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Treasury Chambers, Parliament Street, SW1P 3AG PS/IR

Ian Gow Esq MP
Minister for Housing and Construction
Department of the Environment
2 Marsham Street
LONDON SW1

24 November 1983

Dear Ian

Thank you for your letter of 31 October about capital allowances for shared ownership and the contribution from Ferdy Mount in his letter of 1 November.

Home ownership is one of our most important policies and I fully recognise the importance of doing as much as possible to encourage it. Its importance stems partly from a belief that people should be encouraged, as far as possible, to make their own provision in meeting their needs and also a belief that the market is better able to provide what the consumer wants. It is in this light that we must look at the impact of capital allowances for shared ownership on our overall housing policy both as it is now and how we hope to see it more.

Our aim, as in other areas of economic activity, should be to remove as far as possible the various distortions that prevent the proper operation of the housing market. I am glad to learn that you are already considering measures to remove the distortions which have all but eliminated the private rented sector and Peter Rees has written separately suggesting a review of the local authority rented sector. My hope is that in both cases these will lead to a freer housing market better able to meet the various housing needs. In particular I see no reason why the private sector should not develop forms of low cost home ownership to meet the evident demand. The starter homes to which you refer in your letter, and which are a relatively new phenomenon, are a case in point although they clearly do not meet every need. Building societies can now develop index-linked mortgages although they will understandably wish to tread carefully. But we cannot predict what other responses the market may make. Our main task must be to create the conditions in which it can come up with the right response.

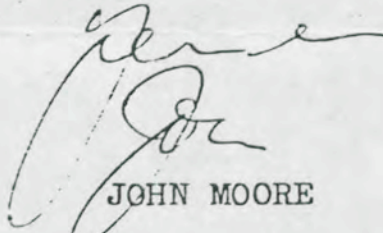
It is for that reason that I am not attracted by your proposal to add an additional distortion to the housing market by giving capital allowances for shared ownership schemes, although I accept that they are unlikely to prove attractive without such a subsidy. I accept that shared ownership has proved popular but would point out that this is not surprising in view of the substantial public sector subsidy that has been provided. I accept too, Ferdy Mount's point that there may be some offsets to the crude estimate of the cost scheme but the fact remains that it would represent a substantial further subsidy and hence distortion to the housing market.

By the same token, the general approach to taxation which Nigel Lawson and I are taking is to try to remove the distortions to the free flow of market forces which have developed over the years. The introduction at the same time of capital allowances for trading stock would be a novel concept going in precisely the opposite direction and carrying with it the prospect of substantial pressure for repercussions in other sectors. Alternatively, I am doubtful whether the terms referred to by Ferdy, under which shared ownership transactions would need to be drawn up if under existing law they were to be regarded as capital investment, would in practice be acceptable either to builders or to potential owners.

It is perhaps also worth making the point explicitly that a tax relief affects the PSBR just as directly as public expenditure. You mention in your letter that the tight public expenditure position in 1984-85 may make it difficult to maintain the existing shared ownership scheme. The same considerations apply with equal force to a tax subsidy.

I am sorry if my letter appears to be unconstructive. I would be only too ready to consider any scheme for low cost home ownership which was consistent with a move towards a more market orientated housing policy particularly one which did not have significant PSBR consequences. But I am bound to say that the shared ownership proposal does not seem to fall into the category.

I am copying this letter to Ferdinand Mount at No 10.


JOHN MOORE