

THE TIMES

17th March 2011

George Osborne urged to sacrifice green belt in battle to tame house prices

The OECD said that building on the green belt would prevent house price bubbles and crashes



The OECD said that building on the green belt would prevent house price bubbles and crashes
Rui Vieira/PA

Gráinne Gilmore Economics Correspondent

Last updated March 17 2011 12:00AM

The Government should allow building on the green belt and scrap stamp duty to prevent house price bubbles and crashes, the Organisation for Economic Co-operation and Development has said.

In its latest assessment of the British economy, the OECD said that while the Government's planned spending cuts were welcome, further significant reforms were needed to ensure sustained economic growth and stability.

House prices more than trebled between 1995 and 2007, before dropping by nearly 20 per cent in the wake of the financial crisis. They have since recovered modestly, but are still 10 per cent lower than their 2007 peak.

Speaking in London yesterday Ángel Gurría, the OECD's Secretary-General, said: "Despite recent falls during the recession, prices are high and affordability is low." The Paris-based club of rich nations said that the UK had one of the worst records in the OECD area for increasing housing supply in response to higher demand.

It called for green belts to be replaced by "land-use restrictions which better reflect environmental designations".

The report also said that stamp duty, levied on the purchase of new property, was regressive and recommended a shift to an annual property tax that would incorporate council tax.

The OECD gave a downbeat assessment of Britain's recovery, downgrading its forecast for GDP growth this year to 1.5 per cent from its previous estimate of 1.7 per cent growth.

Building Consensus

Political Liaison | Community Consultation | Media Relations

Political Developments Limited. Registered in England, Company Number: 653378

It said that the economy would grow by a muted 2 per cent next year, well under the Office for Budget Responsibility's forecast of 2.6 per cent. Some analysts said that the OBR may issue more modest forecasts when it updates its economic outlook alongside the Budget next week.

There was also a warning for the Bank of England, which faces a dilemma about interest rates as inflation rises. The OECD said that interest rates should remain low, despite rising inflation, in an attempt to support the fledgeling recovery.

“A broad-based recovery started in end-2009, but faces significant headwinds during 2011, which can be mitigated by monetary policy remaining supportive,” the report said. “Monetary policy should hence remain expansionary, even if headline inflation is significantly above target, to support the recovery.”

Interest rates have been at a record low of 0.5 per cent for two years, but the Bank's rate-setting committee is coming under increasing pressure to raise rates as inflation has jumped to 4 per cent, double the Bank's 2 per cent target rate.

George Osborne said that he welcomed the OECD report, which identified “deep-rooted problems” facing Britain. He added that the Budget would usher in a new era of government economic policy as it moved “from rescue to reform”.

The Chancellor indicated that housing was likely to be a priority for the Budget, along with education reform and climate change.

The OECD said that more resources should be focused on helping disadvantaged children in schools and that Britain's climate change targets should be simplified. Mr Osborne said he agreed with these suggestions.

But he remained tight-lipped on another key OECD suggestion — scrapping zero-rated and reduced-rate VAT on some goods. The Chancellor last year pledged not to raise VAT on essential items.

- Investors' fears over Japan sent the FTSE 100 tumbling to its lowest level for more than three months. The index fell 1.7 per cent to 5,598.2. In America, the Standard & Poor's 500 and Nasdaq turned negative for the year as reports of unrest in Bahrain and poor economic data added to worries. Three quarters of stocks on the New York Stock Exchange fell, with the Dow Jones industrial average down 2.04 per cent at 11,613.30. The S&P 500 was down 1.95 per cent, at 1,256.88, and the Nasdaq fell 1.89 per cent to 2,616.82.