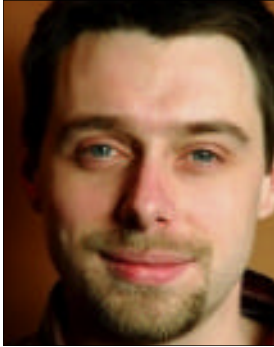




# The ODPM five year plan



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**Homeownership has become a key issue in the forthcoming election. Each of the political parties is trying to out-manoeuvre the others on how much help they will give to people priced out of a home. Recently Labour was expected to announce an extension of the Right to Buy, but introduced an alternative policy instead, when in fact it should have done both, says Jim Bennett.**

The debate on the Right to Buy was seen by the media as a key indicator of how much further New Labour was moving from its traditional positioning and policies, while it provided the spectacle of a bruising encounter between two of the party's heavyweight figures. However the reality is that the Right to Buy's origins are less firmly rooted in the turf of the political right than many suppose.

#### *A tale of two policies*

In the right hand corner, the party moderniser and newly-appointed election supremo, Alan Milburn, had been reported as favouring an extension of the Right to Buy to all housing association tenants. Currently, not all housing association tenants have the same rights as council tenants to buy their home. Apart from the fact that many in the Labour party felt that the Right to Buy had contributed to the decline of council housing, this was the very same policy that the Tories had announced in October. Let's not forget that the Labour government, concerned about the damaging impact the Right to Buy was having on the supply of affordable homes in areas with a high demand for housing, has acted twice to reduce the value of discounts available to tenants wanting to buy their homes.

In the left hand corner, John Prescott, who had fought to introduce the second reduction in discounts, favoured an alternative option to allow social housing tenants to buy equity shares in their current home. The equity shares concept has its origins in the ippr's Forum on the Future of Social Housing back in 2000. More recently, versions of it have been recommended by the Government's Low Cost Homeownership Task Force and the Barker Review. The government's response to the Task Force already indicated that they were not in favour extending the Right to Buy to all housing association tenants and would explore the equity share option further in 2004.

In the five year plan it was Prescott's option that won out. The equity share approach, which will be called Homebuy, has two main advantages over further extending the Right to Buy. Firstly, it will provide an option for those tenants who do not have the resources to afford a full purchase of their home, to build housing assets gradually. Staircasing up from 50 per cent to 75 per cent ownership by buying further shares of their home as and when they can afford to do so. Secondly, the landlord always retains a quarter

share in the property, which the tenant has to pay back on resale, unless they sell their share back to the landlord. Landlords will have first refusal on resale, which should enable authorities in areas with a high demand for social housing to retain their precious stock of rented homes in the longer term, without frustrating their tenants' aspirations to ownership. Gradually building up an asset though Homebuy should help tenants to build up enough capital to enter full ownership in the private sector, if that is what they want.

#### *Why ownership and assets matter*

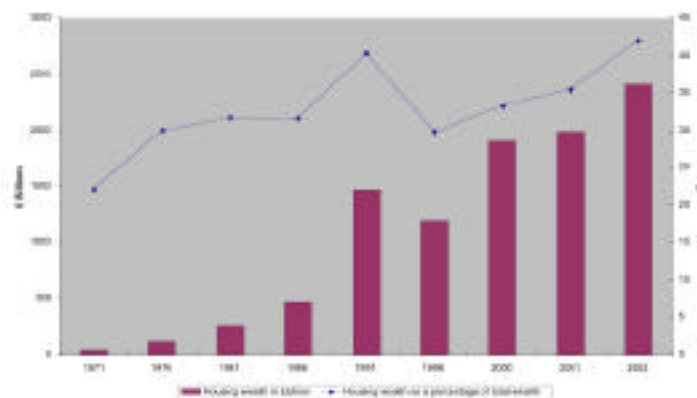
The debate between these two policies runs deeper than a simple squabble over which one is the best pre-election giveaway. It is rooted in concerns about growing inequalities in wealth and the effect that this is having on social mobility.

There is now recognition that enabling people to build assets is an important way of addressing poverty and inequality. Assets have clear economic benefits, enabling personal investment and allowing people to avoid serious troughs in their income and consumption over time. But they may also have psychological benefits – an "asset effect". Holding wealth lengthens time horizons in terms of thinking about housing, careers and training and allows people to take some risks, such as starting their own business. This is the rationale behind asset-based policies like the Child Trust Fund.

Owning housing assets can bring similar benefits of financial security, and having a stake in your own home may increase the degree of commitment people feel towards their home and community. These factors, combined with people's aspiration to homeownership, have led to governments introducing a range of policies to support homeownership, including the Right to Buy.

As a result of these policies the proportion of households who are owner occupiers has increased significantly. As well as delivering people's aspirations this has also had the benefit of slowing the growth of wealth inequality since the 1970s by enabling more people to own housing assets. However, rising house prices have meant that the gap between those with housing wealth (owner-occupiers) and those without (tenants) has grown. Essentially there are fewer people with low levels of housing wealth, but those that have little or no housing wealth have been left much further behind. Housing wealth has

## Housing wealth in Britain



Source: Dorling D. & Thomas B. (2004) *Know your place. Shelter: London*

become the most important source of personal wealth in this country. There has been an 8-fold increase in real terms in gross housing wealth since 1970. As the graph below shows the share of national wealth held in the form of housing has doubled from 22 percent in 1971 to 42 percent by 2002. This increase in housing wealth has not been felt equally. In the last decade the difference has been greatest, with the best off gaining at ten times the rate of the worst off. While the housing assets of all owner-occupiers have grown, those living in rented housing have not gained at all.

The growing divide in housing wealth is important because it impacts on geographical and social mobility. This means that it can be a barrier for people to move from a part of the country with low property values to an area where they are higher. This can exacerbate the extent to which poorer people are geographically segregated from the better off. Housing wealth inequality also affects people's ability to access opportunities and therefore move from one socio-economic group to another. The scale of the inequality that is occurring in housing wealth is such that people will find it very difficult to overcome. This is brought into even sharper relief when one considers inter-generational social mobility (ie the likelihood that children will be able to become better off than their parents). Although as a nation most of us have become better off, and we have enjoyed upward social mobility, the reality is that inter-generational mobility has fallen in recent decades. So, if your parents were poor it is more likely that you will also be poor.

Housing wealth is a key issue as prices have risen making it harder for younger people to buy a home. Increasing numbers of younger households now have to rely on a transfer of housing wealth from their parents in order to do so. If parents do not have housing wealth it will be increasingly difficult for their children to buy a home. This just one of the ways in which housing wealth can confer an advantage between generations. If you look at the impact of wealth inequalities over the last ten years on the share of wealth that will be enjoyed by children, inequalities have deepened particularly for Children. Research for Shelter has shown that in 2003, in the best off areas (top 10 per cent) housing wealth per child increased by 20 times more than that of children

in the lowest decile since 1993.

Without any intervention from government, or a radical restructuring of the housing market, the trend of growing inequality between the housing haves and have-nots are likely to get worse, as those without housing assets are left further and further behind. A radical restructure of the housing market would be very painful and looks unlikely given its recent relative stability. So policies that can help people to gain access to homeownership are going to be very important in improving social mobility. Particularly for tenants without home-owning parents to endow them with a share in their gains in housing wealth. This is why debates around policies like the Right to Buy are important. The ippr is about to launch a project looking at what can be done to improve access to homeownership.

### *We have been here before*

The Right to Buy policy is seen as one of Margaret Thatcher's flagship policies, and is therefore treated with disdain by some on the left. However, the policy was redistributive, in as much as it transferred assets, council houses, from society to council tenants, who on the whole had below average incomes and many of whom would not have been able to otherwise become homeowners. Without adequate policies in place to replace those homes sold it is the future tenants and potential tenants of social housing, stuck in inappropriate and expensive temporary accommodation or on housing waiting lists for years who are paying the price of that redistribution.

What people tend to overlook, is that in fact the roots of the Right to Buy policy go back much further than Thatcher. Council house sales originated under Harold MacMillan in the 1950s, for whom the policy was a way of spreading the benefits of ownership more widely, at the same time as raising capital for his ambitious plans to build 300,000 homes a year. MacMillan's vision was progressive 'We wish to see the widest distribution of property. We think that, of all forms of property suitable for such distribution, house property is one of the best.' The policy of voluntary council house sales continued under Conservative and Labour governments throughout the 60s and 70s, until they reached a level of around 60,000 a year, similar to the current level of Right to Buy sales. Before the 1979 election

the Wilson government considered adopting its own version of the Right to Buy, but it never made it into the manifesto. The idea that the Right to Buy is exclusively a policy of the political right is a misconception.

### *The way forward*

In recent speeches at the ippr and the Fabian Society, Alan Milburn has highlighted the challenge that the government faces in addressing declining social mobility. He talked about the "glass ceiling on opportunity". As the figures above highlight, the ceiling is very real. He also talked about the failure of previous Labour governments to back reforms that the public have wanted and the failure to respond to council tenants' aspirations is one of those occasions. Milburn may have lost the fight with Prescott, but he won the argument.

So were do we go from here. The Homebuy policy will help some people and should be applauded. The Right to Buy will continue in its current form. But, given the chronic shortage of social housing in much of the country, and London in particular, without significant increases in investment to compensate for the ravaging effect it has had on the supply of socially rented housing, the government has to keep the brakes it has already applied firmly on. Given the massive scale of the inequalities to be addressed, even more radical policies may be needed to ensure that the benefits of housing wealth that have been enjoyed by the home-owning majority can be redistributed more widely.

Rather than choosing between Homebuy and extending the Right to Buy, the government should have done both, at the same time as delivering a significant increase in investment in social housing, well above the levels promised in the last Spending Review. The damage caused by the Right to Buy is a function of previous government's failure to restore levels of investment in social housing to their pre-1980 level. The hammer blow to social housing struck by Thatcher was not the Right to Buy, but public expenditure cuts. Also, they need to ensure that the package of measures to help tenants build assets does not exclude those renting in the private sector. Private tenants loose out in terms of wealth inequality and access to homeownership as well. This territory should be revisited after the general election.