



cc. Env. 55
Original in L/R

Housing

CF. to note

10 DOWNING STREET

THE PRIME MINISTER

13 February 1980

Mr. Nicholas

Thank you for your letter of 28 January enclosing this one from your constituent, Mr. Christopher Pashley, 57 Chantry Road, Disley, about mortgage interest rates.

The Government is determined to reduce the rate of inflation. One important means to achieve this is effective control of the money supply. This in turn has required a temporary rise in the Minimum Lending Rate which has been followed by a rise in interest rates generally. Other measures the Government are taking to set the economy on the right course include setting the totals of public expenditure at levels the country can afford. Excessive Government borrowing to finance levels of public expenditure which are too high is an important factor driving up interest rates. As money supply and public expenditure levels come under control, interest rates should fall. Everyone, home buyer and non-home buyer alike, will benefit from a lower rate of inflation.

I know that there has been some speculation in the press recently about future movements in the mortgage interest rate. However, the Chairman of the Building Societies Association is on record as saying that unless, for example, there were some major international financial crisis which caused interest rates to rise generally, he did not expect a further increase in the mortgage rate in the near future. Much of course depends on the balance between the supply and demand for mortgages. But we shall have to wait for a month or two and see how the housing market settles down.

/Mr. Pashley

BK

Mr. Pashley refers to the increases in house prices over the last two years and I agree that the position this Government inherited - house prices had risen 35/40 per cent between the beginning of 1978 and May 1979 - was not a happy one. One way to tackle this problem is to bring supply and demand for housing more into line. This Government has therefore taken a number of initiatives to remove constraints faced by the housebuilding industry so that the industry is much better placed to meet the widespread demand for home ownership. These measures include repealing the unnecessary Community Land Act, reducing development land tax to 60 per cent to encourage land supply, encouraging public authorities to dispose of surplus land, encouraging planning authorities to make available sufficient land for housebuilding, speeding up the planning process, ending the duplication of local government planning functions, and examining whether suitable new sources of funds for house purchase can be tapped. None of these measures will work overnight but I believe taken together they will help the housebuilding industry in the medium term.

*Y
Lawson*

Rayner

Nicholas Winterton, Esq., MP.