Why ‘money down the drain’ is really money in your pocket!

by **Fred Harrison** on 18 February 2018

Middle-class, middle-aged professionals in Britain are being excluded from the ownership of homes at increasing rates. But instead of diagnosing the cause of their plight, they settle for complaining that renting their homes is “money down the drain”. When educated people are successfully socialised into believing such false mantras, we know that society is in terminal trouble.

The latest round of agonising over the failures of the UK housing market was inspired by a study from the Institute for Fiscal Studies. It reported that the millennial generation had found it especially difficult to “get on the housing ladder”.

Home ownership among young adults has collapsed over the past 20 years because prices have risen around seven times faster in real terms than their incomes.

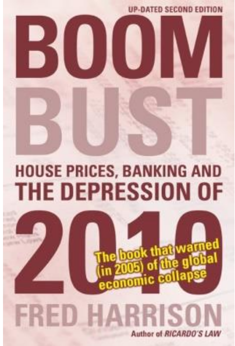
Among people aged between 25 and 34 in the middle fifth of income distribution, the rate of home ownership has fallen from 65% in 1996 to 27% in 2016. And the explanation offered by parliamentarians, circulated by the media and accepted by the millennials, is that Britain is not building enough new dwellings.

The awkward facts

It is true that the construction industry could increase its supply of homes. It chooses to blame the planners - bureaucrats are an easy target. But building companies are currently sitting on permissions to build 423,000 new dwellings - and are failing to use those permissions. This is a 16% increase on the backlog from 2016, according to the Local Government Association.

It’s called land banking.

Builders buy land cheap and sit on it, awaiting the day when the capital gains rise to levels where they can no longer resist the temptation to pocket the loot. The harder they strangle the supply, the quicker they add to their capital gains!



The art is in keeping this news from the millennials. They are not acquainted with the facts, which is why they buy into the "money down the drain" refrain. But the facts are in the public domain. I spelt them out in *Boom Bust*.

You pay for what you get

Rent paid by tenants is value-for-money. Rent is the price for

- ✓ occupying the dwelling provided by the landlord; and
- ✓ access to the services provided locally by the community.

If the tenant is not being charged more than the market rate, he gets what he pays for!

So why the discontent?

People intuitively know that the problem is not with the issue of "money down the drain". They are aware that they are missing out when they are prevented from "getting on the housing ladder". But how do they lose?

When a tenant pays for accessing public services in the preferred location, he does not hand his money over to public agencies - he pays his landlord. But the landlord does not provide those services!

Result: the tenant has to pay a second fee to use those services. It's called *taxation*.

Getting in on the racket

You do not have to be a middle-income millennial to know that the housing market is unfair. You are aware that if you own a house, over time you end up pocketing some of the unearned capital gains that accrue to the owners of land.

That financial process turns the housing market into a racket. Innocent families are co-opted into that culture of cheating.

But the process has gone into reverse. Instead of an increasing number of people being able to share the spoils, the rate of participation is going down. Millennials are being squeezed out of the market.

If the next generation wants a “level playing field”, they need to interrogate a financial system that short-changes people of their life chances. The scam’s organising mechanism is located at the heart of government - the tax system. Has the time come for a democratic reform of fiscal policy?