A PEOPLE’S BUDGET FOR THE 21ST CENTURY

BUDGET PRE-BRIEF FROM THE NEW ECONOMICS FOUNDATION

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SUMMARY

1. Britain is facing an ‘economic malaise’ driven by falling living standards, growing indebtedness and increasing wealth inequality. Brexit is set to make this crisis worse.

2. We have been here before. In the early 20th century, David Lloyd George proposed a ‘People’s Budget’ to deal with a fundamentally unequal society. We need a People’s Budget for the 21st century, designed not just for people but with people as well.

3. The single most important thing the Chancellor could do in such a Budget would be to set up a People’s Land Bank to tackle the housing crisis.

4. Instead of selling off public land (where only one in five homes built are affordable), public bodies would transfer this land to kick-start a People’s Land Bank. The Bank could immediately support the building of 320,000 genuinely affordable homes.

5. The People’s Land Bank would then be expanded by giving councils new powers to buy land at its ‘use value’, for communities to use. All land in the Bank would be leased out to communities to build the homes they need at prices that are affordable for their local area. And it would be supported through other measures to tackle the housing crisis including an annual £10bn community housing fund.

6. The People’s Land Bank is a policy big and ambitious enough to begin the work of confronting the economic malaise we face. By taking that malaise seriously, and by empowering people and communities to take control of their future, it would signal a viable way forward at a difficult time for this country.
THE ECONOMIC MALAISE

Today, Britain confronts the most profound set of challenges it has faced in generations. While much of government, its officials and political debates are absorbed in an all-encompassing battle over the question of how the UK leaves the EU, many people are encountering falling living standards, growing indebtedness and increasing inequality.

Wealth is twice as great as income inequality and rising. The wealthiest 10% of households own 45% of the nation’s wealth while the least wealthy 50% own only 9%. And the gap between the poorest and the richest households is staggering, with the top 10% of households now 1,000 times wealthier than the poorest 30% of households. Overall, living standards are falling. Real household disposable income (RHD), a dataset used by the Office for National Statistics to measure standards of living, fell by 2.2% between May and July 2017. This is the fourth consecutive quarter that RHD has fallen – the most sustained squeeze in living standards since 2011.

Meanwhile, households are borrowing more. Total household debt has increased by 7% in the past five years and, according to analysis by the New Economics Foundation and the Centre for Responsible Credit, credit card debt is now at a prefinance crisis high, totaling £236.5 billion at the end of 2016. This type of debt is highly significant as it is the most expensive, accounting for around half of all of the repayments people are making.

THE REAL STORY

But aggregate data masks the real story. Communities across the country are feeling the pain of this economic malaise through:

- A housing and land crisis in which many families and especially young people are left in costly, poor, insecure housing in the private rented sector, while land values—which underpin house prices and undermine the building of affordable homes—continue to rise.
- Household debt at its highest level since the finance crisis, driven by worrying increases in consumer credit, car loans, council tax, rent and utility bill arrears, and student debt.

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2 http://www.resolutionfoundation.org/media/press-releases/britains-increasingly-unevenly-shared-
property-wealth-is-driving-up-inequality-after-a-decade-long-fall/
3 https://www.ons.gov.uk/peoplepopulationandcommunity/personalandhouseholdfinances/
incomeandwealth/bulletins/economicwellbeing/apriljune2017#main-points
- Stagnant wages and rising prices related to the post-referendum depreciation in sterling’s value, creating a further squeeze on living standards.⁷
- Poor quality, insecure and poorly paid work leading to high levels of underemployment and fueling further indebtedness and poverty. The New Economics Foundation’s research into job quality shows that two in every five people are in work that does not provide a secure, living wage.⁸

For most people, notwithstanding continued growth forecasts, the UK economy does not feel like a success story. Beyond the wealthier neighbourhoods of London and the commuter villages and towns of England’s southeast, economics feels like something that is done to people and not for or, less still, with them. This, along with the fundamentals of an economy that has delivered such deep inequality and stagnation for most, must change.

THE BUDGET IN CONTEXT

If this is the final Budget before we fully know the terms upon which we will leave the EU, then it is a last chance to address the urgent challenges the UK faces before we plunge headlong into Brexit. Most economists predict, to varying degrees, declining aggregate national wealth as a result of Brexit.⁹

If the experts are right, sharing the UK’s wealth more equitably, alleviating people’s indebtedness and boosting living standards will be both more difficult in the future but even more important. And after all, it was only a few weeks ago that the Prime Minister spoke at her party conference about “sweeping away injustice – the barriers that mean for some the British Dream is increasingly out of reach”⁰.

UK governments have faced great wealth disparity and profound investment challenges before. In 1909, Chancellor David Lloyd George proposed a ‘People’s Budget’ “…to remove the national degradation of slums and widespread poverty and destitution in a land glittering with wealth”.

Lloyd George’s People’s Budget proposed significant income tax rises for high earners and a land value tax to redistribute unearned wealth. We now need a People’s Budget for the 21st century, which recognises that our land is once again ‘glittering with wealth’

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⁷ https://www.ifs.org.uk/publications/8730
⁸ http://neweconomics.org/2017/08/self-employed-not-earning/
⁰ https://blogs.spectator.co.uk/2017/10/theresa-mays-conservative-conference-speech-full-text/
(at least until it is stashed offshore or invested in London property) and aims for radical redistribution.

But it must go beyond redistributing wealth. It must also redistribute power. People need a voice in economic decisions and a renewed stake in an economy that many will feel is heavily weighted against their interests. Lloyd George proposed a Budget that works for people. What we need now is a Budget that works with people as well. Taking our cue from the recently published Final Report of the Industrial Strategy Commission, which calls for 'Universal Basic Infrastructure'\(^\text{11}\), we believe every neighbourhood in Britain must benefit not only from renewed investment but also a greater voice in what it is spent on.

**A PEOPLE’S BUDGET FOR THE 21ST CENTURY**

The Budget of 2017 is no less significant than Lloyd George’s of 1909. And the measures it should pursue should be no less momentous. In seeking to tackle economic malaise and post-Brexit threat, the Chancellor would do well to draw on his predecessor’s ambition.

The New Economics Foundation proposes that the single biggest thing the Chancellor could do to demonstrate that he is serious about driving change is to create a People’s Land Bank, shaped by the real needs of those people and communities at the sharp end of the housing crisis. This, in combination with a wider set of policies to deliver more affordable and environmentally sound housing, would be the foundation stone of a People’s Budget for the 21st century.

Housing and land have become so emblematic of our malaise for two reasons. First, they embody the vast accrual of unearned wealth, which is concentrated among higher income groups, older cohorts and in specific parts of the country. In London, wealthier, older people own multiple properties and can release equity; in Blackburn, younger poorer people have no stake whatsoever in property and land.

But this accrual of wealth not only locks a generation and whole groups of people out of the housing market, but also locks them into insecure, poor and expensive private rented property. So housing and land, when treated as wealth-creating assets, force proportionately higher costs onto those who now cannot participate.

A PEOPLE’S LAND BANK

To begin to address the housing and land crisis, the Government should create a People’s Land Bank. This would be a ring-fenced, national stock of publicly owned land that would be exclusively earmarked for the development of affordable housing built in direct partnership with communities and in response to community need.

Currently the Government, its departments and agencies are selling off surplus public land, invariably to the highest bidder, which nearly always leads to private housing being built with often pitifully low quotas of affordable housing. Our research has shown that this sell-off is behind schedule and is dramatically failing to solve the housing crisis: only one in five homes on public land are likely to be classified as ‘affordable’, and as little as 6% of the total homes will be at genuinely affordable social rent12.

Using the government’s own figures13, we argue that by putting the land which the Government currently plans to sell off in just this Parliament into a People’s Land Bank instead, at least 320,000 genuinely affordable homes could be built, in partnership with communities and according to local need. In many places this will mean building a majority of homes at social rent.

Instead of selling to the highest bidder, the Government should retain the land, and use it strategically to start to solve the acute housing crisis in places across the country. Working directly with communities, the government should identify real housing need and use the People’s Land Bank as the vehicle to address that need.

The land held by the People’s Land Bank should be built out by local authorities, as well as housing associations or community-led housing developers, who are transferred the land on a long lease with the freehold retained in the public sector as a long-term asset.

The People’s Land Bank would mean the Government giving people the tools and resources they need to address their needs directly. It would mean the Government, local authorities, housing associations and communities themselves being empowered to build a new generation of decent, attractive, environmentally sustainable and genuinely affordable homes. These homes will make an immediate improvement to the lives of hundreds of thousands of people and families nationwide who are being failed by our broken housing system.

Public land, instead of being a one-hit-wonder sold to the highest bidder, could through a People’s Land Bank become a long-term asset, guarantee more construction more

quickly, and lower people’s housing costs putting more spending money into their pockets.

To make the most of the potential of a People’s Land Bank, it should be combined with a series of policy reforms designed to maximise the value of the public land and the environmental, social and economic benefits accruing from it.

1. **The compulsory purchase system should be reformed to enable councils to purchase brownfield or agricultural land at a price closer to its value at current use**, as opposed to allowing land traders to charge a price based on what it could be worth with planning permission\(^\text{14}\). With this reform, the People’s Land Bank could acquire additional land at affordable prices in places with acute housing need, and work directly with public and community sector partners to meet that need.

2. If local authorities are to play a central role in solving the housing crisis, then the restrictions which prevent them from doing so will need to be removed. The **borrowing cap**, which limits how much councils can borrow to build affordable housing, will **need to be lifted**, and councils must be allowed to **retain 100% of the receipts from houses sold under the Right to Buy** to build new genuinely affordable homes in partnership with communities, as opposed to sending the majority of it back to the Treasury.

3. For the People’s Land Bank to really start to deliver the homes that communities need, proper investment from central government will be required. The Chancellor should be taking advantage of lower interest rates to borrow to invest in housing. This investment should be used to create an **annual £10bn community housing fund** that could be used by community groups, local authorities and housing associations to support community-led affordable housing schemes. In the long run, social housing usually pays for itself\(^\text{15}\) – it’s a long-term asset, and reduces the housing benefit bill – but in the short term, investment will be needed.

The People’s Land Bank represents the bold thinking on housing which has been so sorely lacking in recent decades. In 1909, Lloyd George put bold ideas about land reform at the centre of his Budget. In 2017 Phillip Hammond should do the same – and start to give people real control over the future of their housing.

\(^\text{14}\) For more information on the reforms to compulsory purchase we need, see The Land Question by Daniel Bentley/Civitas

\(^\text{15}\) Building New Social Rent Homes by Capital Economics/SHoUT