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How can policy
boost productivity
growth?

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@TheIFS

Housing policy and productivity



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- Two sets of levers policy makers can pull
- Tax system discourages moves and incentivizes owner occupation
 - Leads to “mismatch”, worsens affordability, and discourages labour mobility
 - See Stuart Adam’s talk “How is tax damaging the housing market and how can we fix it?”
- Planning system acts as a “tax” on building
 - Supply and demand in high productivity locations increasingly out of joint...

Homes per adult in London have fallen

Figure 1. Growth in number of homes and population between 1996 and 2021 by English region
(Index: 1996 = 100)

— Number of adults (16+) — Number of housing units

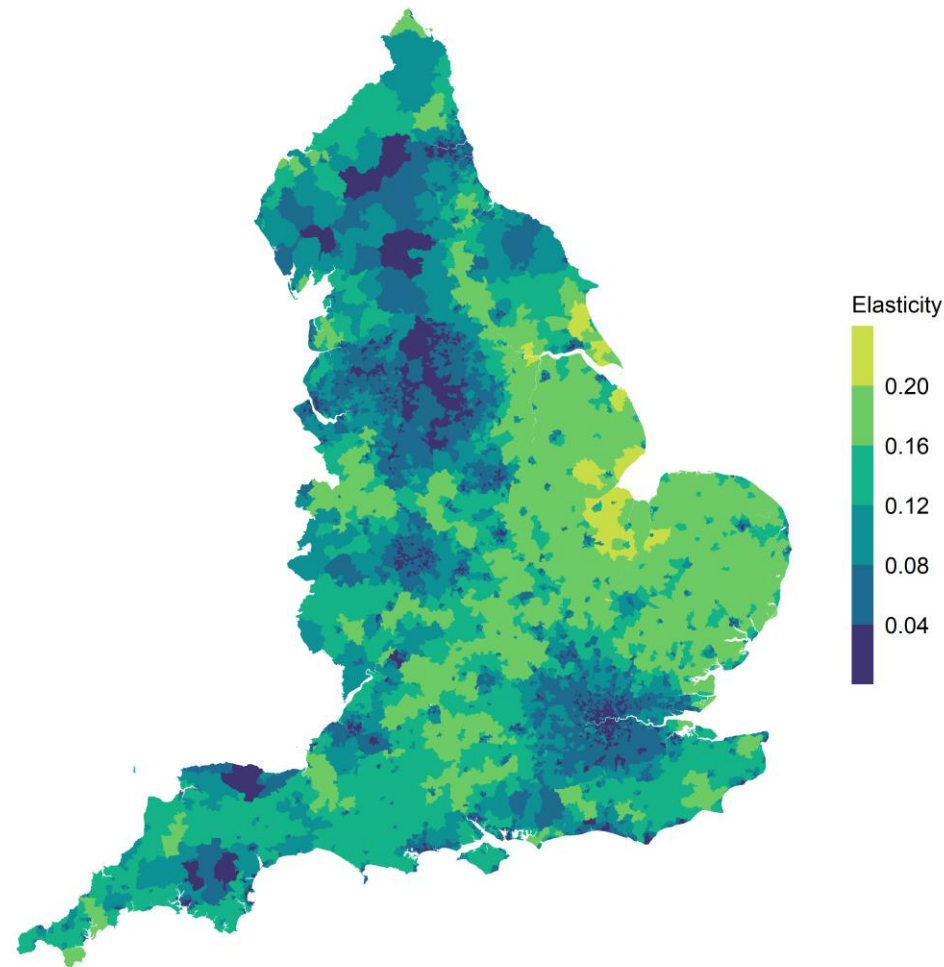


Source: Adult population from [Nomis](#) and number of properties from the [Valuation Office Agency](#).
[Download the data](#)

UK (England) not good at building homes where they are needed

- Over the last 25 years, local authorities in England with 100% larger price increases saw just 14% more housing supply (Drayton et al. (2025))
 - Supply is **inelastic**, overall elasticity is 0.14
- Lower than other countries – around **half** the response in the US, lower than France or Germany
- *“Not just how much you build, but where”*

Elasticity of housing supply varies across the country



Source: Drayton et al (2025)

Interactive version: <https://ifs.org.uk/data-items/housing-supply-elasticities-and-percentage-changes-number-properties-and-house-prices>

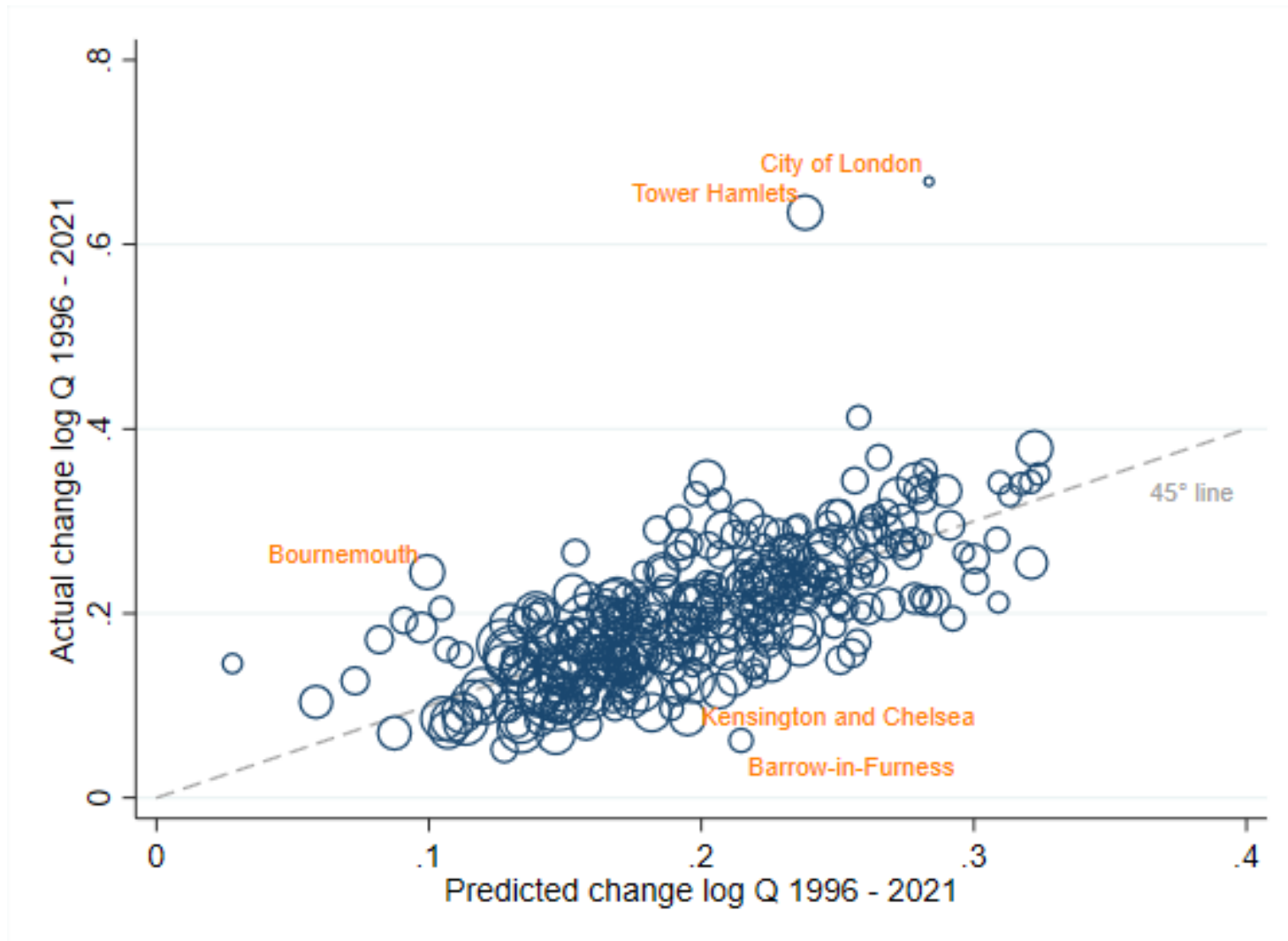
Matters for where people live and work

- For given increase demand for local labour, increase in local supply elasticity of 0.1 boosts growth in the **local workforce by 12%** over 25 years
 - i.e. not the case that people just **commute in** from further afield to work in expensive locations
- Lower elasticity also lowers local population growth, and leads to **more crowding** (adults per home)

Factors that limit housing supply

- 45% of variation in housing supply elasticities **is explained by amount of land “available for development”**
 - \Rightarrow Releasing land (through relaxing greenbelt restrictions) would help
- But: **elasticities low even in areas with plenty of “available land”**
 - \Rightarrow Releasing green belt restrictions not sufficient, planning restrictions and local incentives also matter
- Another 38% is explained by **pre-existing density**
 - What proposals would make it easier to build in denser areas? “build up” instead of “build out”

Tower Hamlets: “star performer”



Source: Drayton et al (2025)

Some outstanding questions

- **How much** would moving people to London and South East boost their earnings/productivity?
 - How much of pay premium in such areas is “**sorting**” vs **genuine productivity advantage** (Overman and Xu, 2022)
- How **quickly** will reforms pass through to faster growth?
- How does rise of **remote/hybrid working** affect trade-offs?
- Can **regional policy** ease congestion in South East/London, while still allowing us to generate agglomeration externalities?

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