

# 1. THE ROLE OF SOCIAL HOUSING IN SUPPORTING FUTURE ECONOMIC GROWTH

## THE ROLE OF GOVERNMENT

The sole role of government according to some ideologies, others consider it simply the primary role, is to assist in providing a buoyant economy in which society operates.

## ALLOCATION OF SCARCE RESOURCES

One way to look at economic systems is that they are the mechanisms through which a group of people allocate scarce resources.

The growth and size of an economy is limited by its most scarce resources, and (at least in a free-market economy) mechanisms evolve to try to use relatively plentiful resources instead of scarce ones.

In Jersey two resources are recognised as being scarce; land and labour.

## ARTIFICIAL CONSTRAINTS ON SCARCE RESOURCES

Jersey has further limited one of these scarce resources by limiting the amount of land which is available for economic use through a series of planning decisions such as labeling some areas for agricultural use only, etc.

This should not be read with any judgement as to the value of such decisions; other considerations such as 'Quality of Life' underlie them.

Similarly the government of Jersey limits the number of people able to be utilised in an economically productive capacity through their use in the maintenance and operation of government departments.

Government use of the scarce resource of labour further limits the amount of the other scarce resource, land, available to be put to economically productive uses as each unit of labour requires a unit of land to designate as a principal private residence.

## THE NEED FOR AN UNEMPLOYED POOL OF LABOUR

Unemployment happens not because there isn't a demand for people, but because the available people (i.e. the unemployed) don't match the skills needed in the economy at that moment.

For example, if you're a computer programmer, it has been a tough couple of years. But if you are a registered nurse, you can pretty much write your own check in many communities.

An interesting (and related) phenomenon is that unemployed people often create their own jobs.

To make ends meet, be productive, and sometimes to stave off boredom, many unemployed try to apply their skill sets to find new things to do. This is a source of new businesses and innovation in our economy, and helps lay the foundation for future growth.

The Jersey government instead of providing a 'safety net' in the form of a minimal income such as unemployment benefit creates more jobs in government departments to draw on this pool further limiting not only the availability of the scarce resource of labour but also future economic growth.

One part of this 'safety net' is subsidized housing.

## SETTING THE LEVEL OF UNEMPLOYMENT

In a Keynesian model; full employment in a society is defined as 97% it is clear from government statistics that Jersey is therefore 'over employed' and the lack of an unemployed skills pool poses a serious threat to future economic development in Jersey.

Any reduction in the amount of social housing available to support an increase to the minimum level of 'unemployed' in Jersey is therefore a decision which would be 'courageous' for a government to make, damaging as it would be to Jersey's economic future.

## CONCLUSION

Since providing the means through which economic development occurs is the primary role of government it would be contrary to the role of government to see any decrease in the social housing available.

## **2. IMPORTING AN ECONOMY**

The alternative which is being encouraged by the current government is that Jersey's economic growth will be as a result of importing businesses and innovation into Jersey from overseas.

This will likely have the effect on housing similar to that as has resulted in the United Kingdom; currently in some areas of London, for example, house prices are rising at a rate of 8% per month.

The effect of this if felt even to a lesser extent in Jersey will be to drive up the demand for social housing as even those currently employed will be unable to meet the market rents.

Additionally, with recent changes the government of Jersey has encouraged a number of persons to move to Jersey whose role is solely that of Landlord. Landlords are detrimental to an economy as they withdraw monies without providing any useful service and indeed their presence serves to drive up property values and therefore rentals.

## **3. LACK OF SAFEGUARDS IN PROTECTING TENANTS**

The United Kingdom and other European countries have a series of legislative protections both against escalating market prices and suspect practises by Landlords which are not found in the legislation governing Jersey.

Whilst these may or may not directly affect the demand for social housing an indirect effect can be shown as described.

#### LANDLORD AND TENANTS ACT, PART II (1953)

It has long been recognised that rental values are a function of the sale price of property. For example retail premises are marketed at so many multiples of annual rental achieved.

One way in which it can be demonstrated that landlords inflate the capital value of their property is through the practise of increasing rentals at the end of leases on successful businesses.

If a business operating in a premises on Queen's Street can be shown to be making a profit of £100,000 per year on a lease which stipulates a monthly rental of £5,000 then it is not uncommon for a rent to be demanded of £10,000 per month upon signing of the new lease.

The operator of the business then has the choice of either accepting the new terms or effectively giving his business to the landlord for nothing who can then sell it to someone willing to operate at the reduced level of profitability.

This is particularly true of businesses operating in the provision of food and beverages where location is one of the primary factors determining success.

Not only is the landlord receiving additional monthly rental but he has doubled the value of his property.

Other neighbouring premises are then able to point to that premises as an indicator of the market rental and all rents in the area are similarly increased.

This effect is even felt in the secondary market locations whose rents are often determined as a percentage of the rents achievable in a primary location.

The effect on housing is that landlords look to the value that could be achieved were the property turned from residential to commercial use and a level of rent set accordingly.

#### RENT REBATE

The result of introducing subsidies to rentals has a questionable role in controlling rental values.

Whilst it does specify a maximum rental upon which a rebate can be applied for this is set with a view to the prevailing market rental.

It can be shown that the effect of introducing a rebate at a level of £200 after a set period of time has no effect other than to increase the rental value of such a property by £200.

The benefit to the unemployed or low earner is therefore negated whilst full enjoyment of the benefit is passed to the owner of the property.

## CAPITAL GAINS TAX

It is interesting to note that in all the recent discussions about changes to the system of taxation in Jersey, the option of introducing a Capital Gains Tax (CGT) on properties other than the principal private residence was not even examined by OXERA in all their reports and yet for many years has been one of the basis of United Kingdom, French and German Government revenue generation.

CGT plays a role in discouraging speculation on property values as well as providing a means of progressive taxation on the citizens of those countries.

## CONCLUSION

The advantage of being a landowner in Jersey is undeniable; no CGT, no controls on rental values for commercial properties, government sponsored increased scarcity of an already scarce resource.

## 4. SHARED EQUITY AND ITS EFFECTS ON AN ECONOMY

Shared equity is the joint ownership of property between government and private individual.

I have examined existing shared equity systems for apartments in the London Borough of Brent as a basis.

### THE EFFECT ON RUNNING COSTS

In privately owned blocks of flats the maintenance and upkeep of the property is shared between all tenants through an appointed agent. In the system examined the cost of maintenance and upkeep was shared between residents with the local authority providing their share, however the local authority was also the agent for carrying out the works.

The result for the local authority was a maintenance of the size and scope of government but at a reduced cost.

This is worrying. It is clear that government inefficiencies are allowed to continue and even increase due to the availability of additional funds.

## CAPITAL GAINS

Any capital gain upon the sale of the portion of equity owned is to the benefit of the private individual, however there are additional provisos which negatively affect the value of that equity and indeed to whom the premises can be passed on to is also at the discretion of the local authority.

The property cannot be sub-let but owners are able to purchase additional property, this has led to a number of premises being left vacant as the capital gain on the property (particularly in view of the increase in capital values of property in London which currently run at 8% per month) means that the capital gain accruing outweighs the benefit of sale.

Without CGT and with government sponsored immigration driving demand and therefore prices, this effect may be more readily recognised in Jersey.

This therefore does not resolve the core issue; providing housing at a manageable level of cost.

## CONCLUSION

Jersey is not ready for shared equity until certain other legislative changes are made and preferably the introduction of some form of Capital Gains Tax has been implemented.

## 5. CONCLUSIONS

1. Jersey suffers from a lack of a Capital Gains Tax the revenues from which could be used to provide social housing
2. Other government policies will drive up the cost of housing and increase demand for social housing at a time when the amount of social housing will be radically lowered.
3. Jersey urgently requires a more effective 'safety net' including social housing in order to sustain an acceptable level of unemployment through which future economic growth can be achieved.
4. Entrepreneurs, who drive economic development are disadvantaged in Jersey as there is a lack of reasonably priced premises for rental for economic activity or to house staff allowing reasonable wage levels.
5. 'Landlords' who are damaging to an economy since they withdraw monies without providing any useful service have benefited from recent government policies and continue to have a negative effect on the Jersey economy. Landlords must be made to contribute their fair share to the Jersey economy.
6. The States Assembly is filled with a number of people whose income is derived solely from their status as 'landlord' perhaps indicating why the effect of 'landlords' is dangerously high on the Jersey economy.

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