

The government's announcement of guarantees for 95% mortgages for house purchase, supported by both Prime Minister Cameron and Deputy Clegg, demonstrates either an absolute lack of understanding of the nature of the problem, or moral cowardice, or both.

The aim, we are told, is to "unstick the housing market", which has stagnated due to the banks' refusal to give mortgages larger than 80% of the value of the property they are lending on.

### **Fanny May in the UK**

This sets the scene for a UK run of the Fannie Mae debacle. It will also pump up the housing bubble for a while. The government is doing the very thing it should not be doing.

If the housing market worked as advocates of the free market assure us it does, prices would drop to market-clearing levels. Some building firms would lose a lot of money, having bought land at the height of the boom and found themselves stuck with it in what they call their "land banks". That's market forces for you. They misjudged and overpaid. According to the principles of market capitalism, they would be allowed to fail for their mistake. But in the re-worked style of capitalism that is now being imposed in Britain, capitalists who get it wrong are handed out welfare at the expense of the taxpayers. It is a strangely reversed mirror-image style of socialism.

### **Fanny will**

There are, apparently, about 300,000 housing units for which planning consent has been given but which have not been constructed. This is the "stickiness" referred to but the real cause is that the developers are asking too much and refuse to drop their prices to take account of the present state of the market. And so the taxpayers are being asked to pay for the developers' mistakes, and pay they will, because there will be defaults on some of these 95% mortgages

### **Moral hazard**

This is a perfect example of moral hazard. What should have happened was that the developers should have been made to pay the price. After all, they were happy to rake in the profits when land values were rising. Apart from having to provide a bit of social housing or planning gain, they enjoyed rich pickings from the increases in land value released by planning consents.

To get development moving again, all the government needed to do was to announce that as from 6 April 2013, sites with planning consent would be subject to the same Council Tax as if the development had been constructed. The sites would have been built on and the exchequer would have received useful extra revenue. It would not have been LVT but the end result would have been similar.