Steve Keen on the housing crisis

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I noted this morning that Steve Keen has a video out on the housing crisis.

https://www.youtube.com/watch?v=rSuacxBGaL8?si=Qca-pl22Rsff6VZi

I am also aware that many here are not great fans of watching videos, so this is a summary of what he had to say:

Steve Keen argues that the United Kingdom's housing market has moved far beyond "crisis" into a systemic economic time-bomb. A typical home now costs nine times a typical household's disposable income. The last time affordability was this bad was in the 1870s, when Britain still travelled by horse and telegram. Today's median household brings home just under £37k per year while the median house costs £270k. Under conventional lending criteria, such a household would not even qualify for a mortgage. A market that excludes the median buyer is, in Keen's words, one where banks operate as "non-existent middlemen." You need a bank loan to buy a house, but the bank will not offer one because housing is unaffordable.

Keen traces this dysfunction to a longer history. From 1845 to about 1960, inflation-adjusted UK house prices were remarkably stable: the price index was 47 in 1845 and still 47 in 1960. Housing barely outpaced consumer inflation, growing about 0.25 per cent annually. Then things changed. Between 1960 and 1979, real prices began rising faster, doubling roughly every 40 years. After Margaret Thatcher took power in 1979 and financial deregulation accelerated, price growth jumped to 3 per cent annually. Real prices now double every 23 years.

What changed wasn't that Britain suddenly ran out of bricks, land or skilled builders. It *was bank deregulation. Prior to the 1980s, most housing finance came from building societies. Crucially, building societies do not create money. When they make a loan, deposits move internally. Banks, on the other hand, create new money every time they issue a mortgage: they simultaneously record an asset (the loan) and a liability (a matching deposit). Deregulation handed the mortgage market to banks, and mortgage lending exploded. Household debt quadrupled from around 20 per cent of GDP in the early 1980s to 80 per cent of GDP by 2007. The surge in debt fed a self-reinforcing boom. More mortgage lending drove prices up, which encouraged more speculation, which enabled yet more lending.*

That spiral collapsed disastrously in 2008, but the fundamentals never changed. Keen argues this vicious cycle continues to inflate prices for existing properties far more than it expands housing supply. The result: worsening generational divides, widespread homelessness risk, and a housing ladder with the bottom rungs sawn off.

Keen proposes three policies to break the cycle. Two are politically realistic and must be implemented together:

Policy 1: The Property-Income-Limited Leverage rule (the PILL). This would limit how much banks can lend for a property based on a multiple of either actual or imputed rental income. While rents have risen, they remain well below the speed of house-price inflation. Today, the London mortgage lending is often 20–25 times rental income. Keen proposes gradually reducing this multiple to 10:1. That would sharply reduce leverage and undermine speculative demand. The effect would be downward pressure on house prices. Politically popular with locked-out young and lower-income households; toxic with highly leveraged older owners.

Policy 2: A new Affordable Housing Authority (AHA). This institution would provide zero-interest mortgages to median and below-median income earners. At current prices, a typical buyer borrowing at commercial rates (say 7 per cent) would spend over half their income on repayments and thus be refused a loan. But with a 0 per cent loan, the exact same household would spend roughly 26 per cent of its income, below the housing-stress threshold. The AHA would be funded by government money creation. Repayment would cover the principal only. This would cut banks out of a market they currently refuse to serve anyway.

These two policies are designed to counterbalance each other. The PILL reduces demand from speculative buyers and drags prices downward. The AHA introduces demand from real homebuyers and supports prices enough to avoid a sudden crash. Buyers win by gaining access, sellers win by maintaining a functioning market, and even banks win via interest on special AHA bonds sold to them to comply with current Treasury rules. The public benefit outweighs the symbolic discomfort of creating money directly for households rather than for banks.

Keen’s third proposal, which he will discuss in his next video, is a modern debt jubilee *to reduce macro-economically dangerous private debt without triggering crisis. He emphasises that private debt, not public debt, is the destabilising force behind most modern economic strife.*

His conclusion: mainstream parties are unlikely to adopt such measures because they remain captured by financial interests and outdated economics. But in a country where more than half the population is priced out of homeownership, a party willing to listen to reality rather than textbook myth could win massive political support.

Do I think these will work? No, to be candid. I don't, because both are far too disruptive to be plausible, although the PILL has the greater merit of the two, and other options are available.

I will come back to this. Consider this a placeholder until I have time to do so.

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