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'No fault evictions' ban epitomises the paucity of Tory economic thinking

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Who killed Tory economic thinking? That is the question addressed in a recent essay by Stian Westlake rippling through Westminster.

The former Treasury adviser laments the paucity of well thought-out Conservative economic policy. He speculates on a culprit: the cultural dominance of “Home Office thinking” in Theresa May’s administration.

A law-and-order department’s *raison d’être*, he notes, is righting wrongs, keeping good people safe and punishing the bad guys. It cares little for economic concerns such as incentives or scarcity and considers trade-offs and unintended consequences unfortunate collateral damage from enforcing its functions.

For Home Office veterans such as the PM, economic policy is therefore often viewed through the prism of “cracking down”, “tightening up” or “sending a strong message”: helping the good guys and punishing the bad. Energy prices unfair? Cap them. Wages too low? Hike the minimum wage. Plastic pollution? Ban the products.

Other Tory tribes aided and abetted in relegating robust economic reasoning. David Cameron wanted to set economics aside and focus on social reform prior to the financial crisis. Even many Tory MPs who pay lip service to the dismal science engage in “karaoke Thatcherism”, preaching low-tax, low-regulation mantras divorced from new challenges or detail.

A Government announcement last week though provides grist to the mill for Westlake’s “Home Office” hypothesis. With great moralising, James Brokenshire, the Housing Secretary, announced the Government’s intention to protect renters against “unethical” landlords by banning so-called “no-fault evictions”.

Under plans open for consultation, the Tories would abolish Section 21 notices. These allow landlords to reclaim properties “without reason” after fixed-term tenancy contracts end (usually with two months’ notice). Essentially, then, the Government is proposing moving towards indefinite tenancies. Landlords could remove tenants only for Government-prescribed “legitimate reasons”, such as a desire to sell the house or for the landlord to move in.

It’s sadly unsurprising that Tories would not take a principled stance in favour of individual property rights and free contract. But this proposed decision goes further. Ministers are setting up a goody-versus-baddy paradigm. The charitable explanation is they are oblivious to the potential consequences of their actions. The less charitable interpretation is that, unwilling to address broader housing market supply dysfunctions, they want to set up a landlord bogeyman to send a political signal to tenants.

Conservative MP George Freeman, for example, celebrated the move as “a real signal of support by Conservatives for all those being badly treated by bad landlords”. Brokenshire himself even claimed that Section 21 evictions were one of the biggest causes of family homelessness. This is a bit like saying that shooting archdukes in Sarajevo is a big cause of world wars. It might be technically true as a trigger, but concluding it is responsible ignores the fundamental structural factors at play.

By implying it’s somehow immoral for landlords to reclaim their property, the Conservatives risk creating severe problems in the private rented sector. One feature of post-1989 housing policy, including the birth of fixed-term “assured short-hold tenancies”, has been entry into the market of huge numbers of individual landlords owning a small number of properties. Their decision to invest in rentable housing is often a marginal one, weighing up risks and opportunities.

Banning “no-fault evictions” may fundamentally change their calculations. Today landlords can terminate a tenancy at will after the contract term. Under the Government’s plan, they could get stuck with a difficult tenant, or locked out from accessing their own property. Vacancy risk would be pushed on to the landlord, who would now enjoy less control over a tenant’s departure than the tenant themselves.

We know landlords value the flexibility of the current system as longer-term, more secure tenancies are legal, but not used. Brokenshire’s assurances of streamlined courts to ensure landlords could reclaim properties for “legitimate reasons” rings hollow when that option would require often costly litigation and would be more restrictive than today.

The results of this policy are therefore obvious to anyone who understands basic economics. First, landlords will be far less likely to rent to tenants they consider high-risk. The incentive to engage in serious vetting, demanding extensive guarantees from tenants, will skyrocket.

Second, fewer landlords will remain in the sector and new, potential landlords will be less likely to consider it an attractive investment. This is particularly true given rent controls will likely be introduced to prevent landlords engaging in price-related means of “economic eviction”, further reducing the sector’s profitability. All this reduced supply will, of course, raise rents further.

We might expect this sort of dumb policy from Labour. Their shadow housing minister John Healey responded to the news with the ludicrous claim that “any promise of new help for renters is good news”. Results be damned! But the Conservatives, who facilitated the modern rental market by reversing anti-landlord regulations that eviscerated supply to a rump through the Fifties to Eighties, should understand the need for good microeconomic policy.

Sadly, the Home Office view that dominates May’s team cannot see the awful consequences of a constrained supply of housing without ascribing blame. Yes, just as with everything else, tenants would ideally desire more security. But security in a high-cost, low-supply market comes with a high price. Any short-term political gratitude from today’s tenants will be more than offset by the disillusionment of landlords and future tenants who face higher rents.

This affliction, of believing deeply embedded economic problems can be solved by whack-a-mole legal remedies, is indeed rotting Conservative economic thinking.

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