

Voice, Loyalty & Exit: The Context for Housing Policies in Britain after Brexit

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Academics and Expert Advice

- Paraphrasing Jonathan Portes' three purposes of expert advice:
 1. Inform audience about surprising or novel research findings
 2. Categorically reject or rebuff scientifically wrong or un-evidenced policy statements
 3. Synthesise and summarise evidence and research
 4. Plus - Acknowledge when uncertainty means we just don't know

EU – What we are leaving behind

Evolution

- ECSC (1951) of early 1950s, post-war reconstruction context (initial 6)
- Treaty of Rome, forms Common Market (1958)
- Maastricht Treaty established European Union (citizenship)
- Lisbon Treaty, 2009, revises
- Supra-national, intergovernmental governance

- 28 States, 1/4 of global GDP & 510 million people.

Key Institutions

- European Parliament (5 years), Strasbourg
- European Commission (Brussels)
- European Council (Heads of State and President of EC)
- Council of the European Union (Ministers from nations)
- Court of Justice of the EU
- European Central Bank
- Organisations such as EIB
- Court of Auditors

- **Context: Where are we now?**

- Sustained disquiet about the costs plus a propensity to opt-out of projects (the Euro and Schengen), yet the EU became, via the Single Market, the UK's major trading partner (60% of exports), and a source of much, often skilled, labour.
- 23 June 2016 the UK voted 52 to 48 percent, to leave the EU . Much debate about the mendacity of the cases made to the public; marked regional & age disparities in voter preferences
- Legally binding status of the result was & remains contested, but May government sustained a firm Brexit commitment.
- Article 50 was triggered. and with it a two year (minimum) process to shape the terms both of UK departure & post-exit
- UK Brexit Minister recently revealed that there is still no clear UK Brexit strategy and that the government will not reveal its intentions so not to compromise its bargaining position.

Conceptual frameworks

1. Political economy literature on how constitutions affect economic performance and how prolonged processes of constitutional change may have significant costs
 2. Hirschman's classic framework for examining reactions to political & economic changes:
 - Consumers (voters) can react with **loyalty**,
 - or may protest to secure change through **voice**
 - simply decide to **exit** the debate or the polity.
- Brexit is not a *loyal* realignment of 'remain' voters to the 'leavers' cause. The displacement of Parliament voting powers gives little hope for democratic *voice*. The '*exit*' process also becomes a key consideration: Scotland & Northern Ireland may leave the UK as a result of the Brexit process.

Brexit uncertainty and the housing system

- Before moving to think about how housing might be impacted by Brexit we have to make the nature of this discussion clear.
- Impossible to make realistic predictions about how Brexit will impact UK housing systems – other than that the uncertainty will rise, real incomes will fall and that these changes will have generally adverse economic effects on housing markets.
- We cannot offer predictions because we do not know what Brexit means in terms of mobility, trading & investment relations with Europe & the World.
- Even if government was prepared to spell out tariffs and movement rules for capital & labour, we would struggle to predict outcomes that will be so fundamental and system wide. **We don't know the game and we don't know the rules.**
- So should we simply leave the field at this juncture. There is merit in continuing for two reasons.
 1. Make accessible a relatively plain commentary on what leaving the EU means.
 2. Highlight the kinds of questions that we are likely to confront. Two years on we could offer a 'harder' interpretation, but this is more a *heads up* on the possibilities of the likely effects.

Economic Principles – the Extent of our Uncertainty

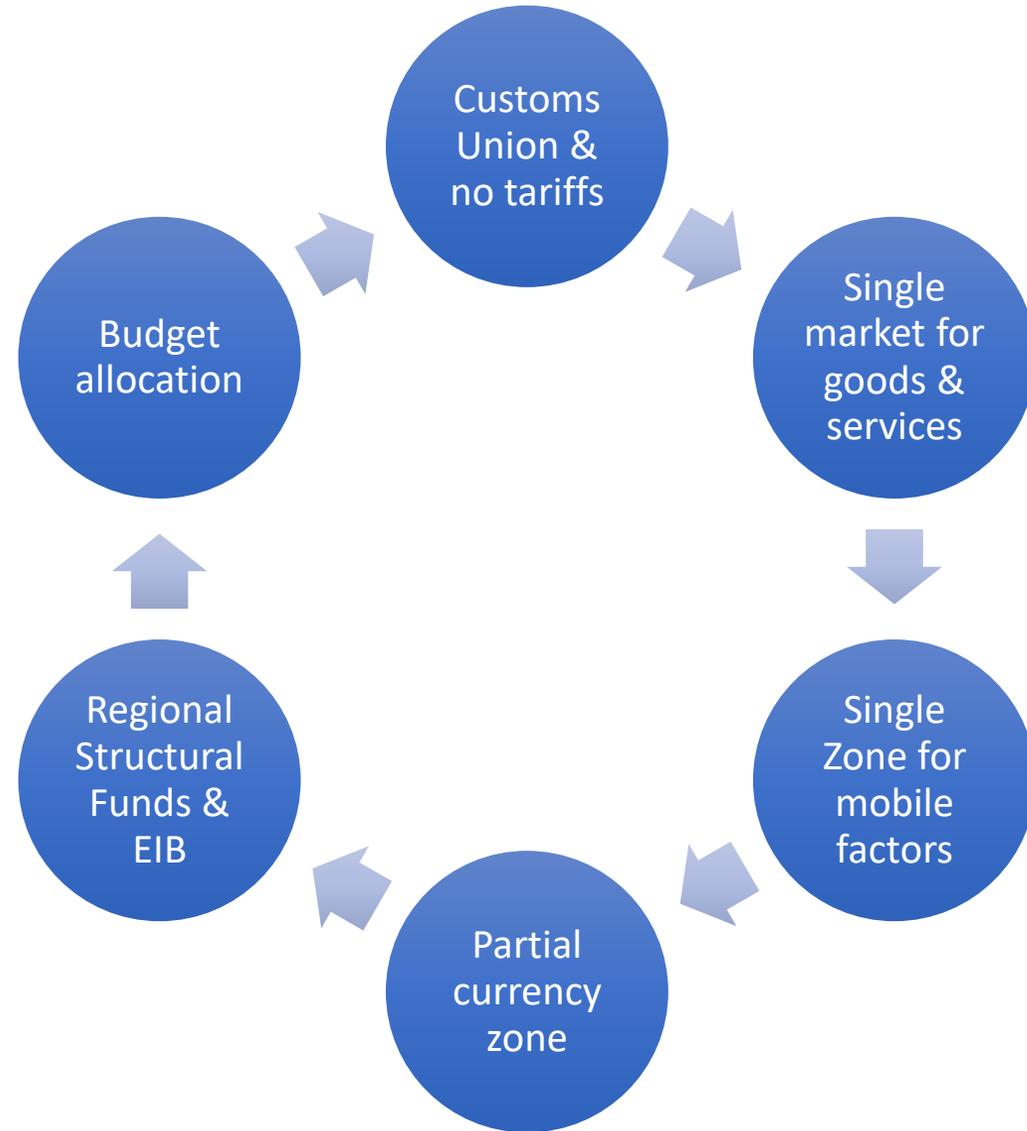
- A range of possible outcomes critically dependent on the nature of the Brexit deal and subsequent trade deals but but 90% of economists in June 2016 thought the economy would be significantly slowed down and growth reduced (Ipsos Mori)
- Don't be led astray by the political critique of the economics profession of pre-vote economist and Treasury alarmism – we have not left yet.
- Will exit slow growth? The great majority think so e.g. NIESR and OBR but the range is large (Muscatelli review). Most of this is due to impacts on trade in goods and services but also migration effects
- What happens to migration and real wages? Portes & Forte in OREP 2017 suggests a range of scenarios which indicate that lower EU immigration reduces per capita GDP significantly but unskilled wages do not rise much, if at all
- Where will exchange rates end up? Muscatelli's recent evidence review implies the balance of views that £ will be lower in the long run (and supported by markets futures exchange rate trajectories)

Brexit highlights the usefulness and limits of economics

- Even if the UK Government's policy aims were clear then economic comment would be difficult:
 1. complex systems, analytically difficult
 2. Lack of data and patchy knowledge – evidencing is difficult
 3. What is the counter-factual? Difficult to benchmark
 4. Different value judgments about 'factual issues'; politics are difficult
 5. May involve personal, social values and beliefs, objectivity is difficult
 6. Complex, incomplete, emotional: presentationally difficult
- Economics, as political economy, has to be clear on assumptions, data, embedded normative values and not just simply 'market views'
- Nonetheless, economic arguments are worth thinking through and contributing insights to debates.
- So what are the key economic questions regarding housing and Brexit?

EU Economic functions & how they matter for UK housing

- In total, economic effects largely arise from having these functions: customs unions and the single market the key
- The housing effect comes largely from growth in incomes, regional pattern of impact, single market in labour but not primarily from sector and structural budgets



Housing connections

1. Studies of how previous constitutional change in Europe had housing implications exist. The changes now seem modest compared with what the UK now faces.
2. European institutions had little direct impact on UK housing markets and policies by not adopting the Euro, and because the Commission had no direct housing policy competence but important impacts from specific organisations such as EIB roles in renewal and housing investment
3. Outside the Euro and with protected national housing finance circuits, the major impacts of leaving the single market (trade/growth excepted) are via **migration**.
4. Migration effects impact on construction labour, care workers (ageing dynamics and on local housing demand
5. If Scotland and NI exit as a result of the UK leaving the EU – that will have a much more profound effect on housing policies within those countries.

Housing connections (continued)

1. EU member rules:
 - UK negotiated an exemption in 1980s on VAT for new home construction
 - public procurement and state aid rules impact on physical regeneration:
2. Monetary policy remains UK led & crucial in future UK housing policy.
3. Future of exchange rate impact on inflation and interest rates and hence housing. If economic retrenchment in face of lower growth and trade – likely to see housing market decline but also higher need and further austerity
4. Regional housing impacted unevenly by of Brexit.
 - hard Brexit & tariffs on cars, drink & agriculture bad for towns & rural areas.
 - housing markets/ economies that will suffer more are Wales, parts of the north and rural regions (Demos).
 - Other regional reversals from finance outsourcing to Europe and North America

Towards a post Brexit housing policy

- Housing market policies need to focus on stable house prices and the responsive housing system that can protect the UK from downside risks and shocks following Brexit
- Reformulating goals – opportunities from Brexit, focus on resilience against economic adverse consequences –fair, rational, neutral, essential economic infrastructure

Possible housing policy themes

- Removing state aid , tax harmonisation constraints and strategic public procurement opportunities. Opportunity to change public spending rules e.g. on council-led housing investment
- Housing taxation for OO and PRS and the taxing of economic rents and recognising the inequality creating and reinforcing roles of housing wealth
- Scottish style private tenancies?
- Rethinking and re-emphasising supply/development sector policies and their tenure portfolio balance
- Make provider resilience a central feature of policy and regulation
- Addressing key working age benefits