

## [There was no British housing bubble](#) [1]

Written by [Sam Bowman](#) [2] | Friday 17 January 2014

Marcus Nunes [graphed](#) [3] the Housing Stock to Population ratio in the US recently, showing that housing reached something like a steady-state in the US from the mid-1980s onwards. As [Philip Stephens says](#) [4], 'The constructing in US housing was exactly what was needed to maintain the housing-population ratio in the face of increased population growth. You cannot have an 'unsustainable boom' without oversupply.'

This is what the UK looked like over this period (my thanks to Daniel Knowles for the data):

The long-term trend (black dotted line) is attributable to the tendency in recent decades to smaller households, but what's interesting is that, not only was there no spike in the run-up to 2008, the growth of dwellings over population actually fell below the trend. This is not what we would expect to see if there had been a bubble in housing production.

Dwellings data is a little bit unreliable, though 'splitting a house into two flats creates an extra dwelling' so it might be better to look at the amount of new houses that were actually built. Here's a chart showing the number of residential construction permits granted over the past forty years:

And here's the ratio of new residential construction permits over population across the same period:

These charts show that housing construction was actually well below historical levels in the 1990s and 2000s, both in absolute terms and relative to population. It is difficult to see how someone could claim that the 2008 bust was caused by too many resources flowing toward housing and subsequently needing time to reallocate if there was no bubble in housing to begin with.

What this suggests is that the Austrian story about the crisis may be wrong in the UK (and, if Nunes's graphs are right, the US as well). The Hayek-Mises story of boom and bust is not just about rises in the price of housing: it is about malinvestments, or distortions to the structure of production, that come about when relative prices are distorted by credit expansion.

What did cause the crisis? [Jeffrey Friedman has shown](#) <sup>[5]</sup> that bank regulation (most notably, the Basel accords) was one of the major factors that led to the financial crisis, and [Robert Hetzel has outlined a convincing theory](#) <sup>[6]</sup> that central bankers' tightening of monetary policy in early-to-mid 2008 was the overriding cause of the world's economic collapse. There is also the possibility that financial investment in the housing market was [a simple error](#) <sup>[7]</sup>.

I was once convinced that the Mises-Hayek story about the boom and bust was true, but the evidence does not seem to bear this out.

Update: A lot of people seem to be implying that Austrian Business Cycle Theory (ABCT) means: Easy money -> high prices ("bubble") -> bubble burst, people lose money. This is incorrect. ABCT relies on distortions to the structure of production (that is, the "real" economy) which have to be liquidated over a period of time following the point at which it becomes clear that they are not good investments. If a 'bubble' just meant that people had lost money it would not cause a long-running recession, it would just mean that

overnight a lot of people had lost money (like a stock market crash). The reason the recession takes time according to the ABCT is that resources have been invested in a sector where price signals take a considerable amount of time to adjust after a credit-induced malinvestment bubble and so it takes a while for people to determine which investments are 'mal'.

In short: There may have been a price bubble in British housing market, but there was not the *production* bubble that ABCT predicts.

*PS: I am interested in seeing these data for countries like Ireland and Spain, where the Austrian story may be more valid. It is also possible, as Anton Howes has pointed out, that a regional breakdown would show that there were bubble-like expansions in housing supply in certain parts of the UK, which the country-wide figures hide. If you have these data please let me know, either in the comments or by emailing me at [sam@adamsmith.org](mailto:sam@adamsmith.org)<sup>[8]</sup>.*

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