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ECONOMIC GROWTH, INEQUALITY AND HOUSING: HOUSING POLICIES FOR THE FUTURE CAPITALISM WE CHOOSE

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ECONOMIC GROWTH, INEQUALITY AND HOUSING: HOUSING POLICIES FOR THE CAPITALISM WE CHOOSE

1. PLACING HOUSING: FROM SIDELINED TO CENTRE STAGE

Housing has been side-lined in debates about and strategies to shape economic growth and this paper makes the counter case that the role of housing systems and the efficacy of housing policies, respectively, need to be centre stage to analysing then delivering more effective forms of capitalism. It argues, first, that a wider understanding of housing systems is required to make sense of how global capitalism has developed since the 1980's and is likely to evolve in the future. And it stresses, secondly, that the need for housing policies to cope with the social and economic consequences of income inequalities is not withering away but growing, steadily, in rich and poor countries alike as policy commitments, at least in the richer countries, are shrinking sharply.

Urbanisation, Economic Growth and the Origins of Housing Policies.

Active housing policies emerged in the late nineteenth century amidst the urbanisation and industrialisation of what now constitute the advanced economies (Hall, 2001; Pugh, 1996;Rogers, 1991, Gibb and Maclennan; 1988; Clapham2002). They emerged towards the last three decades of what Piketty (2014) refers to as Europe's Belle Epoque in which wealth and income inequalities reached historic highs. These inequalities pricked the consciences of literary giants across Europe (Krugman, 2014) and opened the hearts, and pockets, of paternalistic capitalists (JRF, 2008) as income inequality was quickly perceived as providing 'cruel habitations' (Goldie, 1976) for the poor and blighting their prospects for health, happiness and social progress. Private poverty was quickly transformed into public squalor and more affluent households faced the adverse health, social and other outcomes that flowed, often literally, from poor neighbourhoods. It was these spillovers arising from income inequalities, rather than the impassioned work of writers and philanthropists, that drove public health officials in major cities to argue successfully the first cases for active housing policies (Russell, 1882).

This change, as the Belle Epoque evolved into postwar Europe, saw better housing provision for poorer households become, for half a century at least, a core goal of governments and a central issue in political debates and choices. In welfare, corporatist and market societies alike there was long a recognition of the importance of housing issues. In very broad terms, in Western Europe and the Anglos Saxon countries, public expenditure commitments to housing policies in the decades 1950 to 1980 ran at triple the real commitment of the period since. To different extents, through different means and with sometimes changing ends, housing policies to address the wellbeing of the least advantaged mattered.

Housing Policies after the Austerity

Attendees at housing conferences and readers of housing journal are likely to be, albeit from a variety of different disciplinary and policy 'belief' perspectives, 'housing interested' and to regard 'housing outcomes' as central to the achievement of at least some of the main goals that governments seek to pursue. Further, they are likely to consider that 'housing system processes' may play key roles in how the social, economic, political, environmental and technical systems within neighbourhoods, cities and nations function. Broadly speaking housing researchers are pro-housing policies and, of course, pro- housing research. Generally they are working with intellectual frameworks that recognise the interdependence of growth and income distribution as well as housing roles within these processes.

But are these perspectives widespread? Do they penetrate the core debates in disciplines and policy-making? Are active housing policies, fattened up to deliver stimulus post 2008, blighted not just by prevailing fiscal austerities but are, in a more fundamental secular sense, withering away? And if they are, does this reflect a dimunition in the importance of income and wealth inequalities in relation to housing costs for the poor or some other growing capacity to meet the household needs of those who require support? Or does it mean that housing systems and outcomes play either an entirely positive or neutral role in shaping patterns of capitalist economic development? If housing needs are growing and housing systems, and their connected development and financing arrangements, still manifest demonstrable market failures then any disappearance of housing policy is not just dysfunctional but it is a change that needs to be adequately explained and then reversed.

Ignoring Inequality: the Worms Turn

Inequalities, within nations are not falling but rising. There are now encouraging convergences in incomes across countries (Sachs, 2006), and this is not simply attributable to progress in the BRICS but involves a much wider sweep of Asian, South American and African countries sustaining faster per capita income growth than 'The West' in this millenium. However, within each of the BRICS, as in the advanced economies, income and wealth inequalities are rising rapidly. In some countries, such as the US, inequalities are rising back to the peak inequality levels of the later Belle Epoque.

Economics, in particular, has too long paid little attention to detailed income distribution processes and outcomes. Paul Krugman (2014) notes that 'Some economists (not to mention politicians) tried to shout down any mention of inequality at all: "Of the tendencies that are harmful to sound economics, the most seductive, and in my opinion the most poisonous, is to focus on questions of distribution," declared Robert Lucas Jr. of the University of Chicago, the most influential macroeconomist of his generation, in 2004'.

Economics education until the 1980's, even in the United States, long contained much welfare economics that recognised the importance of value judgements within the major models of the discipline. For instance Samuelson's (1948) early exposition that the desirability of Pareto optimal outcomes were contingent on the prior income distributions that drove market outcomes exemplified the importance of considering distributional issues. Lucas's remark is an acute example of how economics has focused upon modelling, indeed reifying, theoretical market processes rather than reflecting on distributional outcomes and how they matched, or not, widely acceptable value judgements.

Since the start of this millenium major economists have built upon the longstanding conceptual and empirical foundations of scholars such as Sen (2007) and Atkinson (2012) to fashion a renewed interest in the patterns and costs of inequality, especially within poorer and emerging economies. Stiglitz (2006; 2012) and Sachs (2008) have prised the top off a Pandora's box of distributional issues in emerging and poor economies. Now Piketty has shattered that lid, and possibly the complacencies of economics as a discipline. His sustained empirical work with others, (Piketty and , 2006,; Piketty and 2010; Piketty and 2012) on changing patterns of wealth and income in the more affluent economies has now been supplemented by his compendium of evidence and theoretical model set out in Piketty (2014). These studies set a new context for addressing distribution and growth in the decades ahead. The rising inequalities of the last thirty years are now widely established and there is emerging evidence of what has driven their growth. But how do the patterns and processes involve the housing sector? Will the new interest in inequality fashion stronger housing policies?

Ignoring housing outcomes

It could be argued that even if inequalities are rising there need be no emergent crises in housing provision for now households are, on average, twenty times more affluent than a century ago. Poverty is, of course, partly a relative concept. And time series evidence also shows that housing costs rise over time as a non-decreasing share of household incomes over time. Housing problems remain and are increasing as inequalities are rising.

This question is not just a matter for poorer nations or rapidly growing BRICs investing in transformation, and where informal, poor housing is growing faster than housing for the more affluent middle classes. There is also evidence of growing housing needs in many affluent countries and increasing concentrations, even segregations, of poorer citizens in affluent cities from London to Toronto to, Melbourne. Problems of access to adequate housing that low income households can afford are now rising globally (Maclennan et al, 2014).

But do housing policies remain strong and focussed upon the poor? We have already noted the research community's interest. There is also widespread, demonstrable evidence from consumer and satisfaction studies that good and bad housing outcomes still matter to individuals (REFS). Social surveys continue to identify a concern of more advantaged households about the housing outcomes for less well-off, fellow citizens (REFS). But between the academy and citizens and consumers, does housing policy still matter? Does politics, from global to local levels care about housing?

At the global level, where so much of the debate about inequality has emerged (see Stiglitz and Sachs cited above) there is still a lack of focus on housing issues. Some authors, such as Stiglitz, recognise housing issues indirectly through the lens of urbanisation processes and consequences, but UN Habitat excepted, the international development debate, the global concern, is light on housing rhetoric, research and resources.

Emerging global crises in food supply, the environment, population ageing, work and wages for the young and security are all recognised, for instance by the Club of Rome (REFS). But there is little discussion of the spreading shelter crisis that is deepening for the urban poor in many emerging economies and is now returning in the cities of the affluent OECD. Calls for action on shelter issues, in international policy circles, are met with the sounds of political silence or the rustle of bureaucratic paper as the UN and the EU shuffle the problem back to nations. The weak Millennium goals for housing and the still near impossibility of tracking housing change and progress across sets of economies highlight the global scale neglect of housing relative to, say, health, employment and education.

At the national scale Federal and national governments have increasingly dumped, rather than feasibly devolved, housing responsibilities to more localised orders of government, usually whilst retaining control over national tax bases (MACLENNAN AND O'SULLIVAN, 2013). Recent work on the BRICS revealed how weakly the social policy goals for housing policy are, with the exception of China, embedded at the national political level (MACLENNAN, 2014). Canadians, Australians and UK citizens have all seen national interests and competences in housing policies attenuate. Within policy endless pilot innovation schemes have widely replaced substantive government programmes. Individual inequalities have grown and the localisation of housing policies contains the real possibility that geographic fiscal inequalities to deal with housing for the poor will also rise. We are all for localism where it means real autonomy, as opposed to local political preening, and for innovation where it boosts policy outcomes rather than substitutes for programme development. As inequalities have risen too often localism and innovation have been policy emphases to simply disguise the slashing and burning of substantial housing policies.

The retreat of housing policies as inequalities have risen within the OECD countries also reflects two tyrannies impacting housing and finance. Within housing policy research to support housing policy expenditure there has been an, in many ways laudable, effort to highlight the impact of housing outcomes on non-shelter activities, or 'wider impacts'. The health, education, employment, innovation and other benefits of good housing outcomes have been increasingly and cleverly researched (VAN HAM ETC, 2013).

But the impact of evidence flowing from this major area of housing research seems to have had limited impact. Too often where sector silos prevail in government a policy activity with a range of (sometimes small) effects across a variety of portfolios is unlikely to find appropriate support within resource allocation debates. Housing researchers and policy advocates have, in these settings, failed to reintegrate and add-up the housing effects in, say, reducing inequalities. Housing has systematically failed to demonstrate its growth and productivity effects, although the last decade has seen a new understanding of the role of housing in economic stability that moves beyond the traditional obsession concern with construction sector employment effects. We argue below that restoring the intellectual connections between housing, productivity and inequality lies at the core of housing policies for the future.

Those who think that the critical observations above are unfair should reflect, with housing policy control and resourcing shifting back to city scales, on how few cities have any understanding of how housing outcomes shape their development and attainment of major metropolitan goals.

The second smallness of ideas tyranny has been in the design of the market systems that have underpinned the Deregulation era post Reagan-Thatcher. Acemoglou et al (2014) have recently highlighted how a piece by piece, narrow cost benefit perspective underpinned the design of housing markets and finance systems that underpinned the 'Washington Consensus' (shaping US government policy but also the actions of the IMF and the World Bank too). Acemoglou argues how the consequent changes failed to think about overall system behaviour and, in particular, the shift in power from the state to self-interested financial intermediaries.

In consequence, as housing policies have declined in significance and inequalities risen, the housing market systems that have been developed have become not just reflectors of these changes in income but key shapers of shifting patterns of wealth in ways that have a profound impact in the ways that capitalism now works as a system.

Economic change, the new formations of and prospects for capitalism, inequalities in income and wealth and their manifestation and modification within housing are the focus of the remainder of this paper. And they have to be at the core of shaping a new significance for housing research and policy in the economic and social policies that unfold in this century.

The next section of the paper takes Piketty's (2014) evidence and model as a starting point for putting housing issues back at the centre of policy debate. The third section develops the housing and urban dimension dimensions of Piketty's work and outlines a model to emphasise the pervasiveness and centrality of housing in economic growth and wealth formation. The final section considers how housing policies after austerity can be framed within that emerging synthesis of ideas.

2. IDENTIFYING AND ANALYSING INEQUALITIES.

Whilst economists had moved away from questions of the distribution of income and wealth economic historians, through the second half of the twentieth century continued to examine how income distributions changed over time and space. The Kuznets curve represented the high point of such work and was based on half a century of annual observations running forward from the end of WW1. Kuznets (Kuznets, 1978) concluded that inequalities tended to narrow within a nation as incomes grew.

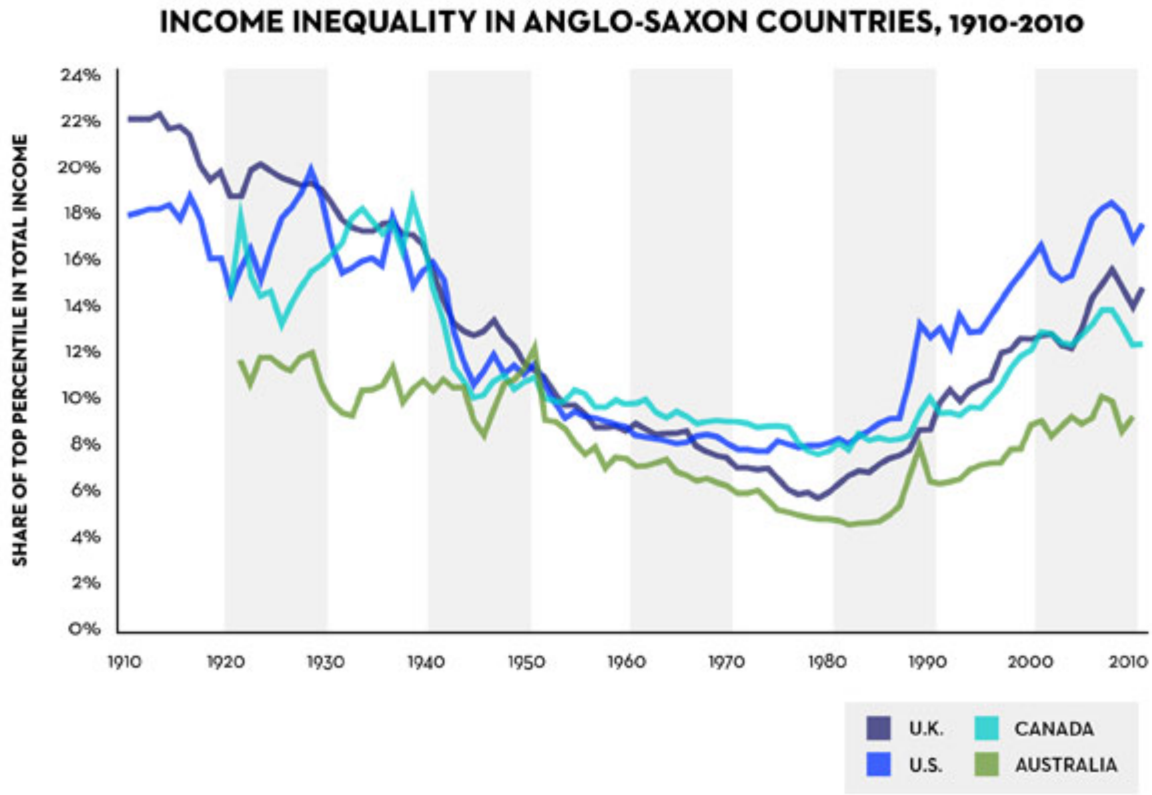
That observation was the conventional wisdom until the start of this millennium. Since then Piketty and colleagues have produced a number of cross national studies of income and wealth changes over time that have challenged and then changed received wisdom. Piketty and his associates have undertaken three significant pieces of work.

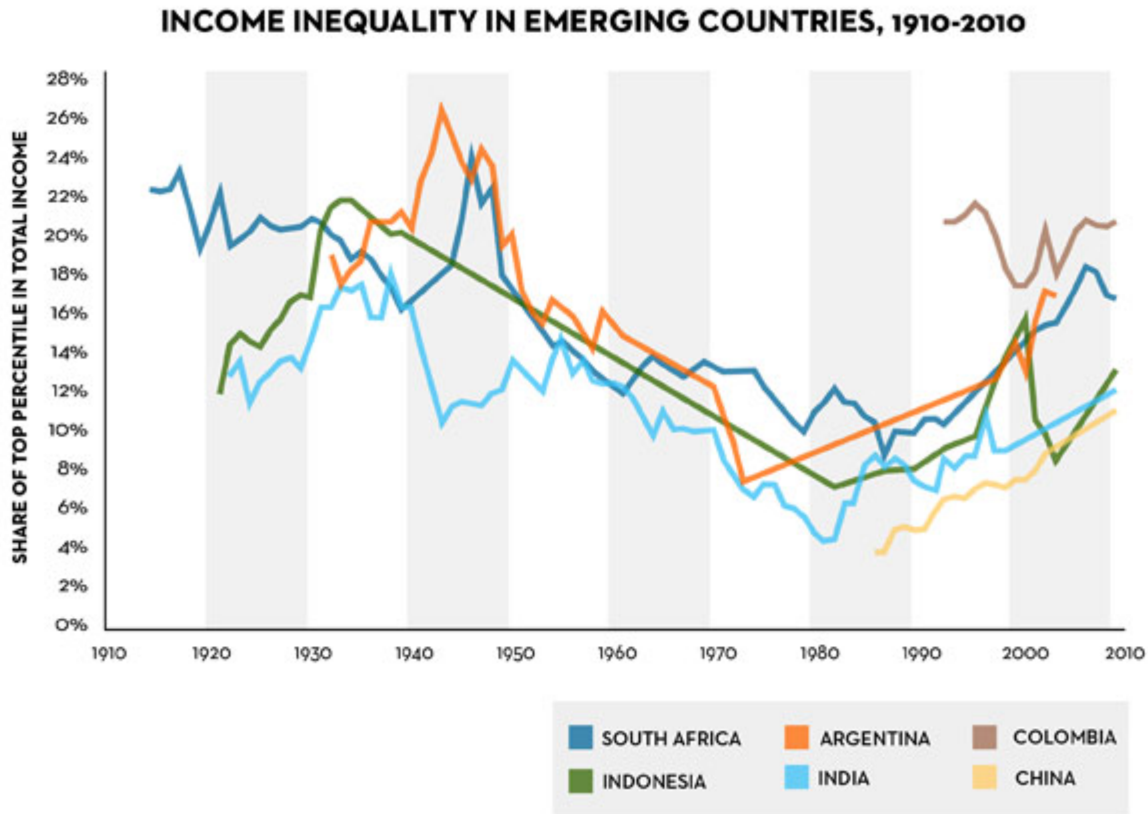
Changing Patterns

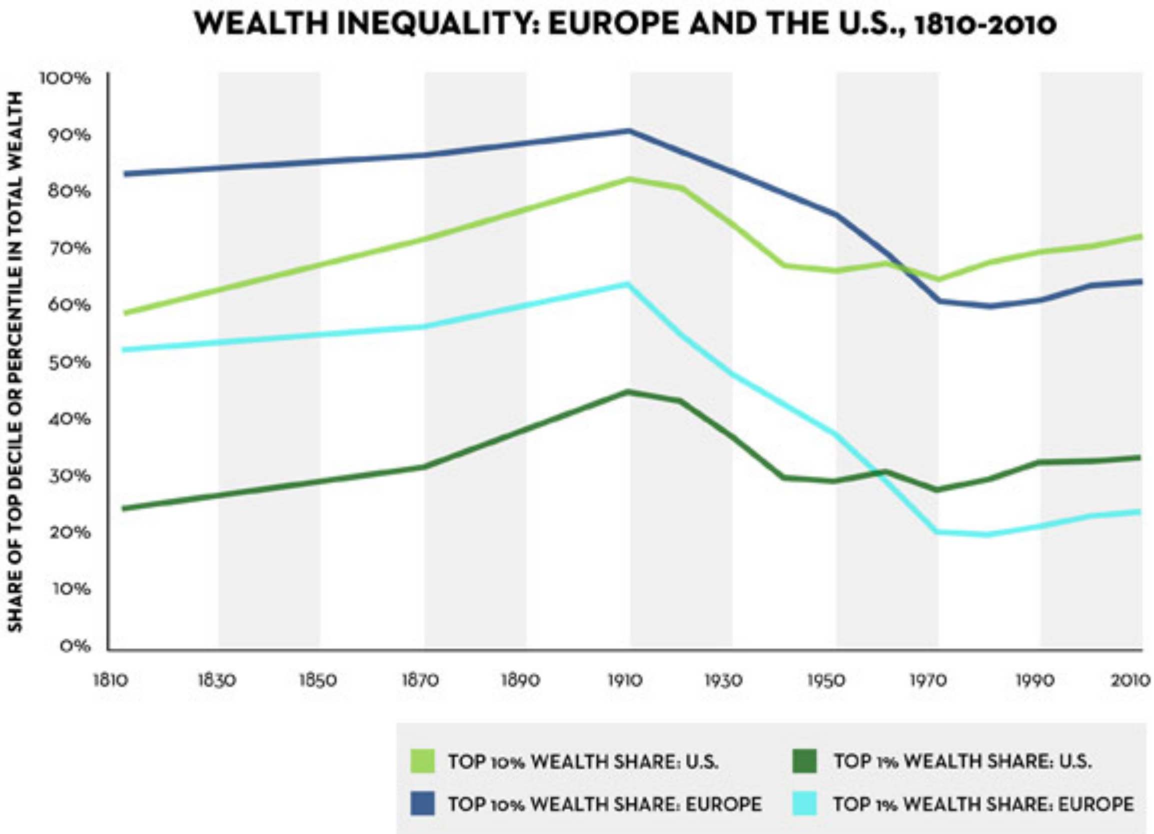
First, they have developed an outstanding database to identify changing patterns of inequality. They utilise tax records, that track better income and wealth outcomes for higher income households than household surveys, to explore income and wealth changes in more than 40 countries that go back, in some cases, hundreds of years. In this empirical work they have use a broad definition of income to include all assets on which households can receive a return (equivalent to the notion of 'patrimony') and they have separately identified key sources of wealth, including housing assets and land. Further, Piketty eschews use of Gini coefficients, Lorenz curves and entropy measures to summarise distributional changes and instead focusses on the concentration of wealth and income in the hands of the top 1, 10 and 20 percent of the distribution.

Some commentators have argued that this form of presentation, how the story is told, matters. When presentations focus on shifting median (or average) incomes explanations then focus on processes that shift the broad income distribution, rich and poor alike, and this highlights labour markets and skills effects of technical change, human capital raising policies and broader global processes. In contrast, focus on the top of the distribution and how it is moving faster ahead redirects attention to the power and behaviour of national elites and the ways in which politics deals with inequality (see,mmm, 2014).

Illustrations of the key kinds of findings are identified in Charts 1 through 5, sourced from xxxx. The key observation show that inequality is now widening across the majority of economies and that the Kuznets curve does not hold as a contemporary, or future, guide to relationships between growth and inequality. Piketty shows that Kuznet's relationship referred to a very special historical period when wars, a major depression and (welfare) state reactions to them from the 1930s through the 1960s had destroyed wealth of the richest households whilst giving new support to the poor.




INCOME INEQUALITY IN EMERGING COUNTRIES, 1910-2010
SHARE OF TOP PERCENTILE IN TOTAL INCOME
28%
26%
24%
22%
20%
18%
16%
14%
12%
10%
8%
6%
4%
2%
0%
1910
1920
1930
1940
1950
1960
1970
1980
1990
2000
2010
SOUTH AFRICA
ARGENTINA
COLOMBIA
INDONESIA
INDIA
CHINA

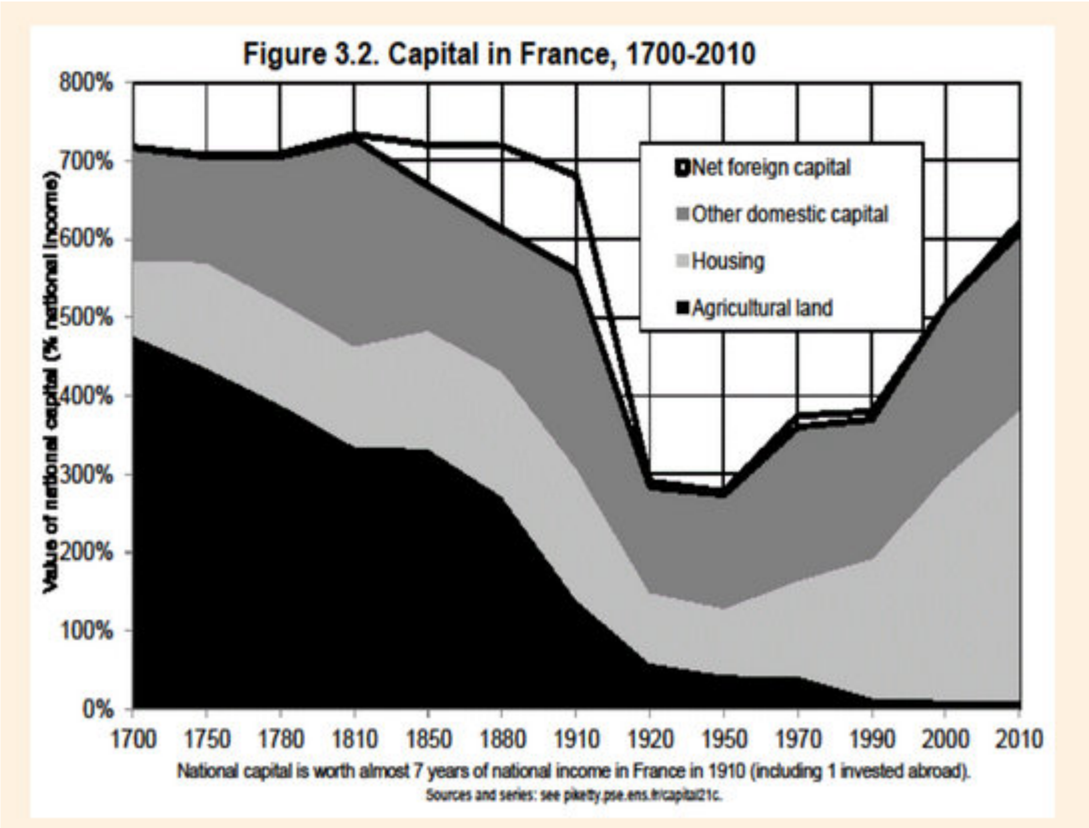

WEALTH INEQUALITY: EUROPE AND THE U.S., 1810-2010
SHARE OF TOP DECILE OR PERCENTILE IN TOTAL WEALTH
100%
90%
80%
70%
60%
50%
40%
30%
20%
10%
0%
1810
1830
1850
1870
1890
1910
1930
1950
1970
1990
2010
TOP 10% WEALTH SHARE: U.S.
TOP 1% WEALTH SHARE: U.S.
TOP 10% WEALTH SHARE: EUROPE
TOP 1% WEALTH SHARE: EUROPE

In more detail

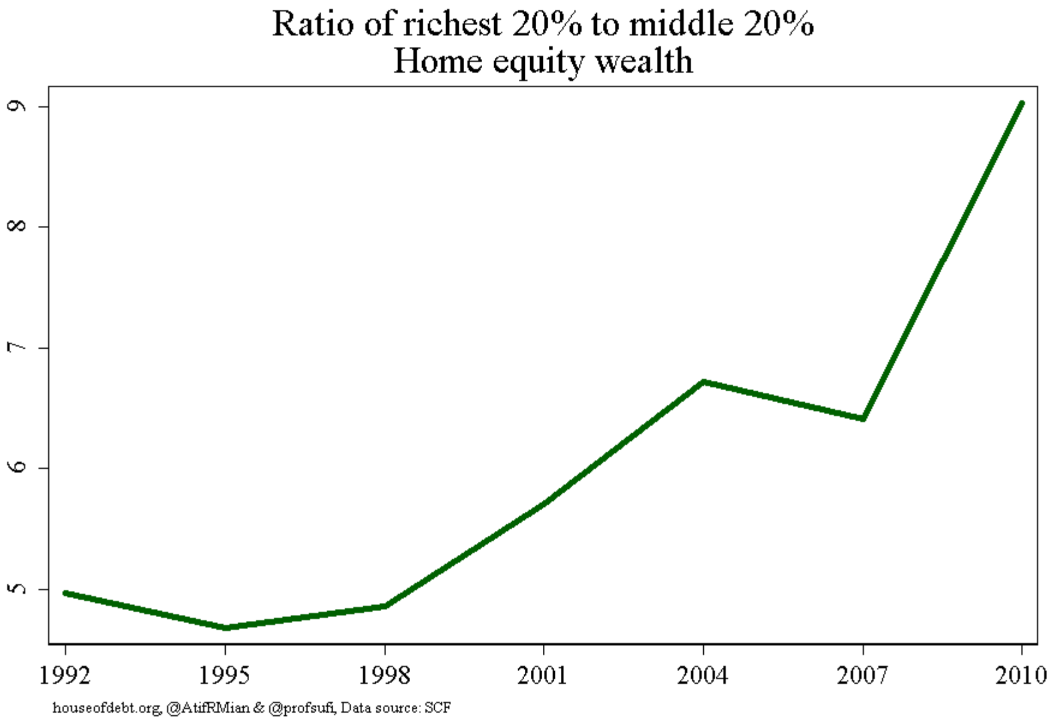
A number of commentators have drawn attention to some other major patterns emerging. Paul Krugman has highlighted how Piketty's approach draws attention to the growing affluence of the very rich as 'the big story in rising inequality'. Krugman also believes that Piketty's results gives substance to the notion that some economies, especially the USA, are entering a new, second Gilded Age. The share of overall income received by the richest 1 percent of Americans since the 1980's (a fifth) now stands at levels last recorded before World War I (having fallen to a tenth in 1950). Krugman says of Piketty's work

> 'The result has been a revolution in our understanding of long-term trends in inequality. Before this revolution, most discussions of economic disparity more or less ignored the very rich'.

A variety of commentators, more or less critically (see below), have noted how Piketty has revealed the importance of housing assets in increasing inequality within countries in recent decades. One of Piketty's memorable charts, indicating the ratio of different kinds of capital held to total incomes in France over three centuries, is presented below and it shows the share of housing assets in total 'patrimony'. After the 1980's the rising share of housing assets to total income has been by far the dominant source of increasing wealth to income ratios and rising inequality. A critique of this specific French finding, by Bonetti et al (2014), is considered further below. One could argue that this is the return of 'land' rather than capital but if Piketty's work holds then it shows how housing and land market outcomes have become not minor but major drivers of increasing inequalities within nations. Housing in this view of the world does not just mirror income inequalities but it also drives wealth inequalities. The case for more effective housing understandings and outcomes is all too clear.

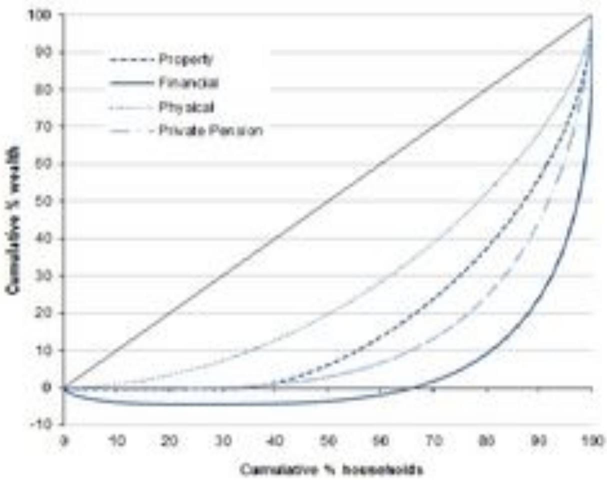


Mian and Sufi (2014) have published online some preliminary assessments of the importance of housing assets within wealth holdings within the USA, although they note that from 2010-2013 financial assets have had more marginal impact on wealth than (still-slumped) housing assets. In consequence over the whole period of their analysis from 1992 to 2013,



the rise in wealth inequality arising from home equity was smaller in magnitude than for financial assets but still boosted overall inequality. We are happy to be corrected here. Like we said earlier, we did this quite fast.

Housing asset changes have also been argued by to have had different recent impacts in the UK. Chris bbbbbb reports that, in the UK, "there seems to be little consistent evidence of any upward trend in wealth inequality of the top 1 percent." In fact the high housing asset values of a wide range of owners who fell outside the top 1 percent meant that wealth was deconcentrated over quite a large range of wealthier groups and the richest 1% held 12.5% of all wealth in 2010-12. The ONS note that the Lorenz curve for UK property wealth is flatter



than for financial wealth.

Clearly specific effects of housing assets on wealth inequalities differ from country to country and period to period. But in the main housing outcomes play important roles in shaping inequalities.

It is important to stress that Piketty is not alone in recognising the rising role of housing wealth in inequalities. Cowell et.al. (2013), using different data and approaches for four European countries and the USA, concluded that housing has a significant role in shaping household net wealth. Around the start of the millennium housing assets comprised more than four-fifths of household net wealth total in Italy, Finland and the UK and three fifths in the USA.

Modelling Changes

Why, and why do inequalities, counter to the Kuznets conventional wisdom, appear to widen over time.Piketty, as a second major contribution, in *Capital in the 21st Century,* develops a quite simple, high-level model to relate changes in income and wealth concentration to broad economic growth patterns. In essence the model is a high level 'macro-conceptual' model somewhat more akin in spirit to the models of classical economics, including Marx, than the multi-equation econometric models that now typify much economics research. It is, in that sense, a framework for broad thought experiments and not detailed estimations. Within his work there is not a detailed modelling of how income and wealth is redistributed into the hands of particular groups nor, as we argue below how housing wealth is created, redistributed and reshaped. But it does provide a framework to understand why it may be important when it exists.

There are three key components to the model, one an identity, one a theoretical proposition and one a conditional empirical observation. In brief these key relationships are as follows.

The identity is, $a=rB$ (1),

where 'a' is the share of capital income received in total income, r is the rate of return received on capital (patrimony) and B is the wealth to income ratio. This relationship holds true by definition.

The conceptual relationship is $B= S/g$ (2),

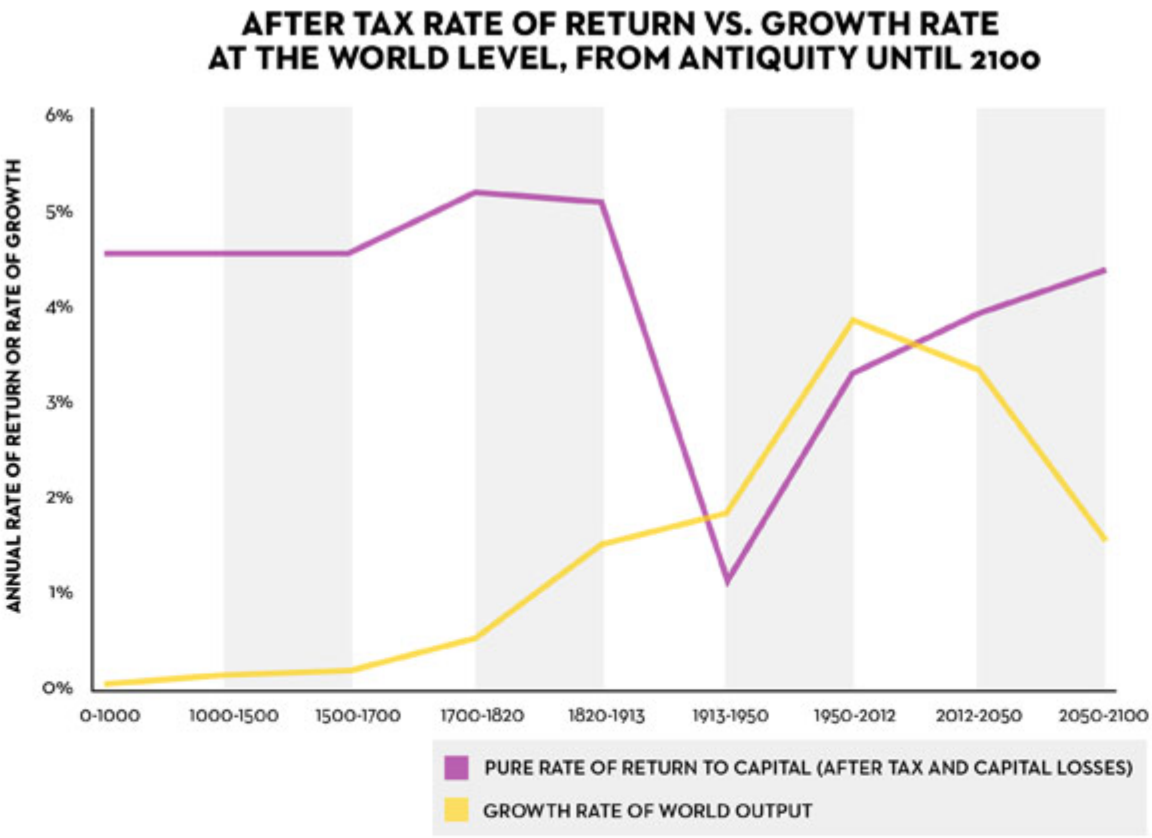
where S is the savings rate from national output or income and g is the growth rate of the economy. Note that not all wealth gains have to be saved and may be consumed and tax policies may also drive a wedge between gross potential savings and the surpluses that enter the savings, and wealth stocks of individuals. That is S, and B are influenced by the behaviours of individuals and governments. Cowell at al (2013) explored the different relationships between income and wealth inequalities within a nation (for instance Sweden has relatively low income inequality and high wealth inequality). They noted that the transformation of returns, from labour or capital, into current savings and stocks of wealth can be shaped by variations in the national propensity to save, systematic differences in asset classes preferred, cross country differences in inheritance behaviours, the propensity for individuals to pay taxes to pay for old age provision as opposed to accumulating assets for retirement and the life cycle structure of the population. There is much to be done to explore beneath surface of Piketty's 'big ideas' and, see further below, much scope for policy for modify the relationships between 'r' and 'g'.

This last observation is important because, Piketty makes the proposition that, generally, r will be greater than g (3).

This means that returns to the owners of capital, r, will be growing faster than overall income per capita (investment incomes are rising faster than wages) and, in consequence, that wealth inequalities will rise. Increasing inequality occurs because the ownership of faster growing patrimony returns is concentrated relative to incomes in general. By implication unless S is attenuated by growing taxation or conspicuous consumption the wealth to income ratio will increase. A further implication becomes that inheritance rather than returns from one's own economic activities begins to dominate the actual distribution of wealth. As Krugman notes

'when the rate of return on capital greatly exceeds the rate of economic growth, "the past tends to devour the future": society inexorably tends toward dominance by inherited wealth.'

It follows from the above that if returns to land or housing constitute a growing share of total income (that is the share of housing in B rises) and B is also rising then wealth inequalities will increasingly reflect patterns of home and land ownership and prices. Piketty argues, on his evidence base, that most commonly 'r' exceeds 'g', see Figure below, and economies will tend to rising inequality unless governments seek to change that outcome.



Third Contribution

Piketty's third major contribution, revolving around the figure above, is to issue the policy warnings for the future that arise from current trends. The implications of the figure above are potentially worrisome. The era between 1930 and 1980 has ended and the global economy is entering a period where Piketty predicts 'r' will again exceed 'g'. A new era of enhanced inequalities and wealth positions driven by inheritance rather than effort is the likely prospect if policies continue as at present. And much of that return may be driven by rentier rather than entrepreneurial behaviours. This has major implications for the rate of productivity growth, g, the returns to effort, merit and innovation. To pararphrase John Stuart Mill, too many people my simply progress by lying in their beds sleeping as property values increase, and sleeping with the right person will come to matter more as inheritance grows relative to own earned wealth.

Thomas Pikettys work presents housing researchers with evidence, a model and a policy insights framework that could significantly reshape policy approaches to housing markets. But before considering what housing policies might look like beyond the austerity and as the new gilded age glistens ahead it is useful to review some general critiques of the Piketty approach and highlight some more detailed housing influences that might be considered.

3. OBJECTIONS, REFLECTIONS AND ADDITIONS.

Piketty's empirical work has appeared over the last decade and been quite widely digested by serious economic and other social scientists. Whilst there has been a globally extraordinary response to Capital in the Twenty-First Century there have also been measured but praiseworthy reviews of the work by Krugman (2014), De Long (2014) and , most recently by Milanovic (2014). There have also been more dismissive critiques. This section reviews a number of the key critiques made as they relate to the discussion of housing issues and then presents a number of housing related research insights that might provide some firmer foundations for understanding housing within capital accumulation and, inconsequence, a relevant framework for the concluding section of the paper. This section does not dwell on the more detailed data observations of some critics as there is wider agreement that the Piketty empirical story is enormously informative.

Capital and Human Capital

From the quotes and citations spread throughout this paper it is clear that Krugman is impressed by the effort and insight of Piketty and colleagues. However Krugman observes that

'the most conspicuous example of soaring inequality in today's world—the rise of the very rich one percent in the Anglo-Saxon world, especially the United States—doesn't have all that much to do with capital accumulation, at least so far. It has more to do with remarkably high compensation and incomes'.

Krugman also observes that in the USA, as in so many of the OECD countries, that the real wages of employees have grown little since the 1970's whereas those of the top 1 percent have risen by 165 percent and of the top 0.1 percent by 362 percent. Whether these rises are new 'super-economic rents' for uniquely talented executives, baseball players or hedge fund traders or whether they simply reflect the extent to which the super-rich feel they can push social norms in setting or claiming their own salaries (Piketty's interpreatation), Krugman's point is a valid one. Indeed, in interpreting the housing consequences and policy implications of Piketty's analysis it is vital to understand not just how total and average housing wealth stocks have changed but how dwelling values have shifted in relation to wage rates and the distribution of income. As housing researchers, we can use Piketty's top level persective to align ourselves within the big 'masses' for policy debate. We need Piketty. But it is also vital to dig down into the 'macro' numbers to reveal the processes and problems within the sector and how they can be transformed into policy proposals for better outcomes. Piketty needs us too, to give better micro-foundations to his bigger arguments.

This point is important. Pikettys work allows identification of the ways in which the accumulation of housing assets is changing patterns of net wealth and, ultimately inheritance. But we also need to understand how housing values have changed relative to incomes and wages. In the first instance, the distribution of housing assets will depend critically upon whether households, faced with rising house prices, can purchase dwellings or not. At the same time, for those on lower incomes who cannot afford to purchase housing assets, rents may well rise if housing supply systems are sticky (see below). That is the processes that raise housing wealth for less poor households may well immiserise the poor as their disposable household incomes are reduced with rising rents. Housing sector changes impact both the wealth distribution and the income distribution and 'patrimony' and 'human capital returns' have to be viewed together.
The interface between patrimony and human capital needs to be better defined and explored than in the Piketty synthesis. That said, The new insights provided on changing patterns and thought frameworks to examine them still constitutes a strong set of foundations on which to think through housing related issues. However, not all commentators would agree with this observation.

Housing and Piketty.

It is established above that Piketty et al include housing capital within their definitions of wealth and that housing wealth changes have been important and shaped new inequality patterns over the last thirty years. However, some critics have argued that either housing capital should not be included within capital accumulation or that housing wealth gains are largely illusory. In particular Bonetti et al (2014) have argued that basing overall wealth estimates on estimates of the capital values of dwellings or real estate values is conceptually misplaced. Moreover, they argue, using appropriate valuation approaches reduces the role of housing wealth changes to minor, second-order roles in changing wealth patterns and, in consequence, undermines much of Piketty's overall argument.

There are essentially two economic arguments in play. The first is that house price gains by one individual mean a future loss for another (the individual who will have pay the higher price), and this argument was made widely by Buitter (2011). The second is the inherent problem in housing, commonly confronted in tax policy discussions, that housing is both a consumption good, valued at the rents it commands, and an investment good, yielding an income corresponding to the net rent. Landlords derive money income from letting their housing capital whereas home-owners receive their income as a flow of in-kind services that have only an implict rent. Bonetti et al argue that returns on housing capital, inclued in Piketty's 'r' should be measured by the rent on housing and not its traded capital values.

This is the valuation approach of those who assume that capital and savings markets are perfect, that transaction costs are negligible, that landlords and tenants have perfect information and foresight, that markets are in or close to competitive equilibrium and that supply responses are relatively elastic. It also assumes that the rental values observed and used to make alternative estimates are equilibrium market rents. This is not a conception of the functioning of housing markets that is based in the evidence of housing economics (see Maclennan, 2012). There is evidence that households may hold a stock of housing assets, reflected in the prices they pay, that exceeds their consumption requirement because they have an asset demand for housing that exceeds the consumption demand. The over-consumption of housing space by the elderly can be readily cited in support of this observation. Further, there has been an extensive growth of non-professional landlordism across many of the OECD countries since the mid-1990's with landlords owning one or two properties. All the research evidence suggests that their perception of returns includes not just rental incomes but expected house price gains and that prices as much as rents shae their behaviours.

Buiter's work is always important in reminding housing experts not to claim too much for housing effects. But in this instance, that fact that 'losers' from price gains may be in the future may also be negated by inheritance processes over time. For all of the assets included in patrimony, or capital, there is an element that derives from speculative returns and super-normal profits in which there are some other and future losers as well as current winners. But the fact that the gainers show up in the wealth distribution means that they have options about consumption smoothing, command over wealth and inheritance gift choices that those without housing asset choices do not have. These are not second order effects but central to understanding key processes in social mobility, ageing and investment. Indeed in the paragraphs that follow we set out an argument, based on stylised facts drawn from housing and city research, that suggests that housing markets and outcomes are embedded at the core of growth and inequality. Bonetti et al wish to exclude housing capital values from Piketty's estimates because 'The valuation of housing capital based on housing prices is actually disconnected from the inequality-generating process that the author (Piketty) wants to establish'. On the contrary, housing and land values, in potentially disequilibrium markets, lie at the core of current processes of capital accumulation.

Putting Housing and Land at the Conceptual Core.

It was argued above that evidence from Piketty along with other work on wealth and income such as Cowell et al (2013) and a plethora of emerging housing research that housing system outcomes are having significant effects on both the distribution of wealth and the distribution of income. Housing outcomes are enhancing inequalities. Some commentators, as noted above, have tried to suggest that these housing effects are either wrongly estimated (Bonetti et al, 2014), or that they are very time-place specific or that housing wealth is not like financial wealth in its fungibility, potency etc. The housing research effort of the last decade suggests that these 'critiques' are misplaced. As long as a patrimony perspective on wealth-holding is used then a case can be made that the housing sector is a critical transformative influence on wealth patterns in modern economies. This contention is made clearer by developing a more explicit, high level argument as to why this is the case. Piketty can be supported by a more explicit urban-housing analysis

There are key 'stylised facts' to be considered and a conceptual logic chain established. The key arguments are as follows, and we believe they are of universal relevance. There are 4 key observations on the nature of housing systems and two comments on the consequences for political economies that shape policy choices.

First, global economic growth is likely to be positive in the decades ahead ('g' exceeds 0) and there is clear evidence to support the notion that growth will not only underpin shifts from rural to urban living but that faster growth is likely to be associated with larger settlements than enjoy the benefits of significant agglomeration economies. That is there are clear, grounded patterns to where 'g' will occur. Growth means urbanisation and concentration of population. The demand for housing, and especially or those in the bottom half of the income distribution, is income elastic (it will grow faster than incomes) and price inelastic (as a necessity for many, demands will not fall as prices rise).

Second, whereas supplies of labour and capital to favourable expansion locations have become increasingly elastic (growing labour migration and capital market deregulation) supplies of developable land remain inelastic and housing supply elasticities are universally *low.* Whilst there is much blame placed on planning systems for these inelasticities, they may also reflect curtailed public investment in infrastructure and the interests of landowners and developers in slow rather than fast responses to rising market prices. Supply inelasticity is a fundamental rather than passing feature of housing systems and the interaction of spatially concentrated economic growth and housing supply inelasticity has a key role to play in shifting wealth patterns

Third, recent and future spatial patterns of economic growth will shape the interface of a rising demand for housing with sluggish housing supply responses arising from both market failures and policy limitations. This creates a classic Ricardian context where rising demands will drive the scarcity premia on factors of production in short or fixed supply. The conditions set out above determine that housing and land values will rise faster than the overall (income) growth rate. As long as land and housing are privately owned and a 'patrimony' perspective on capital is employed, then the incomes and asset values of property owners will rise ahead of the overall growth rate. As Piketty observes, Ricardo's scarcity thesis *'meant that certain prices might rise to very high levels over many decades. This could well be enough to destabilize entire societies. The price system plays a key role in coordinating the activities of millions of individuals...The problem is that the price system knows neither limits nor morality.'* It is time to put this perception of housing markets at the core of research and policy thinking.

Fourth, central governments are withdrawing from supporting housing policies and new burdens of responsibility, and indeed financial obligations, are falling upon more local orders of government. However as policy autonomies localise, local housing systems are being more exposed, simply by greater reliance on market provision and cross border deregulation of financial and capital flows to a greater variety of shocks that originate from other regions, the nation and the global. More localised resources will have to confront more diverse policy risks and that constitutes a significant challenge for cities. But as they face that instability they will also confront a greater potential segmentation within their local systems, there is a danger that the Piketty processes will drive wider gaps between renters and owners. There is a growing reality that poorer households struggling to attain ownership goals and climb on the asset escalator will live in increasingly remote suburban locations with un-recognised quality of life negatives and with risks of local labour market shocks.

At the same time in the cities that feature in the middle and upper echelons of global production hierachies there is a growing disconnection between high quality and high price city centre markets and the metropolitan areas and regions they are set within. Their development funding sources, their investors and their residents are often international or global in origin and, with the top of the domestic income and wealth distribution, live in neighbourhoods that become the spatial manifestation of the growing wealth and power concentrations of the elites. Global enclaves will sit within local housing systems, they will impact local change but they will be little influenced by local policy autonomies. Localism in housing policy will not deal with all the structures and inequalities that are emerging in advanced economy cities.

These four, emerging and fundamental features of housing systems shape two other generalisations that stem from political choices rather than market mechanics. These choices shaped the 'housing-capital' system that polities and politics have chosen since the 1980's.

Fifth, the inelasticity of urban housing supplies is not a new phenomenom and was as typical of early industrialisation as now. However the higher income levels at which inequalities now appear mean that there is a wider distribution of property ownership than a century ago. In the UK, in 2014, is was estimated that a tenth of the population owned residential property, now it is nearer seven-tenths. In China, home-ownership has risen from 20 to 80 percent in not much more than two decades. This has three implications for income and wealth distributions. Rising geographic concentrations of home ownership in particular suburbs gives existing owners incentives to resist further density increases and exclude potentially competing service users. The consequence is 'nimbyism' with consumer opposition making housing supply more inelastic. The spread of home ownership across the income spectrum has increasingly made home owners the majority of voters within democracies. These home-owner majorities have an influence over policy decisions that the much smaller number of landlord interests are unlikely to match. In consequence tax policies emerge that favour home-ownership, and small scale landlordism, and that also preclude the taxation of 'scarcity rents', or unearned capital gains, emerging within the sector. The predominance of home owners also means that governments take extensive measures to prevent house prices from falling and indeed may encourage price gains for short term economic benefits. Modern political economies support the formation and perpetuation of housing wealth gains and the inequalities that flow from them. In short, capitalism of the last 30 years has not promoted economies and societies where entrepreneurship and effort shape outcomes but has created an expanded rentier class who expect and defend unearned wealth gains.

Sixth, the broad thrust of housing policies for the last thirty years, has shifted provision from the state to the market, from public to private ownership and from tied dwelling to income related supports. There have been good cases for some of these changes in some places. However, as noted above, the intensity of fiscal effort to support renters has fallen, and in consequence there is a less of a housing policy induced gap between 'g' and 'r'. Further, with tied income support, poverty and income traps have become much more pressing issues for the poor. That is, not only is their rental burden rising but the support structures discourage their accumulation of any other form of income.

With these four fundamental housing system and two changing political economy observations in place what can be said about how housing policies are likely to unfold after the austerity.

4. POLICY: THE CAPITALISM WE CHOOSE

Thomas Piketty's work is not historical determinism. He recognises that policy choices, in part, shaped the period of rising equalities within advanced economies, and that the choices of the Reagan-Thathcher era changed them. Policy Matters. In this paper we have made the case that Pikettys identification of significant roles for housing in shifting income and wealth distributions are neither statistical artefacts nor localised and passing phenomena. The ways in which housing systems operate are not simply reflectors but key shapers of inequalities in both wealth and income.

And the way housing systems operate reflects a mix of market virtues, market failures, and policy effects, both good and bad. In consequence, we can choose better outcomes and, partly through better knowledge mobilisation, shape better housing policies. How should we start.

This paper has been about making the case for why housing polices matter and the detailed assessment of the policy agenda that emerges requires more space, time and thought. But as a conclusion to this first part of our work we sketch out the key policy questions and issues. This is, of course, political economy and we should be clear about our biases. We reject the relatively unqualified ‘markets are only good’ emphasis of what we labelled the ‘Washington Consensus’and that policy shapers have to a new sharp eye for the market failures and distributional consequences of market oriented housing provision. We want effective market systems, in the sense of well-organised, contestable markets that will deliver better outcomes, not ‘efficient’ markets defined by the narrow criteria of competitive markets theory. We also recognise roles for non-market provision although we reject a return to a Marxian framing of how housing should be provided. Non-profits, community organisations and transparent, contestable government actions have roles in our system whereas government monopolies do not. We would not share much of David Harvey’s conclusions for housing policies as they are practically inconsistent with most varieties democratic politics. Housing policy is not about lauding the state or the market but about understanding their different strengths and weaknesses and using them in effective ways to secure democratically agreed public policy choices. How should we start to make better choices? We believe that there are at least five major thrust for change required

1. It is essential that policymakers and the public understand what has been happening as a result of the housing policies we have pursued. This requires governments to
    a. Have a clear statement of what they spends on housing policies; increasingly governments present housing budgets in ways that are intended to mask change
    b. Make a clear statement on the extent to which housing tax expenditures, and home-owner tax breaks in particular, benefit different wealth and income groups; governments should make and publish estimates of the extent to which housing equity stocks represent real savings by households as opposed to unearned capital gains; there should be a clear assessment the potential to raise capital gains and inheritance taxes
    c. Be transparent on the implications of the future funding of health, pension and care policies, especially for the growing numbers of the elderly, and how those who have large stocks of housing equity in

particular the over-60's, are supported by tax revenues raised from the incomes and consumption of younger and poorer households

d. There needs to be a forward seeking account of how the emergence of increasing recycling of housing gains within families, the emergent signs of Piketty's fears of a return to a patrimonial society, is already paying for school fees, university education and deposits for house purchase that launch the children and grandchildren of the housing equity holders into social escalators and economic accelerators that are not available to the children of poorer renters; so much for social mobility and the society and economy based on effort and ingenuity
e. Undertake a coherent assessment of how patterns of house price inflation impact growth and productivity in the long term, and in particular how investment in the rising prices of existing homes curtails investment in business and human capital
f. Each year, or at some agreed interval, Governments should produce a 'state of the housing system' report that is peer reviewed for substance and debated in Parliament; government 'building' needs to replace 'spinning'; more locally cities should set out investment strategies that clearly identify and track important system outcomes; few presently do

2. There needs to be a rethinking of how localising housing policies are both connected to the essentially national aspects of policies that remain at central levels (this does not now happen, for example in the UK, nor Canada, nor Australia) and to revenue sources that are elastic and match the range of problems they now have to address.
3. Housing Policies need to focus on the questions of supply and a new understanding of housing is infrastructure policy as well as social policy. This will, given sluggish housing supply, require
   a. A return to the period when state and local state action to purchase land and service it or development involved compulsory action and public enabling investment. Housing, infrastructure , planning and local economic development policies are disconnected and unintegrated and the land markets involved are replete with market failures an scarcities
   b. With lingering austerity governments will not meet the growing needs of poorer households in advanced economies, let alone the urban poor in the BRICS and beyond, unless they not only take more active roles in strategic master planning of development but also systematically extract much larger proportions of the uplifts in land values that already relatively wealthy landowners, and slow developers, secure to push themselves into the top decile of the wealth distribution. Gain extractions need to move to the forefront of local housing policies

4. Markets need to remain at the core of production and distribution, not least because housing demands and preferences are so varied. But markets do not to be recklessly or narrowly designed:
    a. There is a sign in the IMF and in national central banks that the GFC has produced some reflections of what will work in making housing markets more stable and less unbalanced within national spaces. In number of countries there is the beginning s of mortgage re-regulation that will reverse some of the effects that Acemoglou and others have described so effectively.
    b. There is a growing recognition that maximising home ownership is not the same policy process or objective as having efficient national housing markets and there needs to attention to a more level playing field for choosing between renting and owning; more stable inflationary environments help this process but tax and regulatory regimes also need harmonisation

5. There is a potential need to break down the differences in funding rules, subsidy access and scope limitation between market and non-market rental providers
    a. Private provision of adequately supported low income households serves as a useful check on the rent and cost structures of non-market providers; equally the reputation of non-market providers as people and neighbourhood managers along with their capacity to operate at scale and with efficiently sourced, large scale finance could see them take a major role in providing middle income, for-profit rental housing where market renal failures persist
    b. Cities and localities should be required to have a coherent statement of the operational effectiveness not just of individual landlords but of the system as a whole; there are no cities in Britain that could give a clear assessment of the structure and functioning of the local rental systems in which the majority of the poor find their homes

In very broad terms, governments need to have questions and answers that will allow them to have better economic and social outcomes now , that is be more efficient, but also attenuate existing housing based wealth inequalities and preclude the emergence of such gross inequalities in the future. Housing capitalism needs to be rethought and recontrolled but the future can be better than the past.

How, as academics , can we help shape this debate?