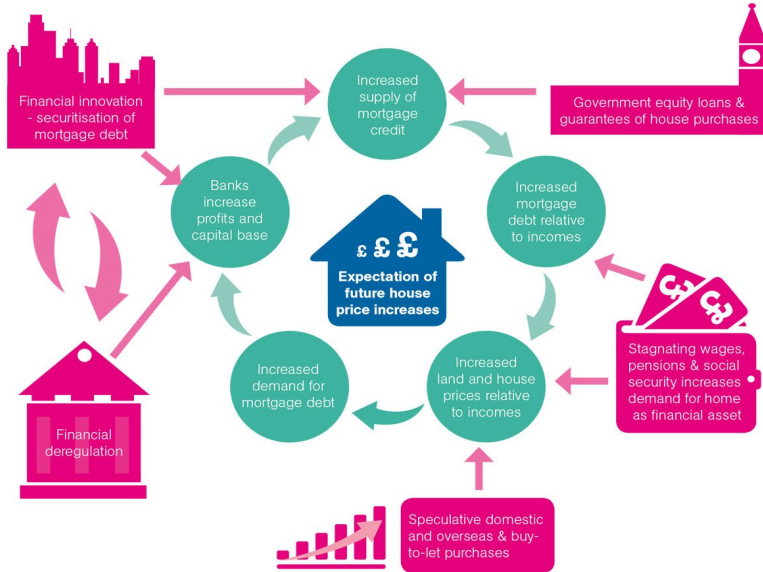
Land

- Private property rights a prerequisite for market exchange but presented as 'natural' - *origin of distribution* never questioned
- Not a unique factor of production – in long run marginal returns no different from labour or capital (J. Bates Clark)
- Theory of marginal productivity leaves no room for land rents:
 - Income = reward for one's *contribution to production*
 - Wealth = 'savings' due to one's productive investment effort.

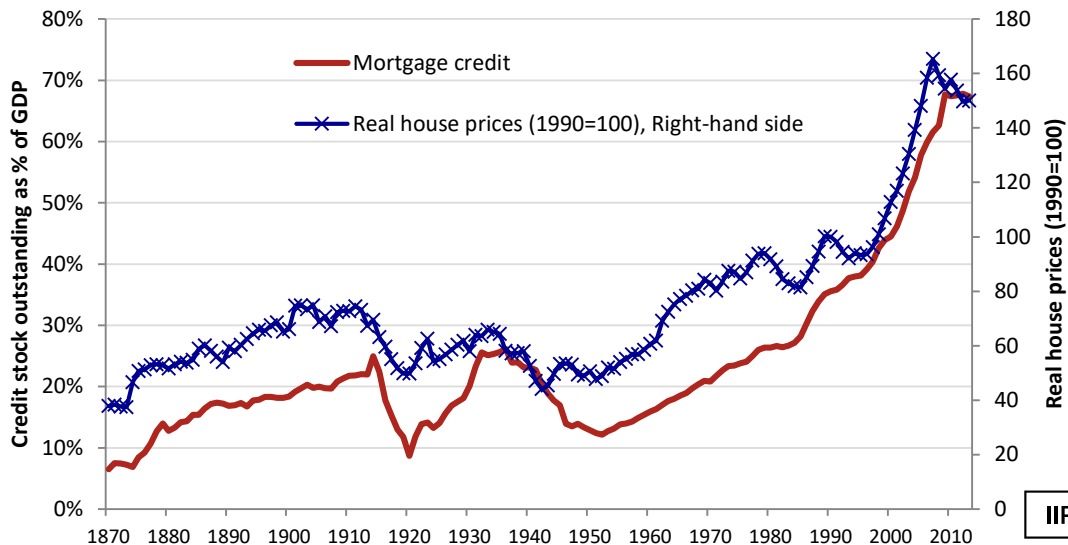
Credit and banking

- Role of banks is to intermediate *existing* savings, not create purchasing power (Schumpeter)
- Barter myth – money just another commodity with special properties that oils the wheels of market exchange
- Money is 'neutral' in the long run
- Central bank can exogeneously control the money supply

The housing-finance feedback cycle

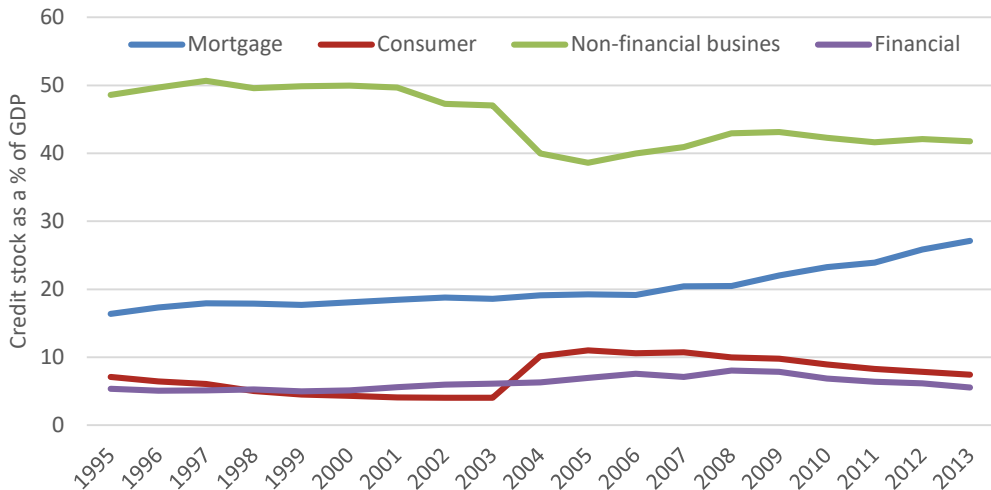


House prices and mortgage credit over 130 years in (14) advanced economies



Source: Jorda-Schularick- Taylor microhistory database www.macrohistory.net

The Austrian picture



	Post-war, Keynesian era (1940-1970)	Neo-liberal / financialization era (1980-)
Housing Policy	Subsidizes the <i>supply-side</i> : public housing, compulsory purchase powers, new towns etc.	Subsidize the <i>demand side</i> , in particular for first-time buyers, mortgage support, housing benefit
Mortgage finance	Limited: quantity & price controls. Mainly 'special circuits' (thrifts/mutual) insulated from wider economy. Banks mainly lend to non-financial firms.	Mortgage credit dominates bank balance sheets & overtakes credit to non-financial sector. Huge expansion in RMBS in 1990s.
Bank funding	Limited to domestic deposit base	Collapse capital controls, Eurodollar market & RMBS enables vast new wholesale funding streams
Tax	Taxes on land rents (capital gains & imputed rent, inheritance)	Tax shifts away from property and on to income/consumption (mortgage interest relief)
Land rents	Democratized and spread widely via increasing middle class home ownership & transport revolution	Increasingly concentrated in older cohorts, banking sector & investment class as home ownership declines & transport infrastructure hits limits
Source of growth	Private & public investment, rising wages & productivity	Rising housing-wealth (land rents-) and housing debt-fueled private consumption

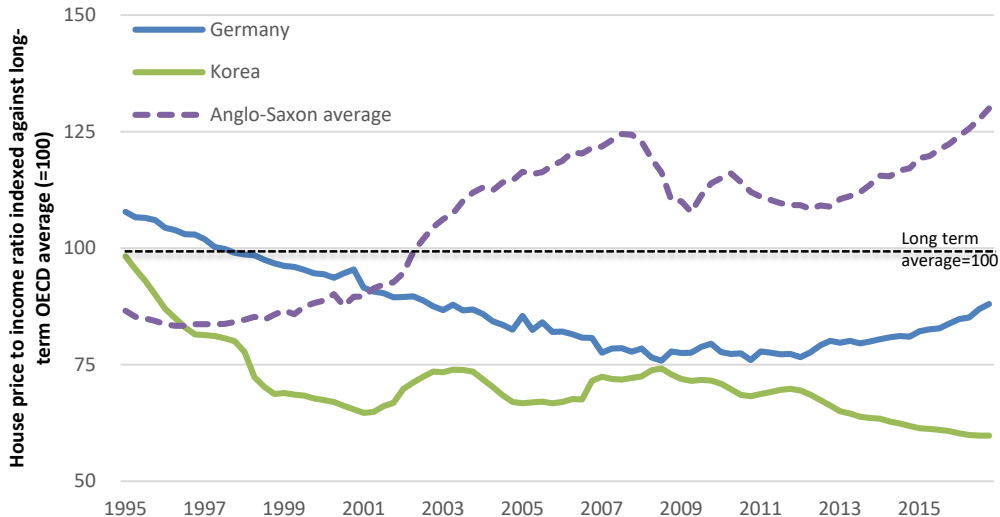
The post-crisis cycle

- Macroprudential policy
- But:
 - Re-embracing of securitization – EU ‘Simple Transparent Standardized’ program has lowered capital requirements for RMBS
 - QE driven down yields on government bonds
 - Real estate is the new gold (especially in cities)
 - PRS & Social housing opened up to REITS & other international investors
 - Low rates mean investors leverage v. cheaply against real estate, continuing the cycle

Policy alternatives

- Financial reform
 - Structural & institutional reform
 - Central banks/financial regulation
- Land policy reforms
 - LVT
 - Ownership
 - Tenure

Where things are different



Banking - structural reform

- Banks focused on capital investment, not real estate credit:
 - stakeholder/regional banks
 - public development banks
 - Equity based mortgage financing

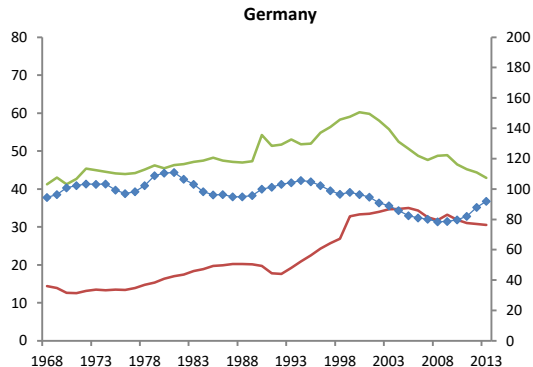
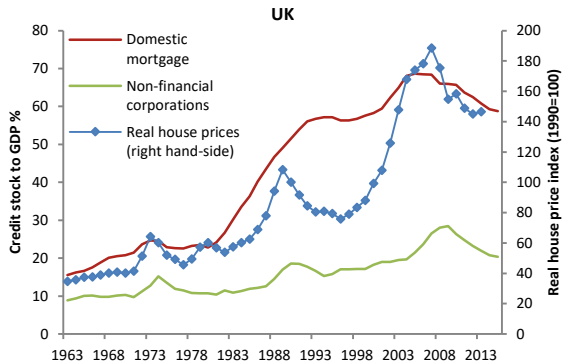
Shareholder v 'Stakeholder' banks

Feature	Shareholder banks	Stakeholder banks
Ownership	Owned by institutional investors focused on quarterly returns	Owned by members, local or regional state, focused on public value
Focus	Short-term profits & Return on Equity (10%+)	Financial sustainability (RoE 5%+) balanced with (local/regional) social & environmental goals, including access to finance
Approach to risk	Preference for collateral/centralised credit scoring	Reduce information asymmetry via relationship building
Lending preference	Mortgage/intra-financial, large loans	Business/SME/mortgage, smaller loans
Maturity of lending	Short-term if not collateralised	Longer term

State-directed finance



Different banking systems create different housing-finance relationships



Source: Ryan-Collins 2018 (original credit data from central banks and housing data from Knoll et al (2017))

Financial policy

- Target asset prices not just consumer prices
- Quantitative ‘credit guidance’ widespread before financial deregulation in advanced economies
- Used in SE Asia and Japan throughout 1970s & 80s
- Post-crisis, CBs moving back towards sectoral credit controls?
 - ‘macroprudential policy’
 - ‘funding for lending’

Credit where it's due:

A historical, theoretical and empirical review
of credit guidance policies in the 20th century

Dirk Bezemer

Professor of Economics of International Financial Development
Department of Global Economics and Management, University of Groningen, Netherlands

Josh Ryan-Collins

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Frank van Lerven

Economist, New Economics Foundation

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Economist, Sustainable Finance Lab, Utrecht University, Netherlands

Working Paper
IIPP WP 2018-11

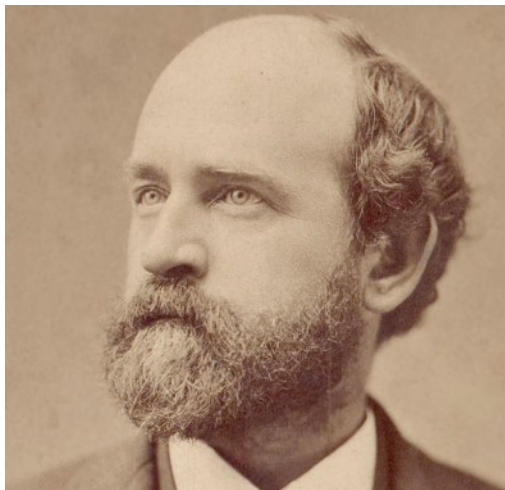
December 2018

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Fiscal policy: land value tax



- Annual tax on the incremental increase in unimproved land value
- Salience: withdraw from pay like NI
- Make it tax neutral – reduce income & corporation tax
- Allowed delayed payment for low income pensioners or equity release
- Hypothecate LVT profits to a citizens income?

Ownership & tenure

- No economic evidence that higher levels of private landed home ownership supports economic growth (Blanchflower & Oswald 2013; Oswald 2009)
- Public ownership – removing land from market in perpetuity – solves both supply and funding problems
 - Singapore: 90% land owned by state, long leases to private sector, public mortgage system
 - South Korea: Korean Land Corporation (1975) controls 50% residential & all commercial development – purchases, develops & sells land
 - Tenure neutrality socializes rents (Germany/Switzerland/Austria!)

Research agenda

- Key role of land in the macroeconomy – do rising house/land prices ‘crowd out’ productive investment/lending by firms & banks? (see e.g. Charkraborty et al. 2014)
- Relationship between banking institutional structure and mortgage lending
- Tracking the role of capital markets in the post-crisis housing-finance cycle
- Where do land taxes work and why?
- Lessons from East Asia

Summary

- Land (and housing) have unique economic properties
- Deregulated land market will tend towards *monopoly*, rent extraction & inequality
- Deregulated banking sector will tend towards real estate lending, pushing up prices & increasing rents
- Policy makers must *shape the land market* and regulate finance to optimise social welfare



Thank you

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- www.ucl.ac.uk/bartlett/public-purpose/

The Austrian story

