Spatial Economics Research Centre

Thursday, 21 March 2013

Budget: Housing and Heseltine

I haven't had much chance to take in the details of the budget. Two big issues in the area of spatial economics.

Housing

The decision to guarantee mortgages was the big surprise. There seem to be lots of people worrying that this might push up property prices. This is oc because as a demand side measure *it will only work if it increases property prices*. OK, that's not quite true. Higher volume of sales of existing houses current prices create more work for estate agents etc and more stamp duty for the Treasury. In growth terms, the first factor is of negligible importance. The fiscal benefits of the second will, presumably, be more than offset by the costs of the scheme. It might also allow house builders to sell some of the new build they have stuck on the books (if mortgage finance is an issue). Good for home builders profits (and share prices have risen accordingly) but growth impact. In short, any growth impact can only come from increased supply. Easing financial constraints on home builders as a result of increase profits may have a marginal effect on this, but the big impact comes from higher house prices which make stalled deals viable and encourage develop to make new deals.

Does this do anything for affordability? The long run supply problems in this country stem from the planning system, not the system of mortgage financ so moderate short term increases in supply while good for growth won't affect affordability. The scheme could improve affordability for some buyers, bu only if it favours some buyers over others. If it applies to everyone equally, then everyone gets hit by the general rise in prices and the main effect is in terms of tenure - slightly more people own, slightly less people rent.

In short, if the chancellor wants this to have any growth effects he better cross his fingers and 'hope' for price rises. I can't see it doing anything much f affordability.

Heseltine

The other 'big' announcement was around the implementation of Heseltine and the single pot for Local Authorities. I wasn't particularly convinced by aspects of Heseltine when first announced - in particular the idea of a competition which had Local Authorities bidding to some challenge fund with a commission of the great and the good deciding on how much they got. I also didn't like the suggestion that Local Authorities would act as delivery ager for bold national industrial strategies.The government's response appears to recognise both these problems and is proposing a process of negotiation (along the lines of city deals) while retaining some competitive element because there will be a fixed budget for the negotiation process to allocate. People will complain, but this feels like a considerably better process than might have been. Of course, details of how the money are allocated are probably of second order relative to the size of the pot. Here, the government response is bound to disappoint. At the moment the suggestion is this wi involve transport, housing and some elements of the skills budget. LAs might reasonably respond that they already have control over a fairly large chu of this. I don't expect them to be happy. At the same time, parts of central government appear to have fought a pretty hard battle against devolving expenditures - particularly in the area of skills and business support. Where they have lost those battles, central government might not be that happy either.

In short, I suspect the response to Heseltine's proposals on the single pot please no one. Standard HMT operating position, the cynics might say. But c this occasion, given issues of capacity and accountability on one side and strong opposition on the other, perhaps that's not the worst outcome. Regardless, my overall assessment would be that the response is interesting, but marginal rather than radical.

Posted by Prof Henry G. Overman on Thursday, March 21, 2013

1 comment:

Christian Hilber said...

Another aspect to consider: the British government is now directly assuming the risk of a house price crash (uninsured!). Should such a crash occur (certainly not impossible), the effects on UK's public finances, credit rating and debt financing costs would arguably be more devastating than during the 'Great Recession' when the government "merely" had to bail out some British banks with too much exposure to the American MBS market. Let's keep fingers crossed the bad event won't occur, otherwise we may be very lucky to see the triple A rating ever again, during our lifetimes…

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