Daylight Robbery

Danny Dorling

Published May 2009: Roof Magazine, 34,3, page 11. Author’s version:

There’s no shortage of housing, say Danny Dorling. The stock has just been shared out abysmally – and that’s the fault of the market

‘*Our system for regulating markets and for prosecuting market crime is completely broken. If you mug someone in the street and you are caught, the chances are that you will go to prison. In recent years mugging someone out of their savings or their pension would probably earn you a yacht.*’
Sir Ken Macdonald, a former Director of Public Prosecutions
The Times, 23 Feb 2009

‘*Joining an investment bank was like "joining a gang of jewellery robbers just after they made the heist of the century and just before they got caught by the police."*’
32-year-old mergers and acquisitions banker with an MBA quoted by Adrian Cox in the Financial Times 10 Feb 2009

It would hardly be surprising if the average homeowner felt they’d been mugged during the past 12 months, and were bruised and battered from an average loss of about £25,000.

It’s not so much the money. If you’re philosophical, you know you never really had it anyway. But the cash’s disappearance was out of your hands – and you can’t help feeling that you’ve been taken for a ride by people who walked away with riches before the crisis hurt everyone else.

Down the average street, 40 properties are now worth an aggregate of £1 million less than last year. All those millions of lost £25,000s. If you had a mortgage it was money that was yours, not the banks.

If you are a mortgagee, wherever you live in Britain, the bank now owns a higher proportion of your home. If the government properly nationalised the banks then we would all be a little more equal, but the government is trying desperately not to take that course, even printing money to avoid it.

The last time this happened, there was hyper-inflation. That is worth remembering if you’ve a tracker mortgage and inflation does return.

What do the banks say? Be cheerful. Keep a stiff upper lip. Recovery will come. The latest Halifax house price index bulletin said: ‘The house price to average earnings ratio has declined from a peak of 5.84 in July 2007 to an estimated 4.42 in February 2009, a fall of 24 per cent. The ratio is at its lowest level for six years (February 2003: 4.41). The long-term average is 4.0.’

The implication is that housing is now ‘affordable’ – we should the look for the upturn. But back in 2003, people were not buying because housing was affordable. They were buying because they thought they had no choice, because they did not want to fail to get on the bottom rung of a ladder.

The rise in house prices at the end of the 1990s, and in the first seven years of this decade bore no relationship to increases in demand. The rate of young household formation was actually dropping in every county in the Halifax index, while house prices rose rapidly everywhere between 1997 and 1999.

The explanation was: ‘A shortage of quality properties has created localised hot-spots in certain areas of the country, particularly around Greater London.’ (*Housing Finance*, August 1999). The words ‘quality properties’ were shorthand for snobbery and fear, for wanting to buy homes away from the growing ranks of poorer people.

Those localised hotspots of house price growth converged and spread to make speculation a national craze. In rich countries throughout the world price escalation became an epidemic. In the United States you chose between trying to catch the last wave, taking out a mortgage you could never repay, or bringing you kids up in the trailer-park.

Ultimately it is distance from trailer-parks that determines what is a ‘quality property’.

A small group of people has walked away with ill-gotten earnings. Holiday homes they bought abroad, a bit of land held here, or there, or a child’s ‘trust fund’, ‘as insurance’. The rich hold no mortgages, they live without debt.

In 2009, if you are a normal ‘homeowner’, it is easier now than at any time in memory (since the 1930s) to realise that you have a lot in common with people in other tenures, people in insecure renting, council tenants who have paid for the building and upkeep of their homes many times over. You might even see you have something in common with people threatened with homelessness.

You have been robbed. That is not to say that you ‘earned’ the money when your home appeared to rise in value. But there were people intent on stoking up the distrust, fear and social inequality required to convince many, like you, that it was worth borrowing so much just to live a little further away from others.

You were mugged by those who peddled stories that there was a shortage of housing, when in fact we’ve never had so much, just never shared it out badly. You were done over by people with £1 million bonuses who were not that sure what they were doing, or why.

The most seriously injured by this latest outrage will be those who have their homes repossessed. The ones likely to lose most will be those who bought in the cheapest areas, the areas where prices fall furthest.

But we all lose out as our cynicism grows and our mistrust of each other’s motives and intentions rises. We lose out as some begin to look for ‘bargains’ to snap-up at auction. We lose out as those with a motive try to shock the failed market back to life. They say it is time to buy, and oppose moves to increase renting as that would ‘weaken demand’.

It was false demand, demand stoked with fear, not need or even greed. When households fall into mortgage arrears they should be able to transfer ownership of their property from a bank to the local authority (the ‘right to sell’) to avoid repossession. Demand that it is not made profitable for one household to own many properties, second and holiday homes, often left empty.

Insist instead that the ‘right to sell’ means that anyone’s neighbours can become council tenants. Just as council tenants have a right to buy. That way you can look up the hill and not look in awe. Most importantly, if you don’t want to be robbed again, look for the signs that someone is walking away with the loot. But this would only be possible with a nationalised bank, and housing safeguarded by the state.

Nationalising home lending would be as radical as having health and education provided for by the state. That was opposed in 1929, but most affluent countries now have comprehensive health insurance and free secondary education.

Markets are brilliant mechanisms for distributing trivia and trinkets. Souks are wonderful places to pick up clothes, decorations and gifts. But when it comes to putting roofs over peoples’ heads, giving them learning and relief from the fear of illness, free markets are frighteningly inefficient.

Danny Dorling is professor of human geography at the University of Sheffield.