

Funding the Future

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The UK has housing costs 44% higher than equivalent costs in similar countries. That means instead of fueling growth and providing for children, the younger people who pay these costs are fueling growing inequality. Something has got to give.

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This is the audio version:

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This is the transcript:

Housing costs are harming the UK economy. I always instinctively knew that this was true, but a new report from the Resolution Foundation has made it clear by just how much we are suffering as a consequence of the excess housing costs that are paid by those people who are paying for mortgages or renting in the UK.

Prices in general in the UK are on average 8 per cent higher than those in OECD countries. The OECD is the Organisation for Economic Co-operation and Development. It's based in Paris, and there are, I think, at present, 34 member countries, all of whom you would think of as being amongst the richer countries in the world.

Very obviously, we're a member, and so are all our neighbours inside the EU, plus Canada and the USA, Japan, Australia, and so on. So, we're slightly more expensive

when it comes to our base cost of living. But when it comes to housing, the difference is huge. Staggering. We are 44% more expensive when it comes to the cost of housing, and this has an enormous impact.

That impact falls upon the people who, of course, have to pay for their housing. Those are people who are renting, who tend to be younger or on lower income, and those are people who are paying for their mortgages. who tend to be younger and on lower income. This also has a direct effect on children because they are brought up in households that tend to be younger and on lower income.

In other words, housing costs, which have boomed in the UK during the course of my lifetime, are now crushing the economic well-being of younger people and people on lower incomes in the UK in a way that means, as a country, we simply cannot match the prosperity of other places.

If we look at those people who are paying for housing costs, then in the UK, they are 39 per cent worse off than equivalent people in the Netherlands.

They're over 20 per cent worse off than equivalent people in Germany.

This differential has massive impact. First of all, it very obviously feeds into poverty, and that is real poverty because once people have paid for their rent, and they've got no choice but have housing, of course, there is very little left over to actually spend on those discretionary items that make their lives fun, or provide their children with essentials that they need, or which drive growth in the economy.

All of those things matter, of course. Rachel Reeves wants there to be growth in the economy. Conventional economists think it's the only way in which we can deliver well-being. I don't necessarily agree with that. But that's the prevailing narrative. And if you believe in that narrative, housing costs are denying us the chance to do that by being so high.

So why is it that we have such an extraordinary cost of housing compared to everyone else? The answer is quite simple. It's not down to planning constraints. It's not in a sense down to a shortage of housing, because we don't have a fundamental shortage of housing, because people are actually housed. The problem we have is something quite different.

We live in a rentier economy.

Now, you will notice that the word rentier is based upon the word rent. A rentier extracts value from others by overcharging for a scarce resource.

And that is what we've done in the UK. We have overcharged younger generations for access to housing, so that an earlier generation, the boomers of whom I am a part, have been able to live in relative prosperity. There has been a massive transfer of

wealth in the UK from the generations who are now younger and on lower income to the generation who is older and has higher income.

This is extraordinary. It probably hasn't happened in such a way ever before. The spread of this wealth across the boomer generation is also exceptional.

Now, those people in the boomer generation say, "But I'm not better off because I've still only got a house and I would only have had a house 40 years ago. So how can I be presumed to be wealthier?" Because you are. Because you could sell that house. Because you could downsize that house. Because you could swap it for an income stream. And, indeed, you might.

The point is this is going on. And the fact that people in the UK have also used housing as a means to fund their pensions has only exacerbated this problem. People from the boomer generation who have become buy-to-let entrepreneurs, as they would call it, are, in fact, simply extracting wealth from younger people.

So, we have a crisis. We have a wealth crisis. A wealth distribution crisis. A wealth distribution crisis that is literally depriving our younger generation of the hope of having their own home, the hope of having a good standard of living, the hope of providing for their children, which is why so many of them now only have one, and the hope of having long term prospects because they can't afford to save, let alone to buy a house, or to provide for a pension.

This transfer of wealth upwards is literally denying us the chance of prosperity. And when that wealth cascades downwards, as of course eventually it will, because if you aren't aware of it, everyone does eventually die - so, I'm sorry to break the news to you - but when that cascade happens, that wealth will also be concentrated in and amongst the children of those boomers who owned those houses that happened to make the biggest increase in value. We are therefore creating a long-term as well as a short-term problem.

How do we deal with it? There is only one answer. We do actually have to begin to redistribute that wealth. We have to take steps to ensure that we can provide social housing to those who need it to compensate for the fact they will not get access to their own homes, paid for out of their own money because they will never make enough to compensate for the rent being demanded by the private sector.

The government does literally have to disrupt the rental sector by providing an alternative which is affordable, and the government could do this.

We know that well over £100 billion a year goes into pension funds. We know that the vast majority of that money is used for speculative purposes. We know that at best that only increases the paper value of wealth and does not generate real long-term wealth represented by actual productive capacity or new jobs.

What we could do is change the rules on pension saving.

We could require that one-quarter of all new sums saved in pension funds be invested for public purposes.

We could make it a condition of tax relief that this happens - and there is no reason why that should penalise any saver because you aren't legally required to save in a pension. You will have the option of saving elsewhere if you so wish. You just won't get tax relief by doing so. And why should you if you don't cooperate with the state to provide well-being for everyone as a return on your tax relief?

So, we could use pension fund money to build this new social housing.

To create opportunity.

To reduce the cost of access to decent housing.

To provide people with a chance and to disrupt this rental model which exists and which is extracting value and concentrating wealth in a way that is entirely destructive of the UK economy.

We could do that.

I don't see any government doing so at the present.

But unless we change our minds on this issue and take on that consolidated wealth that is represented by the UK's housing stock, which is denying so many the chance to live well, then we're going to be in deep trouble for a long time to come. So, change has to be on the agenda.