Allow social landlords to buy unsellable houses, says Cable

Councils and other registered social landlords should be encouraged to engage in large scale acquisition of houses that cannot be sold in the current depressed housing market, in order to provide homes for the homeless or for those who cannot afford to buy or rent in the private sector, according to Liberal Democrat Treasury spokesman Vincent Cable.

In the IFS Annual Lecture, at the City headquarters of Bloomberg this evening, Mr Cable argued that in addition to addressing social need, such a scheme would provide a cash-flow injection to the troubled house-building sector and would help banks cope with the credit crunch.

“The Government is currently in a state of denial about the economy. It does not seem to realise that a recession is looming combined with painful inflation and that the housing market is in a state of collapse dragging down construction companies and mortgage lending banks as well as, potentially, millions of home buyers.”

“We suggest that the Government’s pathetically small plan for property acquisition - £200m, around 1000 homes over several years – should be on a much bigger scale, perhaps 100 times bigger. Social landlords would be given financial freedom to buy up un-sellable property at a deep discount to meet local housing need. The stock of social housing has been heavily depleted after two decades of ‘right to buy’ and it could be replenished, helping with the homelessness problem which will follow the surge in repossessions.

“The more entrepreneurial social landlords in cities like Leeds are ready and able to embark on a programme of this kind and are inhibited only by Government conservatism and lack of imagination.”

In his lecture, Mr Cable will also urge the Government to toughen up its application of the “golden rule” fiscal policy target. At present the “golden rule” requires the government to borrow only to invest, which implies that it should balance the current budget (tax revenue minus non-investment spending) on average over the economic cycle. Mr Cable argues that the Government should instead aim for a surplus on the current budget of £5-10 billion a year.

“The public debt rule will undoubtedly be breached because of the Northern Rock acquisition and there will be other major investments and asset purchases required, including the ones I have described above. The golden rule will have to be applied in a way which enables public debt to be repaid and would make a public sector contribution to raising the savings rate. The practical consequences – a squeeze in current public spending and possibly a rise in general taxation in the medium term – are not however likely to be embraced warmly by Government or opposition. Perhaps this is the time to face that reality.”
Robert Chote, Director of the IFS, said:

“We are delighted that Vince has agreed to deliver this year’s IFS annual lecture. He is following in the footsteps of former Chancellors Geoffrey Howe and Gordon Brown, as well as many distinguished academics and policy experts.

“His call for the Government to adopt a more ambitious fiscal target to reduce public sector debt over time and increase national saving is in line with the trend among a growing number of OECD countries. It will intensify the political debate over fiscal policy at a time when the Government is already having to squeeze spending and raise the tax burden just to get the current budget back to balance.”

ENDS

Notes to editors:

1. This speech was delivered at Bloomberg in London, 18.00 - 19.00 7 July 2008.

2. Copies of the full speech are on the IFS website: http://www.ifs.org.uk/docs/vincent_cable.pdf