

[The Coalition?s new home loan scheme: just a carrot for floating voters?](#) [1]

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Taxpayers will guarantee deposits for new houses up to £500,000 under the [government's New Buy Guarantee scheme](#) [3]. Many buyers find it difficult to raise 20% (or more) deposits and this scheme will allow them to buy houses with as little as 5% deposit.

Home ownership is certainly a plus for society as a whole ? it gives people a stake which encourages responsibility. It is also a form of saving, which reduces the risk of ending up on welfare; and it builds up a lever to finance future entrepreneurship (most entrepreneurs self-finance their venture). Home ownership is in [decline](#) [4] and is becoming [increasingly difficult](#) [5] for first-time buyers.

So is this New Buy Guarantee scheme the right way to encourage home ownership? I don?t think so, for a number of reasons:

1. Taxpayers will be forced to take the risk for people who may not be able to repay their mortgage. Arguably, requiring a 20% deposit is a pretty good indicator as to whether a buyer risks defaulting. Why should people who are prudent with their money have to pay for risks taken by others?
2. Mortgages to uncreditworthy borrowers triggered the crash of 2008. In America, Freddie Mac and Fannie Mae were set up to expand the mortgage market: they bought mortgages from lenders which allowed the lenders to issue new mortgages. Freddie and Fannie were implicitly guaranteed by the government and thus the taxpayer. George Bush Sr and Bill Clinton forced Freddie and Fannie to take on ever greater shares of mortgages to the poor, thereby encouraging banks to give mortgages to uncreditworthy borrowers. This was the root cause of the crash. Who receives a mortgage should be the private sector?s responsibility (for both profit and loss); not the state?s.
3. It is true that it is more difficult than ever for first-time buyers to get onto the housing ladder. But this scheme is not limited to first-time buyers. Claiming that its aim is to help first-time buyers is misleading.
4. Whose fault is it that first-time buyers find it so difficult to raise a deposit? The government?s. Inflation has been pushed up by quantitative easing and artificially low interest rates, which make saving unattractive and raises the price of housing. (It is naïve to suggest that the Bank of England is independent in this matter.)

5. Property prices have shot up through a shortage in housing supply. Planning regulations create a stranglehold on new developments.

6. The measure is specifically aimed at the construction industry. There is a whiff of 'picking winners' to this. The market is much better placed to allocate its resources as to maximise return and growth. Governments tend to pick losers because they lack the information dispersed among millions of individuals in the market? Hayek's 'knowledge problem'.

For politicians, schemes like this are love at first sight. They allow them to claim credit for 'results' they can boast about come polling day. An ordinary tax cut won't convince specific categories of floating voters such as first-time buyers to vote for them. The figure of 50,000 jobs has already been plucked out of thin air. No doubt this new scheme will allow politicians to claim credit for any uplift in the construction industry, irrespective of whether it's related to this scheme or not.

There is a better solution:

- Reduce taxes to make it easier for people to save so they can take care of themselves? including saving for a mortgage.
- Extend the stamp duty holiday for first time buyers. It runs out on 24th March.
- End the artificially low interest rates and stop money printing to encourage saving, reduce inflation, and reduce asset bubbles.
- Continue the reform of planning law to make house building easier. [ed? see our recent paper [Planning in a Free Society](#) ^[6] for ideas] Take some of the heat off by introducing private compensation legislation to operate between developers and individual neighbours to compensate them for loss to their property's value resulting from development.

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