

Pouring money down the drain - Osborne's Help to Buy sc...

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As [Reuters note this morning](#):

Chancellor George Osborne will meet lenders and house builders on Tuesday to flesh out how a state-backed scheme to guarantee mortgages for risky borrowers will work when it comes into force in January.

The Help-to-Buy scheme, unveiled in the government's March budget, is designed to help people purchase their first home with as little as a five percent deposit.

The first phase of the scheme, which offers buyers of new-build properties a 20 percent equity loan interest-free for five years, kicked off in April; but the more important second phase, which offers 12 billion pounds, of mortgage guarantees does not come into force until January.

And [as the FT adds](#):

The UK housing market has been given a sharp jolt by [the government's flagship Help to Buy scheme](#), subsidising an estimated £1.3bn-worth of house purchases in the past four months

Nearly 7,000 new-build homes have been reserved through the scheme since its launch in April by George Osborne as a centrepiece of the chancellor's 2013 budget moves to revive the economy.

New homes may be worth subsidising - if owned by the state - but the rest of this scheme is about pouring money away. House prices are too high. That's the fact of the matter. And so Osborne is planning to underwrite people's losses on buying them to sustain the feeling of well-being amongst my generation that they are sitting on a pile of equity that impoverishes their children.

The net result is that the state is now going to take a substantial downside hit on housing in due course - bearing the cost of capital losses - whilst it has never taken an upside on housing in the form of capital gains tax.

I've always opposed 'helicopter money' as a way of beating recession because there is no investment advantage. But now Osborne is doing it highly selectively and for speculative purposes. As a policy it could not be worse.

And of course when the losses come home to roost the demand will be that social security will have to be cut to cover the resulting deficit. Just wait and see.