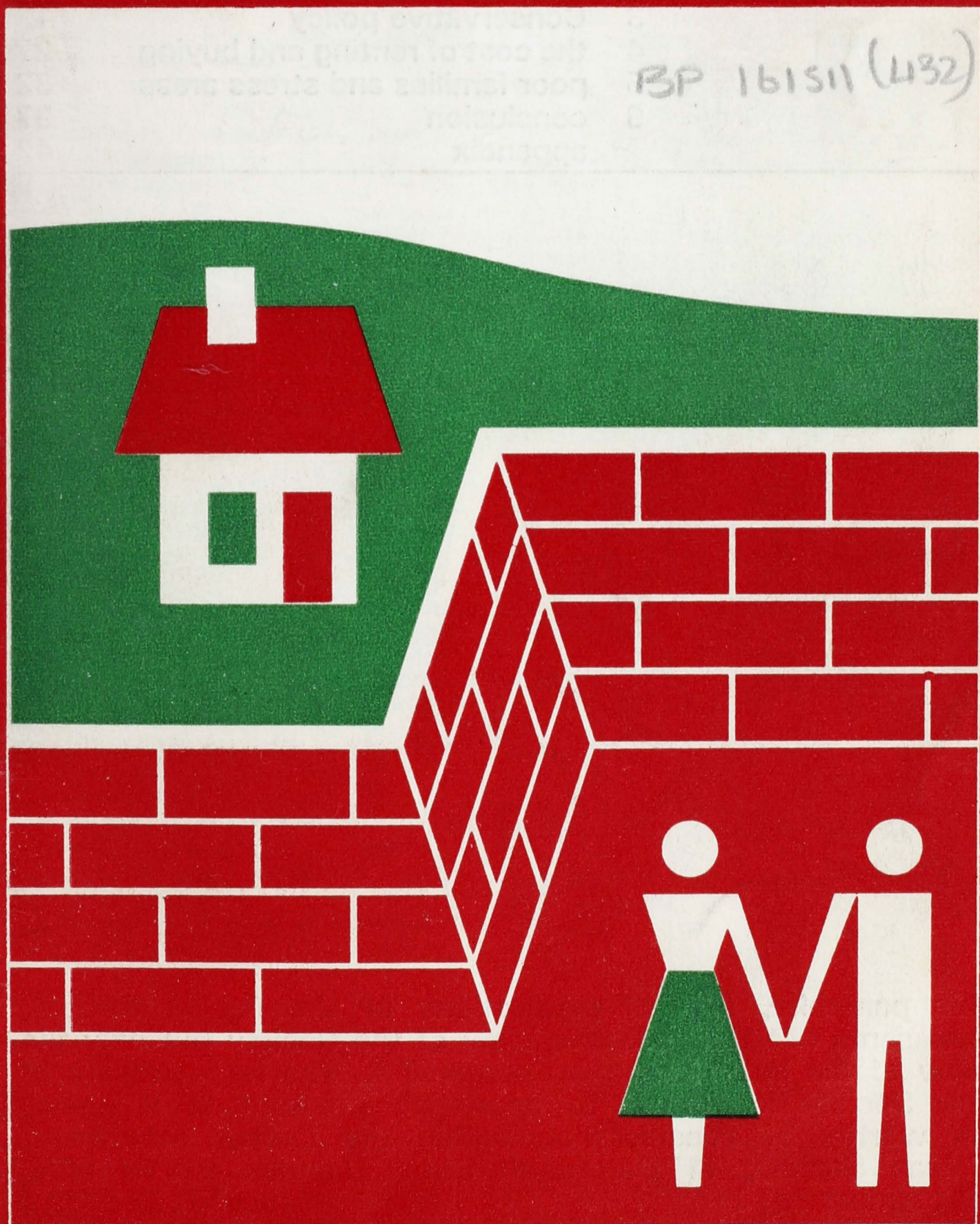


one nation? housing & conservative policy

Stewart Lansley, Guy Fiegehen
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I. introduction

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About half the households in Britain own or are in the process of buying the accommodation they live in, the other half rents it. Within these two broad groups here are further sub-groups where diverse housing conditions, a variety of housing problems and differing sets of relations between householder, landlord and the state are found. The problems that these groupings pose for governments and the way in which housing policies have dealt with them have had an important part in assessing the performance of recent governments.

This pamphlet considers the influence of the 1970-74 Conservative Government's policies on housing. It looks at the attitudes, intentions and acts of policy of that Government, their relevance to current problems and their immediate effects. It also attempts to show whether the Government dealt even handedly with all the groups within housing, in accordance with the Conservative aspiration of one nation, and whether the benefits that were derived from housing during this period were distributed in a fair and equitable way and in relation to need.

The idea of "one nation" has been an important one in Conservative thinking. In the early 1950s the One Nation group of Conservative MPs was formed; it became influential in areas of economic and social policy, and some of its members were ministers in the 1970-74 Government. As with many political ideas, "one nation" is open to varying interpretations.

Generally it implies a government acting in the interests of all groups within society and seeking to reconcile them when in conflict. In housing there are a number of groups whose interests may not conflict but to whose problems governments must pay attention. How the 1970-74 Conservative Government did this is discussed below.

Housing can be taken as a test case of Conservative Government in action for several reasons. First, housing has been an important issue in most recent elections and no doubt will continue to be so. Conservative Party leaders gave prom-

inence to it in their 1970 election campaign and, as ministers, asserted that it was high on their list of priorities. More importantly housing is a critical area of social policy. Bad accommodation can have damaging effects on family life and individual development, and the cost of housing, which can form a large part of household expenditure, in turn influences overall standards of living. In addition the broad directions taken by the Government in a number of domestic policy areas are also to be found in its housing policy.

The lives of most governments are characterised by changing policy attitudes and directions often with a general pattern extending over more than one policy area.

In the life of the last Conservative Government it is possible to identify a number of phases during which different attitudes and directions prevailed. Their return to power was marked by a confident re-assertion of the principles of free enterprise and of the need to reduce the role of the state. Many of the policies implemented were those developed in opposition. Private provision and endeavour that had supposedly been suffocating under Labour were now to be given their head. However, the Government soon began relaxing some aspects of this openly hostile attitude towards the state as an economic and social agent; cautious expansion of government activity on a selective basis could be justified in certain areas. Aid and assistance were still to be strictly limited and allocated on a selective basis to those who were most apparently deserving. Later, the middle of its term of office, a fundamental reconsideration of its policies in several areas began that led to the famous series of "u-turns". For one reason or another original policies were failing to achieve their ends, and actions were not taken that had once been attacked in principle.

In the winter of 1973-74, the Conservative Government entered its final period. Increasingly less confident about the directions it should take the Government showed an apparent and alarming inability to direct events, and chaos seemed

only to have been averted by a General Election.

In housing a roughly similar pattern can be identified. Emphasis on private provision and the downgrading of the overall role of the state with a selective extension of assistance in some areas were the main features of the early period in housing policy and, in particular, of the Housing Finance Act. Reconsideration of original policies appears to have begun rather later in housing than in industrial and economic policy and the extent and nature of the policy changes finally made were less substantial. Nonetheless ministers' speeches in the second half of 1973 and subsequent intended legislation in 1974 did show a considerable change in attitudes, especially towards the ability of private enterprise to make a significant contribution to the solution of urban housing problems. The final stage of the Government's life was marked in housing by the near collapse of parts of the building industry with the drying up of new funds for building and purchase.

inequalities in housing

The effectiveness of housing policy may be measured solely in terms of aggregate totals or averages such as the number of houses built or trends in housing costs. Between the two main parties there is some common ground on objectives measured in this way. However, those in the Labour movement are particularly aware of inequalities within housing, and the implications for inequality of the Government's policy will form an important part of our assessment. A favourable finding on this account cannot be expected, however, since reducing inequality is not high on the list of priorities of a Conservative Government.

Unlike other social services the provision of housing is dominated by the private market. Partly as a consequence the distribution of housing resources reflects inequalities in the distribution of incomes and wealth. Although it has been the policy of all governments to intervene in the housing situation, to mitigate and

regulate the operation of the market, to alter the distribution of housing resources and to create a non market sector, these interventions have given rise to their own sets of inequalities particularly in the area of state assistance with housing costs, but also in relation to legal rights and status. The state has used a series of devices and concessions to prevent individual householders bearing the full economic cost of their housing, but their primary purpose and their broad impact has not been to reduce inequalities. The result is rather that the market for housing has become both complex and distorted and that the system of tenure types that has evolved is itself a major source of inequality. It is still the case, for example, that many of the poorest households pay large amounts for inferior accommodation with few legal rights while economically the most independent receive extensive protection and assistance.

Inequalities in housing arise in three forms: the physical conditions of accommodation and its availability, the financial arrangements and associated state assistance, and the legal rights and duties of the owner and tenant. These are related to differences within and between the three main tenure groupings, and in making comparisons the relative economic position of households in these groups has to be borne in mind.

That inequalities still exist in living conditions can be seen immediately from the number of substandard dwellings in occupation (18 per cent of the total stock in 1971) and the increasing number of homeless families. The worst conditions of accommodation are particularly concentrated in the private rented sector. Inequalities in the burden of housing costs arise from the separate forms of treatment for each of the main sectors. Until the introduction of rent allowances the private sector (which includes many households with low incomes) received no state financial assistance: various forms of rent control have been used to subsidise tenants' housing costs, but these work purely at the expense of landlords and bear no relation to the needs of the tenant or landlord. Local authority ten-

ants are better off, on average, than private tenants, but they do benefit from direct subsidies, both from the central government and from rate fund contributions. The distribution of the subsidies, however, has depended upon the various policies and historical records of each individual local authority rather than on need so that inequalities have arisen amongst council tenants as a group. The most privileged tenure form is owner occupation. Governments have sought to help not only home buyers but all owners indiscriminately and this has been a major source of inequality. As a group, owner occupiers are the best able to bear the full cost of housing yet the financial assistance provided has taken the form of tax concessions which are more valuable the more expensive the house and the higher the owner's income. Owner occupiers also enjoy the security of tenure and the right to manage their own homes that council and private tenants do not. In terms of legal and other rights the weakest and worst housed (that is, the poorest families living in private rented accommodation) have in contrast been the least well protected.

Labour in power 1964-1970

The progress of the 1964-70 Labour Government in reducing inequalities in housing was discussed by Crouch and Wolf in *Labour and Inequality* (Fabian Society, 1972). Identifying the main areas of inequality in housing in 1964 as those of physical conditions and the distribution of financial assistance towards reducing individuals' housing costs, they argued that the former area of inequality received initially the greater share of the government's attention, though some consideration was also given to the implications for inequality of the complex arrangements of financial assistance, and some steps taken towards a fairer allocation.

The methods employed to reduce inequalities in housing conditions were to promote a higher rate of building especially by local authorities, and to encourage the improvement and rehabilitation of existing houses through govern-

ment grants. Both new buildings and improvement thus received early attention, but the publicity campaign to encourage the uptake of improvement grants did not have great success until the scheme itself was revised in the 1969 Housing Act. In terms of the numbers of dwellings built, the 1964-70 Labour Government achieved unequalled success, with 25 per cent more houses built in its six years of office compared to the previous six years of the Conservative administration (a total of 1.7 million 1959-1964, 2.3 million 1965-1970). The share of local authority building also rose to over 50 per cent for much of the six year period. The level of improvement grants on the other hand averaged only about 110,000 per year until the 1969 Act became effective, but by 1971 the annual total had almost doubled.

The housebuilding programme began with the 1965 White Paper which spoke of "3 million families in need" and set a target for a rate of building equal to 500,000 houses by 1970, a target that was never actually reached. In order to concentrate building effort in areas of greatest need, 130 local authority areas plus the GLC were established as "priority areas" and were to receive special treatment within the local authority programme. However, increasing interest rates began to put pressure on local authority finances and threaten the new programme, and it was with a view to relieving such pressure that the 1967 Housing Subsidies Act sought to change the emphasis of subsidies to local authority building projects. Subsidies were to be directed towards reducing the interest burden, and special subsidies for high cost sites were also introduced. The latter were aimed at benefitting inner city areas in particular. It was these measures together with restrictions on office building and efforts to improve efficiency in the building industry that enabled the overall housebuilding programme to achieve record levels by 1968. After 1968 the worsening economic situation began to put pressure on the housebuilding performance. While the post devaluation deflationary measures included a cut of 15,000 in the local authority programme, priority areas were exempted, and housing

was to some extent spared the full effects of deflation. The increase in the number of local authorities under Conservative control after the 1968 local elections with their lower commitment to council house building probably had as much to do with declines in public sector building as had purely economic factors. Even so, in 1970, the level of council house building had not fallen below the level it had reached in 1966.

The 1969 Housing Act widened the scope of improvement grants, increased their value, and gave local authorities new but discretionary power to declare General Improvement Areas in which they would have wider powers both to assist and persuade owners to improve their houses, and to buy land and houses needed for the improvement of the whole area. In these areas particularly, and as a matter of general policy, greater emphasis was now to be placed on rehabilitation as compared to the traditional scrapping and building approach. However, both in terms of uptake and of its financial consequences the improvement grant scheme has come under criticism from the egalitarian viewpoint since it has tended to benefit owners of property rather than tenants. The social consequences of some of the unrestrained private developments using these grants that in fact took place have also been undesirable, some poorer tenants having to move from one area to another as the supply of low cost accommodation to rent declined.

Some indication of the effects of these programmes in reducing inequalities in housing standards can be gained from comparing the two House Condition Surveys for England and Wales carried out in February 1967 and September 1971. Overall, the number of dwellings estimated to be unfit fell from 1.8 million to 1.2 million, but although the private rented sector had over 50 per cent of all unfit dwellings, only 20 per cent of dwellings improved between 1967 and 1971 were in this sector. The number of dwellings requiring repairs of £250 or more, at current prices, fell from 3 million to 2.7 million, and there was also a reduction in the number of dwellings lack-

ing basic amenities (defined as inside wc, fixed bath, shower, wash basin and hot and cold water at these points) from 3.9 million to 2.9 million, and as a proportion of the stock from 25.1 per cent to 16.8 per cent. Nevertheless the surveys also provide a clear indication of the continuing high volume of poor housing and the need to maintain a high rate of building and improvement. Even in 1971 nearly a fifth of the housing stock was totally or partially unsuitable for habitation ("House Condition Survey: England and Wales, 1967, 1971", *Economic Trends*, 1968; *Housing and Construction Statistics*, 1st Quarter, 1972).

As regards reducing inequalities in the distribution of subsidies and of the relative burdens of housing costs, the Labour Government did not go as far as it might have. The first action on housing costs was taken in the private rented sector in conjunction with a change in the legal rights and status of tenant and landlord. Security of tenure, progressively withdrawn following the decontrol provisions of the 1957 Rent Act, was restored under the 1965 Rent Act to those decontrolled tenants living in unfurnished accommodation; rents for these tenancies could now be set by rent officers, or agreed between tenant and landlord, at regulated "fair" levels defined to exclude any "scarcity" element. Initially it was hoped that rents in areas of shortage would on average be reduced with applications being made by tenants, but increasingly the rent registration machinery has been used by landlords to increase rents. However, the effect of regulation must have been to prevent landlords exploiting their full market power and to achieve a rent level lower than would otherwise have resulted.

Labour also took action on some aspects of financial inequality within the owner occupied sector which at the same time sought to widen the access to owner occupation to lower income families. There was a short lived attempt in 1966 to increase the availability of 100 per cent mortgages—low income households are the least likely to be able to find a deposit for house purchase and should therefore benefit most from such facilities. The

option mortgage scheme, introduced in 1966, went further and attempted to reduce the *cost* of house purchase for those low income families who had not previously been able to benefit from mortgage interest tax relief. The proportion of new mortgages taking the "option" form has in fact increased rapidly, but to the extent that the demand for owner occupation was further increased and house prices rose as a consequence, the scheme must have been partially self-defeating.

In the local authority sector general rent levels benefitted from increasing Exchequer and rate fund subsidies, although whether such subsidies were allocated fairly is a different question. Despite these higher subsidies the average rate of increase of unrebated council rents exceeded that of both the retail price index and the weekly average earnings of full time manual workers. In 1967 a ministry circular urged local authorities to introduce and advertise rent rebate schemes that would benefit lower paid tenants, and as 1970 approached the whole question of rising local authority housing subsidies and of rent levels and rebate schemes was under discussion by both main parties. We shall never know what solution Labour would have found if it had been returned to power in June of that year, whether and how it would have sought to ensure a fairer distribution of housing aid.

To summarise, Labour's main achievements between 1964 and 1970 were to produce a record level of housebuilding, particularly in the public sector, to take steps to encourage improvement (although this produced some inegalitarian consequences), to keep private sector rent levels below what they otherwise would have been and to reduce inequality amongst house purchasers by extending mortgage interest subsidies to those below the tax threshold. Unfurnished private tenants also benefitted from the return of security of tenure. However, many of the important areas of inequality especially financial inequality had either not been acted upon or had received only partial attention. The main financial inequalities of 1964 were still to be found in 1970, with the

various means of protecting individual households from the full economic cost of housing bearing little or no relation to any criterion of reducing inequality or meeting need.

Together with these inequalities the newly elected Conservative government would have to deal with general housing problems as they existed in 1970. Labour's performance had shown that a high general rate of building alone was insufficient to meet the special problems of certain urban areas of chronic need where low income families were concentrated in overcrowded and/or unfit housing. A related problem was that of the private rented sector. Labour had accepted the basic three way division between the owner occupied, local authority and private rented sectors, but lacking a positive stimulus from the state the private rented sector was increasing its historic rate of decline. The need for measures to protect, at least to some extent, house building from general economic trends had also been made apparent.

2. housing trends 1970-1974

The principal trends in housing during 1970-74 were a rapid increase in land and house prices and costs, a gradual decline in the rate of housebuilding, a significant increase in the rate of house improvement and rehabilitation, and a continuing decline in the availability of private rented accommodation along with an increase in the extent of owner occupation. These changes have on their own had a significant impact on inequality in housing.

the cost of housing

The table below shows the average price of new dwellings mortgaged with Building Societies since 1964, the average price of private sector land plots, the average rents of local authority dwellings, the index of retail prices and the average weekly earnings of manual workers.

The table shows that while the cost of housing had been rising since 1964 it began to accelerate after 1970, and has been increasing at a much faster pace than both retail prices and earnings since then. Thus the average price of new dwellings

rose by 49 per cent in the six year period 1964 to 1970 but by 95 per cent in the three year period 1970 to 1973. In areas of shortage such as London the increase was even more dramatic. New house prices in London and the South East rose by some 126 per cent between the second quarter of 1970 and 1973 (Nationwide Building Society *Bulletins*).

The average unrebated rent of local authority dwellings rose by 72 per cent and 52 per cent respectively between 1964 to 1970 and 1970 to 1973, average annual rates of 9.5 per cent and 15 per cent respectively. The corresponding increases in the index of retail prices during these periods were 31 per cent and 28 per cent and in the average earnings of full time male manual employees 55 per cent and 46 per cent. Up to 1970 therefore average earnings kept pace with new house prices but they have fallen behind since then. Local authority rents, on the other hand, rose at a faster rate than earnings in both periods.

The accelerating increase in house prices of some 23 per cent between the second quarters of 1971 and 1972 and 44 per cent

HOUSING COSTS

	price of new houses mortgaged GB	private sector housing land price per plot England- Wales	council weekly unrebated rents. April England- Wales	retail price index	weekly earnings of manual workers October
	£	index 1970= 100	index 1970= 100	index 1970= 100	index 1970= 100
1964	3433	67	52	76	65
1965	3768	73	58	80	70
1966	4030	79	62	83	72
1967	4283	84	63	85	76
1968	4499	88	73	89	82
1969	4819	94	91	94	86
1970	5128	100	100	100	100
1971	5775	113	113	109	110
1972	7398	144	190	117	128
1973	10,000*	195	285**	128	146

* estimated

** average of first half of 1973.

sources: *Housing and Construction Statistics*, Department of the Environment; *Department of Employment Gazette*.

between the second quarters of 1972 and 1973, in comparison with an average annual rate between 1964 and 1970 of 6.8 per cent was the result of a number of factors. First, while the demand for owner occupation has been steadily increasing since the War it was boosted in the early 1970s by both the natural forces of demographic change and the increasing rate of inflation itself. It was in the early 1970s that the post war babies reached their middle twenties, an age range with a high propensity for new household formation. Further, while the financial benefits of owner occupation have always been significant, the steadily rising rate of inflation and the expectation of a continuing high rate in the future made the attractions of early purchase even stronger. Demand was also boosted by a variety of government measures such as the raising of the limit that could be borrowed under the option mortgage scheme.

But it was the increased availability of mortgage facilities following the temporary relaxation of credit restrictions and the expansion of the inflow of funds to building societies in 1971-72 together with the government's removal of the ceiling on local authorities lending which turned the latent demand into an effective one and was the immediate cause of the house price inflation.

Mortgage advances increased by some 80 per cent between 1970 and 1972 at a time when the supply of houses was effectively static. The 80 per cent increase in the value of advances over this period provided an increase of only some 27 per cent in the *number* of mortgages.

The table also shows the rate at which land prices were rising. They rose by some 92 per cent between 1964 and 1970 and by 185 per cent between 1970 and 1973, outstripping even the rates of increase in house prices. Indeed site values accounted for 29.8 per cent of the cost of new houses in Britain in the second quarter of 1973 and 38.6 per cent in London, compared with 21.2 per cent and 28.9 per cent respectively in 1969 (Nation-wide Building Society *Occasional Bulletins*). (There is some evidence that land

prices had stopped rising and even fallen by the end of 1973, however.)

High land prices have been a result of the excess demand for accommodation and the consequent competition for scarce building land, but also the nature of the the planning process and its tendency to restrict the supply of available land. But while in the past it has largely been the high price of housing due to shortages that has bid up the price of land, the current high cost of land is forcing up the cost of new building both public and private.

As well as increasing the cost of housing for a sizeable proportion of the population, the rapid increase in house prices has had a number of other serious consequences and some indications of their impact on relative housing costs will be given later. The increase in house prices has limited the number of families who can afford to buy their own home and greatly increased the cost of doing so relative to those who have bought in the past. By making it substantially more profitable for landlords to sell rather than rent, it has promoted speculative activity, encouraged landlords to obtain vacant possession and furthered the decline in the availability of private accommodation to rent. This has had a number of serious social repercussions particularly in areas of housing stress. The shortage of rented accommodation has been the main factor keeping rents for this type of accommodation, particularly furnished, very high. It has also contributed towards the difficulties of the building industry. High house and land prices has been one of the causes of the recent slump in housebuilding in the face of an uncertain market and the pressure on limited local authority funds.

house building

Many of our housing problems—rising prices, poor landlord-tenant relations, poor quality of accommodation and so on—are the direct result of physical shortages of accommodation in certain areas. A precondition for a successful solution of these problems is an increase

HOUSEBUILDING IN BRITAIN 1964-1973

	total public sector	private sector	proportion of public housing in total %	new construction total	gains other	losses slum clearance	other	net gain
1964	155,600	218,100	41.6	373,700	7,500	78,500	30,700	272,100
1965	168,500	213,800	44.0	382,300	6,800	79,000	30,500	279,700
1966	180,100	205,400	46.7	385,500	6,600	87,100	32,800	272,200
1967	203,900	200,400	50.4	404,400	4,300	92,800	35,000	280,900
1968	191,800	222,000	46.4	413,800	5,000	93,700	31,400	293,700
1969	185,100	181,700	50.5	366,800	5,800	90,500	28,300	253,800
1970	180,100	170,300	51.4	350,400	5,800	80,200	24,900	243,100
1971	158,900	191,600	45.3	350,500	7,600	95,300	27,100	235,700
1972	122,800	196,300	38.5	319,100	10,300	88,800	27,100	213,600
1973	107,452	186,119	36.6	293,571				

source: *Housing and Construction Statistics*.

in the supply of accommodation. This means both improving the quality of the existing stock and building more houses of the right type in the right areas, but the implications in terms of government action has, of course, been in dispute between the main political parties. In our view direct intervention by government is necessary to solve remaining housing problems. Policies that only patch up the effects caused by shortages serve only to compound the original problems. For example, attempting to reduce housing costs by restrictions on rent or tax concessions may only create new problems in the absence of an adequate stock and effective controls on the market.

The table above shows the number of dwellings completed in the public and private sector between 1964 and 1973, the rate of slum clearance and the net gain in new houses each year.

Following a steady rise in housebuilding after 1964 to the peak of 413,800 in 1968, housebuilding performance deteriorated and the number of new buildings had fallen to less than 300,000 in 1973. The decline was particularly sharp in the public sector, where housebuilding in 1973 had dropped by 40 per cent over 1970 and 12.5 per cent over 1972. Moreover, while the proportion of council houses built rose steadily from 41.5 per cent in 1963 to over 50 per cent in 1969 and 1970 it declined sharply after that to 36.6 per cent in 1973, evidence of the

greater importance attached to private house building and home ownership by the Conservatives. In view of the continuing decline in the number of private dwellings available for renting, continuing large scale demolition, increasing waiting lists and homelessness in many stress areas, and the need for local authorities to take a wider view of their housing responsibilities this was a particularly worrying trend. There is also evidence that housebuilding effort was not being directed to meeting the problems of those areas in greatest need. In the six major conurbations (Tyneside, West Yorkshire, South East Lancashire, Merseyside, West Midlands and Greater London) for example, 1973 saw a 12 per cent drop over 1972 in the number of houses started by local authorities and a 20 per cent drop in completions.

Moreover the immediate future looks equally discouraging. The table below shows the number of housing starts which were 8 per cent lower in 1973 over 1972 in the public sector and 5.5 per cent lower in the private sector. Total starts for the last quarter of 1973 were lower than each of the previous three quarters and 21 per cent lower than the last quarter of 1972. Housebuilding performance is therefore unlikely to improve in 1974, and in view of the slowness with which the housing market can be stimulated, may not even show any significant improvement for several years. The supply of council houses depends

HOUSING STARTS; GREAT BRITAIN

	public sector	private sector	total
1967	219,300	233,600	447,600
1968	194,300	200,100	394,400
1969	176,600	166,800	343,500
1970	154,077	165,671	319,148
1971	136,600	207,348	343,948
1972	122,989	227,443	350,432
1973	112,816	214,932	327,748

both upon the political will and initiative of central and local governments and on the prevailing economic climate and the cost of borrowing. The Labour administration after 1964 placed a high priority on the expansion of building programmes particularly in the local authority sector and in the late 1960s some 50 per cent of total new housing was in this area. We have seen earlier the action they took to produce a record level of new building by 1968 and the measures adopted thereafter to protect house building programmes from the full force of the worsening economic situation. The Conservative record in this respect was very poor.

After 1970 a number of factors contributed towards the accelerating decline in council building. One factor may have been the decline in demand in some parts of the country, since some councils no longer have significant waiting lists. This is unlikely to have been a major factor, however, since some of the largest falls were in areas of greatest need, as we have seen with the major conurbations. More important have been the cost and availability of land. Soaring land prices have forced up the cost of building and stretched limited local authority resources. Building costs also rose at a faster pace than retail prices. The cost of local authority house building in England and Wales (outside London, and excluding the cost of land) rose 98 per cent between the third quarter of 1970 and 1973 (*Housing and Construction Statistics*, Department of Environment).

Availability of land has also been a significant factor particularly in inner city areas where shortages have been most

severe. Existing planning regulations, the restrictive policies of some local authorities (particularly in the outer London boroughs) and the increasing profitability of land hoarding and speculation have all been instrumental in restricting the availability of land for essential residential building, creating an artificial scarcity and forcing up its price. The supply of land for housing could be increased if more were released by local authorities, the public utilities and land hoarders. A more flexible attitude towards building densities and the more careful appraisal of the relative benefits of different forms of land use would also help.

There is evidence of movements in some of these directions, though they came somewhat late and were concerned largely with land for private house building. Various forms of encouragement were provided to local authorities to release and prepare land for private development. These were outlined in the White Paper *Widening the Choice: The Next Steps in Housing* (HMSO, April 1973, paragraph 11) along with a series of new proposals to increase the availability of land. These included new guidelines for the treatment of planning applications with a general presumption in favour of housing, the use of some Green Belt land for building, and higher building densities in areas of land scarcity. The White Paper also proposed a land hoarding charge to discourage land speculation, which would be levied for a failure to complete a development within four years from the grant of planning permission.

While the objective of accelerating the release of land for housing underlying the proposals is admirable the proposals themselves were tame in relation to the extent of the need and the delays that had already occurred. Even the land hoarding charge was widely considered to be a weak proposal since it could be avoided by delaying request of planning permission. In any case the proposal was later dropped. In view of the limited scope of the measures land shortages are likely to remain a constraining factor. The nationalisation and public control of development land is the only effective

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solution to the problems created by land shortages. The public ownership of land would prevent unearned capital profits accruing to landowners, often as the direct result of community planning decisions, limit undesirable increases in the price of land and ensure proper control over land use.

Another factor has been the "cost yardstick" introduced in 1967 with the intention of keeping costs down by limiting government loan approval to contracts falling within set limits. The limits have not been revised since May 1972 although a "market condition allowance" was introduced in November 1972 to provide some flexibility by allowing approval for tenders that were not exceptionally above the limit. Nevertheless the average cost of building local authority dwellings increased 50 per cent between the 2nd quarter of 1972 and 3rd quarter of 1973. The cost yardstick as well as preventing building has often caused considerable delays in obtaining planning approval and so has had the effect of multiplying the costs of some authority's building schemes. Another factor has been the increasing time taken to build houses, a situation aggravated by the shortage of labour in many areas. By mid 1973 local authority dwellings were taking, on average, 20.8 months to complete, as against 17.7 months in the early part of 1972. One cause of the housebuilding slump that began to affect the private sector as well in 1973 was the drying up of funds available to building societies. This has cut effective demand and in the situation of exceptionally high prices contributed towards the number of completed houses that are being left unsold, and has created an atmosphere of uncertainty. This combined with the high level of interest rates,

has limited the amount of capital available for building and cash for purchasing and will further discourage private building. The seriousness of the situation can be gauged from two recent forecasts. A report on the prospects of the building industry, produced by the National Economic Development Office (Building and Civil Engineering EDCS, June 1974) predicts the biggest recession in the construction industry in recent times, though its forecast for housebuilding is slightly more encouraging. It expects public housebuilding to increase slightly during the course of 1974 following the change of Government and increased priority to public sector housing, and the number of private starts to fall in the immediate future but to improve in the second half of 1974 and 1975 though still not to even the low level of 1973. The National Institute of Economic and Social Research (*National Institute Economic Review*, May 1974), in its quarterly economic forecast, presents a gloomier picture of the future rate of housebuilding, expecting private housebuilding to fall by 30 per cent in 1974 over 1973 and by another 17 per cent in 1975 on unchanged policies. While the new Labour Government provided an additional £350 millions in its 1974 Budget to local authorities for housing, including buying private houses built for sale, to help towards relieving the recession, this is unlikely to make a significant impact when the average cost of a new house is in the region of £10,000.

improvement

In contrast to the decline in the rate of new housebuilding, however, the number of houses improved has increased very substantially as the table below shows.

IMPROVEMENT GRANTS; GREAT BRITAIN

	local authorities	housing associations	private owners	total
1964	32,368		89,317	121,685
1968	40,939	2,096	84,857	127,892
1970	59,466	4,110	116,379	179,955
1971	88,980	6,168	137,364	232,512
1972	136,844	6,756	224,468	368,068

source: *Housing and Construction Statistics*.

The number of improvement grants approved in 1972 was more than double the number approved in 1970 and nearly three times the number approved in 1968. This was a trend that began with the 1969 Housing Act and its attempt to promote a higher rate of improvement by increasing the value of grants and encouraging the improvement of whole areas with a high proportion of poor quality accommodation.

By 1972 334 local authorities had declared 733 General Improvement Areas covering 183,859 dwellings; by September 1973 grants had been approved for a total of some 49,000 dwellings in these areas (*Housing and Construction Statistics*).

The process of improvement was given further impetus in the 1971 Housing Act which provided higher rates of improvement grants in development and intermediate areas, and by an extensive advertising campaign in London launched in April 1972.

While the rapid increase in the rate of improvement has led to a marked improvement in the condition of the housing stock and in the long term will make a significant contribution to the solving of our housing problems, the speed with which private schemes have been pursued has been one factor leading to increased social problems facing inner city areas. The short term consequences have in many cases been to produce a more unequal use of the existing stock. Improvement grants have not always helped those in greatest housing need. The majority of grants have been taken up by owner occupiers, while the private rented sector which contains a very high proportion of substandard accommodation (the House Condition Survey of England and Wales in 1971 found, for example, that 645,000 of the national total of 1,244,000 dwellings that were unfit were in "other tenures," mainly private rented) has suffered rather than benefitted through the expansion of improvement. It is now clear that since 1970 only a small proportion of private property has been improved as a result and that in London a majority of privately rented dwellings

improved with a grant have been sold to owner occupiers or converted into high priced luxury flats, leading to a reduction in housing space for the less well off. While the social effects of wholesale clearance and redevelopment in displacing whole communities and reducing the supply of cheap, though substandard housing for the poor, and the problems of rehousing have been widely recognised it is now clear that the unrestricted use of improvement grants has had similar adverse effects.

Evidence to the House of Commons Select Committee on House Improvement Grants has shown that conversion work on private property has typically taken place on properties that were vacant on application, that only a tiny proportion of units converted with a grant were re-occupied by a former tenant and that often a change of tenure took place following conversion. Existing private tenants have generally not enjoyed improved housing conditions as a result. Further the process of improvement and conversion in the private rented sector has done much to increase housing stress in areas of shortage since it is rarely existing residents or other low income tenants who rent the new higher cost accommodation or purchase property put on the market for sale. Evidence of the London Borough of Camden to the Select Committee (Memorandum 15), for example, expressed particular concern that the improvement grant system often led to the "expropriation of tenants and the sale of improved dwellings to middle class people moving into the borough", simply adding to the shortage of accommodation to rent and increasing the length of waiting lists.

The need to control the use of improvement grants in the private sector has now been widely recognised. Much of the evidence given to the Select Committee proposed more discretion in the approval of grants, the right to impose conditions, especially that the grant should be repaid if a property were sold within a given number of years, and wider powers for local authorities to nominate families for accommodation created by the use of grants. Indeed some authorities, worried

by evidence of the use to which grants were being put by private landlords, were already tightening up on the conditions on which discretionary grants were given. The White Paper *Better Homes: The Next Priorities* (HMSO, June 1973) outlined a series of proposals designed to meet some of the objections against the use of improvement grants as part of a range of measures aimed at tackling the increasingly acute housing problem of inner urban areas. To help prevent the abuse of the improvement grant system the White Paper proposed that grants should not be payable on property with high rateable value, and discretionary powers for local authorities to attach conditions to the payment of grants to absent owners to ensure that for at least up to three years following the grant aided improvement a dwelling remains available for letting. It also proposed that the payment of grants for second homes should be proscribed. These proposals were given the force of a DOE Circular in September 1973. By this time, however, much of the damage had already been done.

Although the use of improvement grants by the private sector, particularly in London, has come under criticism the pattern is not uniform. Grants have been used by the private sector for the benefit of those in housing need. Further, the scheme has also been put to beneficial use by local authorities in improving both their existing stock and houses they have acquired. The implications for inequality of the use of improvement grants in this way are very different, since the direct benefits go to people in some of the worst housing conditions. This supports the view, however, that public funds to achieve their aims are often best used by public authorities themselves.

3. Conservative policy

The main problems facing the Conservative Government in 1970 were, as in earlier years, an inadequate level of investment in housing, as indicated by the large number of substandard houses still in occupation and the acute shortages in many areas, and the striking inequalities in the distribution of housing resources, financial as well as physical. The roots of these inequalities lay in the treatment of different housing sectors, the differences in the physical quality of accommodation and in the legal, social and financial advantages offered by different forms of tenure. The success of policy in solving housing problems should be judged on the extent to which it reduces these inequalities as well as the impact it has on overall targets. While some progress was achieved under the 1964-70 Labour administration, many inequities remained in 1970, and in the period 1970-74 these problems were accentuated by the unparalleled rise in land and house prices and the collapse in the rate of housebuilding. The problems of the stress areas also became if anything, more acute.

Measuring the *precise* impact of policy on relative housing costs, however, is made difficult by the complexity of the market for housing. Subsidies designed to reduce costs in one sector may affect costs in another sector through their effect on demand and supply and the price of accommodation. This together with the interdependency that exists between conditions in the housing market and other economic and social factors, may have the effect of counteracting the main aims of policy measures. Analysis of the impact of policy is also complicated by the slowness of changes and the lags with which new policies make themselves felt. What we do here is to identify the policy changes that have taken place since 1970 and assess at least their immediate impact. In the following section we compare the resulting changes in the relative costs of living in each sector of housing.

Changes in the distribution of housing resources and housing costs for individual families result from a number of factors

—direct housing policy, the absence of policy and other independent influences. Housing policy can influence rent levels in the public sector through local authority housing subsidies and in the private sector through rent control or regulation, tenant protection and municipalisation, and owner occupiers' costs through such instruments as tax concessions and mortgage interest rates. Housing costs can also be directly affected through personal housing allowances. Other factors such as the general rate of inflation, interest rates, availability of credit and the level of economic activity also have their own important impact.

There is a crucial link between the housing market and wider economic factors. The level of building activity, house prices and rents are affected by the general movement of the economy. The building industry is particularly prone to even small changes in the overall level of economic activity. It was one of the achievements of the 1964-70 Labour government that the housebuilding programme was to some extent shielded from general deflationary policies. The Conservative Government did not intervene to protect the housing market from external factors, however, and as a consequence the housing market suffered wild fluctuations in activity in a very short period of time. While the historical situation of the general tax concessions available to owner occupiers has been one factor exaggerating the demand for homes to buy, the immediate cause of steeply rising house prices was to be found in the attempt at rapid economic expansion following the rise in the level of unemployment during 1970-71. The effect of the resulting increase in deficit spending by the government, the removal of credit controls, rising interest rates and the increase in the rate of inflation on the housing market could have been predicted and cushioned by determined action and a more far sighted housing policy.

Foresight and planning were completely absent however. The effect of a substantial increase in the outflow of mortgage finance should also have been

foreseen. Limitation of mortgage advances and stronger action on obtaining land would have helped to stem rising house prices while offsetting to some extent the subsequent recession in house-building, caused by a shortfall in funds for new mortgage lending and the high cost of building and land. Indeed it was not until the publication of the White Paper *Widening the Choice: The Next Steps in Housing* (HMSO, April 1973) that the desirability of "stability in the flow of mortgage funds . . . so that the sharp fluctuations that have occurred in recent years can be avoided" was officially recognised.

A similar failure to anticipate and slowness to react is evident in another area of housing policy, that of the massive drive towards the take up of improvement grants in the private sector. The London Borough of Hammersmith in their evidence to the Select Committee on House Improvement Grants (Memorandum 16) concluded, for example, that it was the haste with which the move towards rehabilitation and improvement was made that was one of the causes of the serious social problems that have since arisen. This cannot have been altogether unforeseen especially in view of the questions raised about their consequences in the circular of the then Ministry of Housing and Local Government supporting the 1969 Housing Act. Yet again it was not until 1973 and the publication of the White Paper *Better Homes: The Next Priorities* that the government explicitly recognised that in "areas of acute housing shortage, especially inner London, some owners sought to make unjustifiably high profits by abusing the improvement grant system" and recommended that local authorities be given discretionary powers to attach conditions to the payment of grants.

slow to realize trends.

objectives

The broad objectives of the Government's housing policy expressed in the White Paper *Fair Deal for Housing* (HMSO, July 1971) were "a decent house for every

family at a price within their means, a fairer choice between owning a home and renting one, and fairness between one citizen and another in giving and receiving help towards housing costs". The main obstacle to the achievement of these aims was seen to lie in the then existing system of housing finance and in particular the indiscriminate way in which Exchequer subsidies to the council sector were allocated between authorities and tenants, often independently of need, and in which the burden of paying for the subsidies was distributed.

There was undoubtedly wide support for the view that existing subsidies were inequitable and anomalous and that reform was overdue. Under these arrangements public sector rents for similar accommodation varied between local authorities according to the level of Exchequer subsidies each received, and also to local policies on rate contributions, rent pooling and rent rebates. All these differed between authorities, the level of Exchequer subsidies being related mainly to the time when the authority built up its housing stock and the then prevailing costs of building, interest rates, and level of central government subsidies rather than to local needs. A recent Report (*Housing: The Way Ahead*, Report of the NALGO Housing Working Party, 1973) has shown, however, that despite these varying arrangements, average rents in different county boroughs in 1970-71 were more narrowly dispersed than was widely considered to be the case. Thus 51 per cent of county boroughs, excluding London, charged average rents between £2.01 and £2.50 and another 15 per cent between £2.51 and £3.00. Nevertheless there was a clear need for a more equitable distribution of subsidies.

Fair Deal for Housing also expressed concern about the projected rise in the cost of these subsidies if the existing system were to continue. It was estimated that the cost of subsidies would have risen from £400 million in 1972-73 (£230 million in direct housing subsidies and £170 million in supplementary benefits covering rents) to £550 million in 1975-76 (£300 million and £250 million respectively). Whether

this would have been excessive is a matter of argument and depends in particular on the importance attached to keeping rents at relatively low levels on the one hand while maintaining a reasonable rate of new building. Certainly it is not a fair comparison to include supplementary benefits in the cost, for these are not housing subsidies but a relief from poverty, and are high because council tenants include a large number of supplementary benefit recipients. The figures can also be compared with the total cost of allowing tax relief on mortgage interest payments which amounted to some £340 million in 1971/2 (in the UK) and has been rising substantially since then with rising interest rates and house prices.

In the private sector the main problem was seen as the continuing existence of rent control which had the effect of subsidising tenants purely at the expense of landlords, even though the latter were sometimes poorer than their tenants, and which by failing to allow a rate of return sufficient to cover repairs had led to a steady deterioration in the condition of older rented dwellings. Further private tenants received no form of financial assistance other than rent regulation or control when this applied.

The reform of housing finance seen as necessary for the achievement of these aims was embodied in the Housing Finance Act 1972, which had the declared aim of stabilising the cost of subsidies to the council sector and producing their more equitable distribution. Underlying these broad objectives, however, and in addition to this major policy measure, housing policy was marked by a number of more specific themes, in particular a drive on improving and maintaining the existing stock, the need to concentrate resources in areas of greatest need, and the further encouragement of owner occupation. These principles were not new. The first two are a continuation of aims that were already influencing policy decisions throughout the 1960s though this is less true of the third. The drive on substandard housing was provided mainly by an impetus to the house improvement grant system through extensive publicity and

by the provision of higher rates of grant in development and intermediate areas. The faster decontrol provisions of the Housing Finance Act were also aimed at fostering this process. Nevertheless, as we have seen, the sharp increase in the volume of improvement has had some of regressive social consequences.

While the rate of slum clearance had not been stepped up significantly since 1970, the slum clearance subsidy introduced by the Housing Finance Act was seen as a way of quickening the process. The White Paper *Better Homes: The Next Priorities* was hopeful that the majority of local authorities would be able to deal with all their existing slums by 1982. The progress with slum clearance in London suggests that this may be an optimistic assessment. Only 5,982 houses were demolished in London in 1972 compared with 8,176 in 1971 (see G. Lomas, *London's Housing Needs*, London Council of Social Services, April 1973), while a GLC Housing Survey in 1967 indicated that slum clearance needed to be maintained at an annual rate of at least 7,000 to keep pace with the rate of obsolescence.

Encouragement to home ownership was a recurring theme throughout the term of the Conservative Government. *Fair Deal for Housing* outlined the variety of measures in this area taken by July 1971. These included lifting Labour's restrictions on the sale of council houses and the giving of general consent to local councils and New Town Corporations to sell to sitting tenants at a price of up to 20 per cent below the market price. By 1972 the number of local authority and New Town Corporation houses sold to sitting tenants was 62,000, three times as many as in 1971 and nine times as many as in 1970. Certain aspects of this trend were viewed with concern, in particular the selling of council houses at below market prices, the inadequate controls on resale, and the selling of homes in areas of housing stress which simply aggravated the shortage of accommodation to rent. Further inducements to home ownership were provided by making the option mortgage scheme applicable to more expensive houses and removing the money ceiling on local

authority mortgage lending. As we saw in the previous section there was also a marked increase in the proportion of new dwellings built for private sale.

The White Paper *Widening the Choice: The Next Steps in Housing* (HMSO, April 1973) gave further emphasis to the importance attached to home ownership. It re-iterated the request for local authorities to release more land for private housebuilding and recommended that local authorities should play an increasing role in building for sale, using the permitted discounts from market values. Finally the Housing Finance Act, through its move towards higher rents in the public sector, shifted the balance of advantages between renting and buying even further in favour of purchase.

Even without these specific measures, there has been a steadily expanding demand, often unsatisfied, on behalf of many families to buy their own homes. Both major parties have been committed to the encouragement of this form of tenure and it is, in the main, the greater social, legal and financial advantages offered by home ownership, created largely by government policy that is the basis of the wide desire to own one's home. The choice between owning and renting is not an equal one, and the opportunity to make this choice by those not owning is very restricted. Encouraging owner occupation as an end in itself in present institutional arrangements neither achieves "greater fairness between owning and renting" nor provides a "reasonable choice". This can only be achieved by equalising the advantages of living in different sectors not widening the gap between them.

Repeated emphasis was also given to the principle of concentrating resources where they are most needed. This was for example one of the objectives claimed for the Housing Finance Act. By establishing a common basis for setting rents in both the public and private rented sectors, and introducing a national scheme of rebates and allowances for the majority of tenants it was intended that benefit should be related to need by charging everybody a

rent which reflected the market valuation, less any scarcity element, and providing help only to those who were unable to afford these rents through rebates and allowances. The Act also provided for additional subsidies to be given to areas with large building and slum clearance programmes that had exceptionally high costs. The extent to which this principle has been achieved through the measures of the Act will be examined in the next section. The principle is also to be seen in the more recent proposals contained in *Better Homes: The Next Priorities* and embodied in the Housing and Planning Bill (January 1974) that local authorities were to be given wider discretionary powers for encouraging improvement and helping stress areas by the setting up of Housing Action Areas. This, too, is examined later.

While the move towards concentrating resources on stress areas and the introduction of rent rebates and allowances can both be seen as ways of relating assistance to need, there were other factors working in the opposite direction. The decline in the rate of house building, the increasing problems of stress areas caused by the property boom and the increasing emphasis on home ownership all led in the general direction of greater inequality rather than less.

the Housing Finance Act

The main elements of the government's housing policy were contained in the controversial Housing Finance Act 1972, with its radical but partial reform of housing finance. While the declared aim of the Act to produce a fairer distribution of financial aid was clearly desirable, the provisions of the Act have been the subject of extensive criticism. The main provisions were:

- 1 A change in the method of subsidising local authority housing involving a substantial reduction in central government grants to this sector.
- 2 The raising of rents in the public sector in a series of annual steps until

they reached a "fair rent" level, defined as for private regulated tenancies.

3 The quicker phasing out of controlled tenancies and the raising of controlled rents to "fair rent" levels.

4 The introduction of a national scheme of means tested rent rebates for public tenants from 1 October 1972 and allowances for private unfurnished tenants from 1 January 1973. Some private furnished tenants also became entitled to allowances from April 1973 (under the Furnished Lettings Act, 1973).

The way in which public housing is subsidised has, as a result, been radically altered, though the new subsidy system would not have been fully operational until 1975-6 (the new Labour government has now announced a new interim system of local authority finance to take effect from the end of 1974—see page 39). Councils no longer had the autonomy to determine rents. "Fair" rents were assessed for all dwellings by local authorities subject to approval by Rent Scrutiny Boards with no right of appeal. Rents were to rise by an average of 50p (and a maximum of 75p) per dwelling a week for the whole of each financial year until they reached the assessed "fair" levels. In the first year of operation, 1972-3, authorities had to raise rents by an average of £1 per week per dwelling on October 1972 unless they had already made an increase in that year sufficient to provide the required additional rent revenue.

The new Exchequer subsidies introduced by the Act can be conveniently separated into three types (see R. Haddon, "A new system of housing subsidies," in K. Jones (editor), *The Year Book of Social Policy 1972, 1973*). First, those that were essentially of a transitional nature. These were the residual, transitional and operational deficit subsidies designed to phase out the old system of subsidies. The residual subsidy is a fixed amount related to the level of existing subsidies payable for 1971/2; for 1972/3 it was the amount of the 1971/2 subsidy less £20 for each dwelling, for 1973/4 the 1971/2 amount less £40

per dwelling and so on. The transitional subsidy is payable to an authority in any financial year to cover any deficiency that arises where the increases in net rent income for the year are not sufficient to cover the reduction in Exchequer subsidy over the previous year. The operational deficit subsidy is similarly related to the withdrawal of the old system of rate fund contribution to the Housing Revenue Account.

The second type of subsidy is that related to the cost of rent rebates and allowances. The rent rebate subsidy is only payable if the housing revenue account, after the payment of rebates, is in deficit. In this case a rent rebate subsidy equal to 90 per cent of the deficit in 1972-73 reducing to 75 per cent in 1975-76 is payable, and the remainder is to be met by rates. Similarly the Exchequer will also pay a rent allowance subsidy equal to the whole cost of allowances up to 1975-76 and 80 per cent of the cost after that date, the remainder being met by rates. The nature of the payment of these subsidies means that if a surplus arises after rebates have been paid, rent rebates will have in effect been financed out of rent income since no rent rebate subsidy is payable. The surplus will then be used to offset the rent allowance subsidy and if the surplus is greater than the cost of these allowances, 50 per cent of the remaining surplus is to go to the central government and the rest to the local authority's general rate fund.

Thirdly, there are two subsidies, the rising costs subsidy and the slum clearance subsidy, designed to provide additional financial assistance to authorities with special needs, for example, those pursuing large new building or slum clearance programmes.

The government's estimates of the net cost to the Exchequer of these new subsidies plus the cost of SBC payments towards rent are set out in the following table which illustrates the intended effect of the new system of subsidies in stabilising the cost of Exchequer subsidies. Existing subsidies were to be withdrawn at a rapid rate and the "transitional"

subsidies estimated to total only some £25 million by 1975-76. However, the increasing rate of inflation meant that the actual cost of Exchequer subsidies by 1974 had risen above these estimates, though they were still lower than they would have been under the former system of subsidies.

council tenants

The net effect of the Act on the housing costs of individual public tenants by the end of 1973 depended on the extent of the rent increase incurred and whether they became entitled to a rebate they had not previously been receiving, and whether they were drawing it. Under the Act rents on average increased by £1 on 1 October 1972 and by another 50p a week by the end of 1973, and they would have gone on increasing at the rate of 50p a week each year until they reached assessed "fair" rent levels. (The increase due on 1 April 1974 was frozen by the new Labour Government.)

Before 1972 local authorities had had powers to operate their own rebate schemes for council tenants and at 31 March 1971, 64 per cent of local authorities in England and Wales, covering a higher proportion of tenants, were doing so. Council rents prior to the Act were relatively low however and generous rebate schemes were therefore less necessary than with the higher rents imposed by the Act. Indeed the government estimated that by 1975/6 as a result of the Act some 2 million council tenants in England and Wales (40 to 45 per cent of all

tenants) would be eligible for rent rebates and between 500,000 and 700,000 private unfurnished tenants (up to 30 per cent) for rent allowances. Of those rent rebate schemes in operation before the Act, however, there was considerable evidence of a very low take up. In 1968, for example, the Conservative controlled Greater London Council introduced a new rebate scheme simultaneously with a move towards higher rents. While it was estimated that some 70,000 would be eligible by 1970, at the beginning of 1971 only some 17,000 of the GLC's 250,000 tenants (7 per cent) were receiving rebates. The only authority running a rent allowance scheme for private tenants was Birmingham, but their experience was similarly one of an extremely low take up. They estimated that in the first year of operation of a total of 60,000 private tenants 6,000 would be eligible for the scheme, but only 1,000 applications were received, of which 250 were eligible (Freda Cocks, "Housing Allowances for Private Tenants—Birmingham's Experience", *Housing Review*, January-February 1972).

The national scheme of rebates introduced under the Act began for council tenants on 1 October 1972. Whether families are eligible and by how much is determined by a set of national scales, though local authorities have the power to operate slightly more generous schemes. For council and private unfurnished tenants the amount of entitlement depends on income, the rent paid and a needs allowance based on family size and whether the tenant is blind or disabled (the scheme for furnished tenants is con-

ESTIMATED PAYMENTS FROM EXCHEQUER FOR ENGLAND AND WALES UNDER HOUSING FINANCE ACT 1972

	1972-3	1973-4	1974-5	1975-6
	£m	£m	£m	£m
slum clearance subsidy	5-10	5-15	10-20	10-25
residual subsidy	110	40	20	5
operational deficit subsidy	25	25	20	15
transition subsidy	20	20	15	5
rising costs subsidy	10	20	40	55
rent rebate subsidy	80-100	100-120	105-135	105-135
rent allowance subsidy	5-10	30-50	30-50	30-50
SBC payments towards rent	80	80	80	80
total range	340-360	335-355	340-360	325-345

sidered in the next section). The rebate/allowance is higher, the higher the rent, the larger the family, and the lower the family's income (including family allowance and family income supplement). The scheme has been made more generous since its introduction by the raising of the needs allowance in April 1973 and again in October 1973, at a faster rate than the growth of incomes so that more households have become eligible.

There is no doubt that the Housing Finance Act has had a significant impact on the well being of tenants. Some will have gained, some lost, depending on the extent of their increase in rent, whether they were entitled to a rebate and whether they had previously been receiving a rebate, but also crucially on whether those entitled were receiving a rebate. The table below shows the level of rebate and actual rent paid for households of different sizes, for different levels of rent of £2, £3, £6 and £10, and two levels of earnings, £20 and £35.82 (the average industrial earnings) at October 1972.

If we assume that the households shown in this table had all experienced an increase in rent in October 1972 of the full £1 and had previously not been receiving a rebate, they would have been better off to the extent that their rebate entitlement was greater than the rent increase, and worse off if it had been less. Taking the households with *low earnings* of £20 paying a new rent of £2, only those with more than one child were unaffected or better off. Of those paying £3 in rent, single households would have been worse off but families would have been better off. In general, families would have been better off providing they were paying at least £3 in rent, and their gain would have been greater the higher the rent paid. Large families paying high rents would have gained considerably. For those facing increases in rents of less than £1, the gains were greater (or losses less), and for those already receiving a rebate under one of the old local authority schemes, the gains less.

For those on *average earnings*, many

RENT REBATES AT OCTOBER 1972

rent	earnings of £20 a week							
	£2		£3		£6		£10	
	rebate	rent paid	rebate	rent paid	rebate	rent paid	rebate	rent paid
household	£		£		£		£	
single	—	2.00	.19	2.81	1.98	4.02	4.38	5.62
married couple	.31	1.69	.91	2.09	2.71	3.29	5.11	4.89
married couple, 1 child	.77	1.23	1.37	1.63	3.17	2.83	5.57	4.43
married couple, 2 children	.97	1.03	1.60	1.40	3.40	2.60	5.80	4.20
married couple, 4 children	1.53	.47	2.13	.87	3.93	2.07	6.33	3.67

rent	average earnings £35.82 a week					
	£3		£6		£10	
	rebate	rent paid	rebate	rent paid	rebate	rent paid
household	£		£		£	
single	—	3.00	—	6.00	1.70	8.30
married couple	—	3.00	—	6.00	2.42	7.58
married couple, 1 child	—	3.00	.49	5.51	2.89	7.11
married couple, 2 children	—	3.00	.80	5.20	3.20	6.80
married couple 4 children	—	3.00	1.40	4.60	3.80	6.20

Note The rebates have been calculated on the assumption that families, where entitled, were receiving family allowance and family income supplement, that is a 2 child family earning £20 a week would have been receiving 90p family allowance and 55p FIS, giving total income of £21.45; and a 4 child family £2.90 family allowance and £1.55 FIS, giving total income of £24.45.

would have found themselves worse off. All households paying rents of £2 and £3 would have been worse off to the full extent of their rent increases, since they would not be entitled to a rebate. Even single, childless couples and one child families paying £6 in rent would have been worse off. Only larger families paying high rents would have gained under the scheme.

In general therefore low income families paying average or higher rents and claiming their rebate would have gained under the Act. Single and childless households paying average or below average rents would have been paying higher rents than before. Average income households paying average or below average rents would have found their housing costs rise, as would most households paying rent of as much as £6. For those on average earnings only households, and especially families, paying higher rents would have gained. By October 1973 the needs allowances had been raised, rents had increased by a maximum of 75p and an average of 50p, and average manual earnings had risen 14 per cent. The table below shows the rebate entitlement for the same households

paying 50p per week more in rent and having enjoyed an average increase in earnings. Even after allowing for higher rents and earnings, all low income families would have been paying less actual rent in October 1973 than a year earlier. This was due to the very much more generous needs allowances that had been set as part of the third stage of the Government's counter inflation policy. The average income household, on the other hand, was in most cases paying a slightly higher rent. Those paying an average or below average rent would have been paying a considerably higher rent.

These conclusions are, however, dependent upon those entitled claiming their rebate or allowance. Those who are entitled but have not claimed will have become worse off, and in view of the widespread problem of the low take up of means tested benefits this is a serious limitation of the Act. The Department of the Environment estimated that in May 1973 the take up rate among non supplementary benefit claimants was some 70-80 per cent for rebates and 10-15 per cent for allowances for unfurnished tenants (the effect on private tenants is considered

RENT REBATES AT OCTOBER 1973

rent	earnings of £23 a week							
	£2.50		£3.50		£6.50		£10.50	
	rebate	rent paid	rebate	rent paid	rebate	rent paid	rebate	rent paid
household	£		£		£		£	
single	.23	2.27	.82	2.68	2.62	3.88	5.02	5.48
married couple	1.12	1.38	1.72	1.78	3.52	2.98	5.92	4.58
married couple, 1 child	1.69	.81	2.29	1.21	4.09	2.41	6.49	4.01
married couple, 2 children	2.21	.29	2.81	.69	4.61	1.89	7.00	3.50
married couple, 4 children	2.50	—	3.50	—	5.48	1.02	7.88	2.52

rent	average earnings £41 a week					
	£3.50		£6.50		£10.50	
	rebate	rent paid	rebate	rent paid	rebate	rent paid
household	£		£		£	
single	—	3.50	—	6.50	1.96	8.54
married couple	—	3.50	.46	6.04	2.86	7.64
married couple, 1 child	—	3.50	.97	5.53	3.37	7.13
married couple, 2 children	—	3.50	1.33	5.17	3.73	6.77
married couple, 4 children	.20	3.30	2.00	4.50	4.40	6.10

Note The rebates are calculated allowing for receipt of family allowance and family income supplement where entitled.

in the next section). Other independent local surveys have suggested that these figures may be optimistic. A comprehensive survey carried out in two Shelter-Aided Housing Associations in London in 1972 revealed that take up rates for a wide range of means tested benefits were considerably lower than official estimates (C. Purnell, *The Prospects for Rent Allowances*, Wandsworth People's Rights, July 1973). A study carried out by Batley Community Development Project of two low income wards showed take up to be 48 per cent for rebates and nil for allowances in mid January 1973, and these had only risen to 51 per cent and 8 per cent in a follow up survey taken in July 1973 (*New Society*, 7 March 1974). While there is evidence that the number receiving these benefits increased throughout 1973, this is partly explained by the increasing number who became entitled as a result of the more generous levels of the needs allowance. It may be that proportionately take up figures have hardly increased. Even if the take up rate for allowances has doubled, this still leaves some 70-80 per cent of private tenants failing to receive their entitlement.

Apart from this problem of ensuring that households receive the benefits they are entitled to, the Act has been criticised on a number of other grounds. The rising costs and slum clearance subsidies introduced to give additional help to areas with special responsibilities are to be welcomed but other aspects of the new subsidy system and the substantial increases in rents have several undesirable consequences.

First a majority of authorities, where full fair rents are being charged, will have a surplus of rental income, before rebates are paid, over costs, thus enabling a profit from the provision of council housing. In this situation the rebate scheme, which is a means of providing income support to poor families, will largely be financed from the rents of moderately well off council tenants rather than from general taxation. The Act in this way involves a re-distribution of income from better off council tenants facing higher rents but not receiving rebates to less well off pub-

lic and private tenants. In addition, when a surplus remains after the payment of rebates and allowances, non rebate receiving council tenants will be subsidising local and central Government expenditure on non housing projects. This is a deplorable situation. The provision of socially necessary housing should not be turned into a profit making enterprise; help to low income households should be provided out of general taxation and not out of housing revenue surpluses resulting from the charging of high rents.

Secondly, the Act has led to a massive increase in means testing. It was estimated, as we have seen, that over 40 per cent of all council tenants would be entitled to a rebate. While the majority of tenants have below average incomes, some of those with average or above average earnings are now entitled to a rebate if they are paying relatively high rent. The table on page 20 shows that in October 1973 a married couple with two children and average manual earnings of £41, paying rent of £6.50, were entitled to a rebate of £1.33. The forcing up of rents to a level at which a relatively well paid tenant needs to apply for a means tested reduction bears the hallmark of Tory social philosophy.

The addition of another means tested benefit to the already extensive range of such benefits has increased the dependence of the poor for a decent standard of living on efficient and uninhibited form filling and declaration of income and need, and so accentuated the problem of the "poverty trap". Householders with children drawing family income supplement already faced a loss of 50p from every additional £1 of earnings. If they were also receiving free school meals and paying tax they would have been subject to a much higher effective "marginal rate of tax". Families with low incomes below the needs allowance found that their rebates were reduced by 25 per cent of increases in income, and those with incomes above this, a 17 per cent reduction. These weaknesses of the Act also raise the issue of applying the "fair rent" concept to the council sector. "Fair rents" were first introduced by the Rent

Act 1965 for the private unfurnished sector and were to be determined on the basis of all circumstances (except personal circumstances) including the age, character, locality and condition of the dwelling, but excluding any excess value due to scarcity. The setting of rents on this common basis for all tenants, whether public or private, was seen as a way of producing comparability in the treatment of tenants in different sectors. However there are a number of objections to this approach. First there is the administrative difficulty of setting comparable "fair rents" for council dwellings. Various methods have been suggested for calculating them (DOE Circular 75/72) including using comparable rents already set for private dwellings in the locality and using gross rateable values, but both these approaches have drawbacks. The method of assessing the scarcity element also appears to be arbitrary and it has rarely been fully excluded in the case of private lettings. Other problems have also come to light (see for instance D. Nevitt, *Thamesmead Rents*, GLC 1973).

A further objection to the method of assessing "fair rents" in the public sector is that while private tenants have the right of appeal to Rent Assessment Committees against the assessments made by the Rent Office, no such right of appeal is provided to public tenants. "Fair rents" were provisionally set by local authorities then adjudicated by Rent Scrutiny Boards whose decisions are final.

A third problem is that of ensuring that "fair rents" are charged on all dwellings in the private sector. Continuing shortages have had the effect of preventing effective regulation of rents especially in the furnished sector. Even in the regulated sector registered rents are often not those fixed by the Rent Officer but those jointly "agreed" by landlord and tenant in conditions of scarcity and relative ignorance of rights on behalf of the tenant.

But most important is the effect of setting "fair rents" in the public sector in creating surpluses on the housing revenue account of many authorities and increasing the rents of a high proportion of

tenants to levels which the government consider they cannot afford. While "fair rents" providing a reasonable return are necessary in the private sector they are not in the council sector which consists of a large stock of generally good quality accommodation built up over a long period of time to provide socially necessary housing. The average cost of administering such accommodation is much lower than the current cost of new building, and average rents can therefore be kept relatively low and differences in rents kept to a minimum through the application of rent pooling. "Fair rents", in contrast, are to be re-assessed every three years which means that council rents will be permanently fixed to current market values (less scarcity in theory) and not the costs of provision.

Amongst Labour supporters it has been widely suggested that council rents should be set to cover pooled historic costs, where costs are defined to include the costs of construction, interest repayments, and the management and maintenance of dwellings. This approach, combined with the provision of special subsidies to cover areas of abnormally high cost, to finance urban renewal and municipalisation programmes, and the application of regional rather than local pooling where necessary, would mean that rents could be kept relatively low and reduce the number of tenants needing means tested assistance. The cost of giving financial assistance to those poor families still unable to afford such rents could then be borne by society through general taxation and not by better off council tenants. The present authors have also questioned the principle of means tested benefits in housing as well as in other areas and examined the possibility of their replacement with a system of universal allowances (S. Lansley and G. Fiegehen, *Housing Allowances and Inequality*, Young Fabian Pamphlet 36).

private tenants

While the setting of rents to cover costs is an appropriate policy in the public sector it would not be so in the private sector where landlords require some rate

of return if they are to continue letting. In the past, some form of restriction has usually been applied to prevent rents reaching excessive levels in a situation of shortage. Provision for the setting of "fair rents" in decontrolled unfurnished properties, for example, was made under the Rent Act of 1965 in order to introduce some consistency in the determination of rents in this sector and to prevent inflation in rents due to scarcity while at the same time providing landlords with a reasonable return for letting. Nevertheless the range of measures adopted and their ineffectiveness in some instances has meant that rents have still tended to vary widely in the private rented market, particularly between the three separate parts of the private sector. In 1972, for example, there were still roughly 1.3 million controlled tenancies with very low rents but generally in a poor state of repair, some 1.2 million regulated tenancies with higher rents, and some 600,000 furnished tenancies with consistently high rents.

Despite the provisions of the 1965 Rent Act, which converted those tenancies decontrolled after the 1957 Rent Act into regulated tenancies and provided for "fair rents" to be determined by rent officers, by the end of 1971 only some 300,000 regulated tenancies had had such rents fixed. The great majority of applications have been made by landlords and most rents (73 per cent in 1972) have been increased. In fact rents for unregistered tenancies (those that have not had a rent determined by the rent officer) were on average lower than for registered tenancies in 1970 (Francis Committee).

Rents in the furnished sector have been very high, particularly in areas of shortage such as London. In 1970 the Francis Committee found that the average gross rent paid by tenants of furnished accommodation in the Greater London Area was £393 per annum, in comparison with £195 per annum paid by tenants of unregistered unfurnished accommodation. This is largely because of the very limited security enjoyed by furnished tenants, which prevents many going to the Rent Tribunal for fear of possible eviction,

though ignorance of this right is undoubtedly another factor. Moreover the Francis Committee found that many furnished tenants had low incomes, and that in Greater London in 1970 median rent as a percentage of median take home pay of heads of furnished households was as high as 33 per cent.

Between 1970 and 1972 average registered rents in England and Wales had increased by 12 per cent, and by 17 per cent in Greater London (*Housing and Construction Statistics*, Department of the Environment). From the little information available on rents in the other sections of the private market since 1970, it appears that rents on average have increased substantially. While there has been no direct policy affecting rent levels in the regulated and furnished sectors, in areas of continuing stress such as London, rent regulation has proved relatively ineffective because of the pressing shortage of accommodation to rent, a problem that has been becoming more acute with the continuing if not accelerating decline in the availability of private accommodation.

There have been policy changes affecting the controlled sector however. Under the 1969 Housing Act, as part of the general programme of improvement, controlled tenancies could be brought into the regulated system provided they were brought up to or were already at a satisfactory standard approved by the local authority. In England and Wales, by September 1971, some 29,000 previously controlled dwellings had had fair rents registered under this Act. This included 25,000 already improved dwellings and only 4,000 improved under the Act (Hansard, 21 December 1971). The Housing Finance Act in an attempt to speed up this process of improvement in the controlled sector introduced comprehensive decontrol whereby the rents of all existing controlled properties could eventually be increased in a series of stages to "fair" rent levels, beginning with higher rated properties at the beginning of 1973.

While the rents charged in the private sector are often high, with the provision of rent allowances for private tenants

under the 1972 Act, the actual rent paid will depend upon whether the tenant is entitled to and receiving an allowance.

There is no doubt that low income tenants in regulated tenancies receiving an allowance for the first time gained considerably, and this aspect of the Act has brought much needed help to some tenants. There are some serious qualifications about the operation of the provisions of the Housing Finance Act for the private sector, however. In the first place a high proportion of controlled tenants are poor and the standard of their accommodation in general very low, partly as a result of the long period of rent control. Decontrol may well cause some hardship in this area particularly since some tenants may be worse off even with the receipt of a rent allowance. Those controlled tenants who fail to claim their allowance though entitled may find themselves considerably worse off.

This problem presents a difficult dilemma since the continuation of control is undesirable. A high level of priority should be given to ensuring take up of the available allowances. But this necessity reveals an important drawback of the allowance scheme, the low take up from which it is currently suffering and from which it is liable to suffer even when the scheme has been in operation for some while. The available evidence indicates, as we have seen, that take up figures for unfurnished rent allowances were appallingly low in 1973, and much lower than rebates. This is due both to the difficulties of providing private tenants with information and their greater reluctance to exercise their rights, when they are known, for fear of damaging relationships with their landlord. The vast majority of poor families in private rented property not in receipt of supplementary benefit still receive no help at all with their rent from the state.

In the furnished sector, some tenants became entitled to rent allowances from April 1973. While there is insufficient evidence at present on which to base a judgment about the effectiveness of the scheme, there is every reason to suspect

that take up will be very low. By the end of 1973, for example, Manchester was paying only 65 allowances to furnished tenants, Lambeth 109 and Wandsworth 225.

But there are other disturbing features of the furnished allowance scheme. Single tenants and childless couples are not entitled at all unless they can prove exceptional hardship. Eligibility is also dependent upon a local authority residence qualification and since furnished tenants are often highly mobile, this may preclude many tenants, especially in London where mobility across borough boundaries is common. Tenants continue to lack security and, apart from ignorance of the law, it is often fear of a notice to quit that prevents many applying to the Rent Tribunal for a rent assessment. The rent eligible to be met by the allowance is 125 per cent of the local authority's estimate of the fair rent of the accommodation (as if it were unfurnished) and not the actual rent paid. Tenants in properties in which the rent is not registered and is excessive but who are not prepared to go to the Rent Tribunal through fear of eviction will receive inadequate help. Figures provided by the London Borough of Wandsworth show, for example, that the 225 tenants receiving an allowance at the end of 1973 were paying an average rent of £9.85, but the average rent used for assessment was £6.16, or only 63 per cent of the actual rent paid. Further, seven of these tenants were living in three bedroomed tenancies, and the actual average rent paid for these properties was £22.40 compared with an assessed rent of £8.53, or only 38 per cent of the actual rent.

owner occupiers

During the period 1970-74 the structure and working of the financial arrangements for owner occupation remained basically unchanged by government policy. There were steps taken to raise the limits on the option mortgage scheme and the ceiling on local authority mortgage lending, and in 1973 a grant of £15 million was made to building societies to forestall a rise in the mortgage interest rate. The position

of owners and buyers, both individually and relative to each other, were also considerably affected by events during this time, as will be seen later. However, at heart the government believed that existing arrangements could and would function well without intervention or reform and that there was no need to tackle the mounting cost to the Exchequer of tax concessions given to owner occupiers.

One objective in introducing the Housing Finance Act, it was said, had been to create a "fairer choice between owning a home and renting one", but the Act itself had dealt only with the rented sector. Great inequities did and still do exist in the allocation of state housing financial assistance, but the effect of the Housing Finance Act in raising public sector rents was to increase the disparities between tenants and owner occupiers not reduce them. The question of the total value of subsidies and concessions to each sector and their effects on real income distribution have been dealt with elsewhere, by ourselves and other writers, and the conclusion reached has been that owner occupiers as a group benefit to much the greater extent. Below, the problem is looked at in different terms comparing the relative costs to an individual of buying or renting a home in the period since 1964, and the conclusion about the relative burden reinforces the view that it pays to own one's house.

The housing costs of an owner occupier are determined in quite a different way to those of a tenant and depend on when the house was bought, the value of the mortgage and whether it carries a fixed or variable interest rate. Owner occupiers receive privileged financial assistance in at least two ways. First they borrow money at well below market rates of interest, largely at the expense of building society depositors who presently cannot maintain the real value of their savings. Secondly income tax relief is given on mortgage interest payments (with no question of undergoing a separate means test as does a tenant for a rebate or allowance), although no tax is due on the imputed rental income accruing from personal ownership of the house. The

owner's housing costs therefore depend as well on his income and marginal rate of tax, since the higher the latter the more valuable tax relief on mortgage interest becomes.

Housing expenditure is related to the price of the house when purchased; while initial mortgage repayments can be very high, they diminish in real terms with time if incomes and prices rise and cease when the mortgage is repaid and the house is owned outright. But in addition the owner acquires a capital asset, the value of which depends on the relative rates of house price and general inflation.

It is often contended that house purchasers do not benefit from any appreciation in the value of their house due to general inflation since moving from one house to another does not allow any realisation of these gains. However, this ignores the fact that rising house prices increase the costs of those buying at a later stage and enable those who bought at the earlier date to move to a more expensive and better house, and one which provides more absolute appreciation, without increasing the share of their income spent on housing. House price appreciation leads to a redistribution of consumption and wealth from new buyers to existing owners, from those buying for the first time later in life towards those of the same generation who bought at an earlier date, and from tenants as a whole to owners as a whole.

It is also not always the case that the gain cannot be directly realised, for householders may move to smaller houses or cheaper regions, and there is also the possibility of returning to renting. In contrast a tenant is unlikely to find a form of savings offering such capital gains.

In a period of inflation, therefore, an owner occupier is in a very favourable position relative to a tenant, for the medium term costs of buying are generally lower, sometimes considerably lower, than renting. This holds even more in a period of rapid inflation. In-

4. the cost of renting and buying

Here an attempt is made to illustrate the respective costs of renting in the public sector and buying equivalent accommodation, and to assess in particular the impact that the Housing Finance Act, higher interest rates, general inflation and increases in house prices since 1970 have had on these relative costs. The comparisons are based on the cost of purchasing a three bedroomed semi-detached post-war house in 1964 and renting equivalent accommodation in the public rental sector. The value of the house over the period 1964 to 1973 and the comparable public sector rent are shown in the table below. (The house price figures have been obtained from the series in *Housing and Construction Statistics*, which are at present available for 1966 to 1971, and have been projected back to 1964 and forward to 1973 by assuming an equivalent increase as in the average price of new dwellings mortgaged. The rent figures are available for April 1966 to April 1973 (*Housing Statistics*, the Institute of Municipal Treasurers and Accountants) and have been converted to mid year values and projected backwards to 1964).

In the first few years the repayment of a mortgage combined with the relatively minor costs of insurance and maintenance involve the house purchaser in higher annual expenditure than the payment of rent. However, as we have seen, these outlays diminish in real terms with time if incomes and prices rise, and eventually become insignificant when the mortgage is fully repaid and the house is owned outright. Renting at first involves a lower

annual expenditure, but these costs rise with inflation and will eventually become greater than the purchaser's costs possibly before purchase is complete. When the mortgage has been fully repaid the buyer's housing costs are insignificant, he owns a capital asset, but tenants continue to pay rent.

The choice between buying and renting is therefore a choice between the foregoing of present consumption in favour of higher consumption later in life for the purchaser and higher consumption now with relatively lower consumption later for the tenant. The trade off may not necessarily be one for one, for the financial savings later from buying may in total outweigh the initial losses. A householder's decision whether to buy or rent will also be influenced by his pattern of preferences, and he may prefer a given level of real consumption now rather than later because of uncertainty about the future. Even with a guarantee of higher consumption later, he may still have a purely psychological preference for current consumption. A rational householder who ignores the non financial differences of living in different sectors, wishes to minimise his lifetime's housing costs and able to make a choice between buying and renting must compare the relative costs involved and assign his preference for current or future consumption.

In practice the costs involved depend on a number of factors, in particular the householder's life expectancy, interest rates and rates of inflation in house prices,

PUBLIC & PRIVATE HOUSE VALUES, ENGLAND AND WALES, 1964-73

	average price		rents of local authority	
	3 bedroom semi-detached houses	3 bedroom houses, mid-year	3 bedroom semi-detached houses	3 bedroom houses, mid-year
	£	index	£	index
1964	3220*	100	1.83*	100
1965	3534*	109.8	1.96*	107.0
1966	3780	117.4	2.14	116.9
1967	3950	122.7	2.36	129.0
1968	4210	130.7	2.60	142.1
1969	4400	136.6	2.77	151.4
1970	4580	142.2	3.01	164.5
1971	5220	162.1	3.28	179.3
1972	6683*	208.5	3.77	206.0
1973	9000*	279.5	4.53	247.5

*estimated.

rents and all prices prevailing over his lifetime, all of which are almost impossible for an individual to predict.

It should be remembered that the buyer's outgoings cover more than the cost of housing services alone. He is also purchasing a capital asset. If, as has been the case since the War, house prices rise faster than the general cost of living, he is in effect purchasing not merely a capital asset but an appreciating one.

an illustration

To illustrate these differences on the basis of recent experience we have taken two householders, one buying a three bedroomed semi-detached house in 1964 for £3,220 and one renting in the public sector at £1.83 a week. The price of *new* houses of this type in 1964 was slightly higher at £3,433 (see table on page 6). Similarly, to have rented in the decontrolled private sector would have cost considerably more. While we may compare the relative benefits of buying and renting under these circumstances, whether the tenant could have become a purchaser, or *vice versa*, would have depended on his income, the availability of mortgages and of accommodation to buy and rent. While already very limited for certain groups the choices available have become considerably more limited for the majority of families since 1970.

Given building societies rules of allowing, in general, a *maximum* mortgage of three times income, a 90 per cent mortgage of £2,898 on this house would have required weekly earnings of at least £18.58, and we assume that the two householders in fact had this income in 1964 (average weekly earnings of full time manual employees in 1964 were £18.10). The buyer would have needed to find a deposit of £322 and about £100 for legal fees (£840 and £168 at 1973 prices). With a 25 year loan and the then mortgage rate of 6 per cent, *gross* weekly mortgage payments in the first year would have been £4.36, and *net* weekly repayments (after tax relief, assuming he was paying tax at a marginal rate of 30 per cent) £3.64. His net repay-

ments would increase gradually over the period of the loan as the proportion of the annual repayments devoted to interest fell and so the value of the tax relief. The costs of insurance and maintenance have been assumed to be 40p a week in the first year, and rates to be identical whether renting or buying.

Initially therefore, buying a £3,220 house would have cost approximately £2.21 a week more than if it were rented in the public sector. The net cost of buying would have taken 22 per cent (excluding rates) of gross earnings but to rent 9.8 per cent. However, net mortgage repayments would have risen only slowly since 1964 although the value of tax relief would have fallen and rates of interest have risen, while rent would have risen with inflation. The table in the appendix sets out the detailed costs of buying and renting in the three separate periods 1964 to 1970, 1971 to 1973 and 1974 to 1988, the final year of mortgage repayments. Up to 1973 actual rates of inflation in rents, house prices and general prices were used; insurance and maintenance costs were assumed to rise in line with all retail prices, and mortgage interest rates were taken to have risen to 7 per cent in 1966 and 8.5 per cent in 1969. After 1973 the comparison has been based on various assumptions about future rates of inflation.

The appendix shows that by 1970 the weekly costs of buying and renting had become £4.90 (allowing for increases in the mortgage interest rate and assuming the period of the loan is not extended) and £3.01 respectively, a difference of £1.89 (in 1970 prices). Assuming that the householders' earnings had risen in line with average earnings, they would have become £28.80 in 1970 and housing expenditure (excluding rates) in the two cases would have formed 17 per cent and 10.5 per cent of earnings.

In contrast if our tenant householder decided to buy in 1970 he would have had to pay £4,580 for the same house, find a deposit of £458 (£586 in 1973 prices) and with a 25 year loan at 8½ per cent rate of interest face net weekly

mortgage repayments in the first year of £6.17 and total outgoings, including insurance and maintenance, of £6.69, or 23 per cent of his earnings. To obtain a mortgage on this house the gross earnings would have to have been at least £26.42 (average manual earnings in 1970 were £28.05). Between 1964 and 1970 average earnings increased by 55 per cent while average house prices rose only 49 per cent, and the capacity of below average income families to buy a house rose during this period.

To compare the accumulated differences in the costs of buying and renting this house between 1964 and 1970 we have assumed that the annual money savings from renting (buyer's costs less the tenant's) can be invested and earn a real rate of interest of 3 per cent. We are assuming, therefore, that the tenant chooses to save the difference between his and the buyer's housing costs, that is, to defer present consumption. The figure of 3 per cent real rate overstates the return he would actually have obtained over much of this period, and this is likely to have become especially true in the 1970s.

The average rate of price inflation between 1964 and 1970 was 4.6 per cent, and it is assumed that the annual savings from renting were invested at 7.6 per cent with the interest accruing being re-invested. This accumulated sum amounted to £1,653 by 1970 (£2,050 in 1973 prices). The house itself had increased in value to £4,580, on which £2,508 was still owed, leaving an asset worth £2,072 (£2,650 in 1973 prices). Deducting the real expenditure incurred in buying the house, the owner was in effect some £419 (£540 in 1973 prices) better off than the tenant after this six year period.

By 1973 the buyer's outgoings had risen to £5.05, before the rise that year in the mortgage interest rate, and the tenant's rent to £4.53, a difference of only 52p, while the value of the house had risen to £9,000 and their earnings to £41.99. Buying the same house in 1973 a first time purchaser would have required a deposit of £900, and earnings of at least £51.92. The householder in our example

who had not bought in 1964 or 1970, would therefore have forfeited his chance for this house by 1973. Average earnings were lower at £40.92, and only some 14 per cent of male manual employees earned over £50 a week (New Earnings Survey, *Department of Employment Gazette*, January, 1974). *Net* weekly mortgage repayments for the new buyer had now become £12.17 (which together with insurance and maintenance would take 25 per cent of the marginal buyer's gross earnings, and over 30 per cent of our householder's earnings).

By the end of 1973, mortgage interest rates had risen to 11 per cent. This would have increased the *net* mortgage repayments of the person buying in 1964 from £4.38 to £5.12 and the new buyer from £12.17 to £14.22. While this involves high initial weekly repayments for the new buyer, it does not mean that he will no longer be better off in the medium to long term by buying. Even an 11 per cent nominal mortgage interest rate was negative in real terms after allowing for tax relief (which at 30 per cent reduces the rate to 7.7 per cent), and the high rate of price inflation of around 11 per cent during 1973. The effect of high nominal mortgage rates and high house prices is rather to restrict the benefit of owner occupation to fewer, predominantly higher income, groups and to cause short term hardship to those moderately well off families who bought at the height of the boom, when interest rates were 8½ per cent and who have had to face significantly higher outgoings since then.

Comparing the differences by 1973 between the cost of buying and renting since 1964, the appendix shows that although the owner had incurred additional expenditure which if invested by the tenant would have been worth £2,460 in 1973, he had also acquired a capital asset worth £6,700 (£9,000 less the outstanding loan of £2,300). He was now better off than the tenant to the extent of £4,240.

This illustrates in a particularly dramatic way the effect of the rapid increase in house prices since 1970 which, by outstripping increases in earnings, has

severely restricted the number of non owning households who could afford to buy, and has led to a significant redistribution of wealth to those who bought before the boom relative to existing tenants and those buying after the boom.

If house prices had risen more slowly between 1970 and 1973, say at the same rate as average earnings, the house would have been worth £6,680 in 1973, would have required earnings of £38.64 to buy and given a gain of £1,986 to the owner. Moreover *net* mortgage repayments for the new buyer, even with an interest rate of 11 per cent, would have been £10.56 as against £14.22.

The appendix also extends the comparison of these relative costs into the future until the end of the loan. This is a much more difficult exercise since it involves making assumptions about future rates of inflation. Two sets of assumptions have been used and enable some broad indication of the long term gains from owning on the basis of different expectations. The first is that the average rate of price inflation is 7 per cent, the average mortgage interest rate is 9 per cent and that house prices increase at 5 per cent, 7 per cent or 10 per cent. Insurance and maintenance costs and public sector rents are assumed to rise with general price inflation. Under these assumptions, the weekly outgoings of the tenant would become greater than the owner's in 1976 and by 1988 they would have become £12.51 and £7.34 (1988 prices) respectively. Again assuming that the tenant's savings can earn a real rate of return of 3 per cent, the benefits from owning if house prices increase by 5 per cent, 7 per cent and 10 per cent respectively are (in 1973 prices) £3,440, £5,660, and £10,300.

After 1988 the owner will have paid off his mortgage and his costs will consist merely of insurance and maintenance, but the tenant will continue to pay rent.

The second set of assumptions is that all prices rise at 10 per cent, the mortgage interest rate is 12 per cent and house prices rise at 8 per cent, 10 per cent and

13 per cent respectively. The detailed calculations are not shown but the conclusions are summarised in the table opposite and show that by 1988 the owner would be better off than the tenant by £4,090, £6,260 and £10,740 respectively for the three rates of house price inflation.

These comparisons have so far assumed that the owner obtained a variable interest rate mortgage and that he was paying tax at about the standard rate, and the point of comparison has been with a tenant in the public sector. If his mortgage had been at a fixed rate and he had not moved by 1973 his repayments would have been approximately £3.80, and outgoings £4.47 in comparison with £5.05 under a variable interest mortgage and £4.53 for the tenant. Similarly the benefit to the owner would have been greater if a comparison had been made with a private tenant renting an uncontrolled dwelling at a higher rent than in the public sector.

Further if the purchaser in 1964 had been paying tax at a higher rate the net weekly repayments would have been lower because of additional tax relief enjoyed. The taxpayer with a marginal tax rate on earned income of 30 per cent would find his nominal mortgage interest rate of 6 per cent reduced in effect to 4.2 per cent while a person paying tax on marginal income of 70 per cent would pay an effective mortgage rate of only 1.8 per cent. At 30 per cent rate of tax, net repayments in 1964 were £3.64, and at 70 per cent, net repayments were only £2.79. The gain from owning during this period was therefore even greater for surtax payers. The table opposite shows that in 1970 the gain from owning for a 70 per cent marginal rate taxpayer was £1,170 (1973 prices), in 1973, £5,110 and by 1988, £5,580, £7,800 and £12,430 for the three rates of house price inflation of 4 per cent, 7 per cent and 10 per cent (general inflation of 7 per cent and mortgage interest rate of 9 per cent). To give an indication of the relative benefit to a higher rate tax payer of buying an expensive house, the gain from purchasing a £6,000 house

FINANCIAL DIFFERENCES BETWEEN RENTING AND BUYING (AT 1973 PRICES) £

	savings from renting house price £3,220 ; 30% rate taxpayer	net value of house net gain to owner	
1964-1970	2050	2650	540
1964-1973	2400	6700	4240
1964-1988	<i>if inflation is 10%, mortgage interest rate 12%</i>		
House prices rise			
5%		6780	3440
7%	3230	9000	5660
10%		13630	10300
1964-88	<i>inflation 7% mortgage interest rate 9%</i>		
House prices rise			
8%		6830	4090
10%	2740	9000	6260
13%		13480	10740
house price £3220 ; higher rate taxpayer (70%)			
1964-70	1480	2650	1170
1964-73	1590	6700	5110
1964-88	<i>inflation 7%, mortgage interest rate 9%</i>		
House prices rise			
5%		6780	5580
7%	1200	9000	7800
10%		13630	12430
house price £6000 ; higher rate taxpayer (70%)			
1964-70	3760	4940	1180
1964-73	4600	12490	7890
1964-88	<i>inflation 7% mortgage interest rate 9%</i>		
House prices rise			
5%		12640	4260
7%	8380	16770	8390
10%		25390	17010

in 1964 by a 70 per cent tax payer is also shown. By the end of 1973 he would have been £7,899 better off than a council tenant, and by 1988, the figures would be £4,260, £8,390 and £17,010 for the three rates of house price inflation.

5. poor families and stress areas

While existing owners have been gaining from trends since 1970, many private tenants who are in general the most underprivileged of all housing groups, have been suffering. A relatively high proportion of accommodation in the private rented sector is of low quality yet occupants of this sector have benefited least of all from the increased rate of improvement. A large proportion of poor families live in the private sector.

The Family Expenditure Survey shows that in 1972 some 23 per cent of all households with weekly incomes less than £20 lived in the private unfurnished sector and only 2 per cent in houses that they were in the process of buying. Again, 36 per cent of all households living in private unfurnished accommodation had incomes of less than £20 a week compared with 27 per cent of local authority households and only 2 per cent of households buying their own homes. Many of the worst housing problems are found in the furnished sector, which is also becoming relatively more important with the transfer of unfurnished into furnished lettings. The Francis Committee (*Report of the Committee on the Rent Acts*, HMSO, 1971) found that there was more overcrowding in furnished tenancies and inferior amenities on average. Families with children occupied 17 per cent of furnished accommodation in London as a whole but 49 per cent in stress areas, and a high proportion of the heads of these households were in semi- or unskilled jobs earning very low wages.

The reason for the concentration of low income families in the private rented especially the furnished sector in inner city areas is that there is often little else available. They cannot afford to buy their own homes even if there were sufficient available, and there is just not enough council accommodation. Poor families have also had to compete with a steadily increasing demand coming from those wanting second homes, from students and other single people moving into city centres and the growth of tourism. It is also private tenants who have been most affected by the disruption caused by wholesale slum clearance and by improve-

ment schemes. It is not surprising therefore that the private rented sector in areas of shortage has been characterised by multi-occupation, overcrowding and poor amenities. The poor cannot afford to pay high rents for spacious and well maintained accommodation, and while much of the accommodation available has been of a low quality the housing prospects of the poor especially in heavily populated urban areas has depended upon the availability of low cost accommodation. This situation has been at the basis of the social problems caused by slum clearance and redevelopment, and more recently by the increase in improvement, since both these processes reduce the amount of cheap accommodation, put increasing pressure on the already inadequate supply of alternative accommodation, and so push up rents.

Attempts in the past to help private tenants have concentrated on shielding families from high rents through a variety of forms of rent restrictions, and from eviction through varying degrees of tenant protection. These policies have not always been very successful, however. More recently rent allowances for private tenants were introduced under the Housing Finance Act 1972 but these are having their own problems of take up. These policies also do nothing about the fundamental problem of the shortage of accommodation.

The private rented sector has been in continuous decline since the War. The proportion of privately rented dwellings in the total stock has fallen from 45 per cent in 1950 to 14.9 per cent in 1970 and 13.4 per cent in 1972. While there has been a decline in the private sector as a whole, the share of the furnished sector has been increasing, especially since the 1965 Rent Act which gave security of tenure to unfurnished tenants and made furnished lettings a more attractive proposition for landlords. According to the Francis Committee, the furnished share in 1964 was 18.4 per cent in London and 10 per cent elsewhere—figures that had increased to 23 per cent and 15 per cent by 1967. The Family Expenditure Survey shows that the proportion had

risen to approximately 30 per cent and 9 per cent respectively in 1972.

The decline of the private landlord has been the result in the main of rent restrictions of various kinds combined with better investment opportunities elsewhere, and the superior benefits offered to the householder by other forms of tenure.

It is also a trend that has been accelerating in recent years, and which was given a powerful impetus by the boom in property values after 1970, making it increasingly profitable for landlords to sell in the face of diminishing returns obtainable from renting especially in the unfurnished sector. The situation is well summarised in the advice given to subscribers to the *London Property Letter*: "Home prices have boomed as never before, giving dealers a rising market to profit from . . . converting properties of every type to flats for sale has become a big business. Many other factors are benefitting property, not least inflation, which makes bricks and mortar a safer hedge than ever for the investor. Someone is going to make a killing out of this and it might as well be you".

Landlords have had a strong incentive to obtain vacant possession and sell their properties or convert them into luxury flats, often with the additional aid of improvement grants, though this has probably been an added bonus rather than the main cause. While many landlords have waited for their tenants to leave before selling, there is evidence of increased attempts by landlords to obtain vacant possession, and of increased activity by property companies and dealers. In the furnished sector tenants are particularly vulnerable and can be evicted easily for they enjoy very limited security. Appeals to Rent Tribunals have only extended security for an average of six months in London (see P. Pearson, *A new deal for furnished tenants*, Shelter, 1973). Unfurnished tenants while enjoying the right of security are often unaware of their rights or reluctant to use them, and they have often been persuaded to leave by cash inducement or by indirect harassment and pressure.

Evidence of the difficulties faced by furnished tenants is to be found in the number of applications by furnished tenants to Rent Tribunals, which increased by 32 per cent in London between 1971 and 1972 compared to 6 per cent in 1970-71. A Shelter survey in January 1973 of 205 Rent Tribunal applications in London (P. Pearson, *op cit*), found that 90 per cent of all applications involved security of tenure following the issue of a Notice to Quit. The proportion was 84 per cent in a similar survey held in November 1971. Further the proportion of property companies involved in hearings had doubled since the 1971 survey to 30 per cent, a further indication of the increasing profits available. Of the 169 cases where the landlord's reason for issuing the Notice was recorded, 36 per cent were to convert or improve the house once empty, a threefold increase over 1971, and a further 17 per cent required vacant possession for immediate selling. Of the 158 cases in the 1973 survey when the tenant gave a reason for requiring security the principal reason was the difficulty of finding adequate alternative accommodation.

The London Council of Social Services (G. M. Lomas, *London's Housing Needs*, LCSS, April 1973) found that the number of Court actions for re-possession by landlords in stress areas had risen by 28 per cent in 1972 over 1971. Similar evidence from the London Boroughs Association (LBA Report, June 1973) showed that there were 6,064 applications by homeless families in the second half of 1972, a 22 per cent increase over the second half of 1971, and that two thirds of this increase was accounted for by Court Order actions by landlords for vacant possession. The number of homeless applications in the first six months of 1973 had risen to 6,859, an increase of 33 per cent over the first six months of 1972.

The difficulties faced by the lowest income groups in obtaining access to the housing market in the centre of cities have therefore been getting steadily worse. The property boom has further reduced the supply of accommodation to let while

encouraging the movement of higher income groups into areas previously occupied by working class families. This process of "gentrification" is likely to continue. The improvement grant explosion while improving the quality of the stock has led to a replacement of cheap housing to let with expensive housing to let or more commonly to buy. The number of families applying for temporary accommodation has as a result been rising and the official figures ignore the likely rise in disguised homelessness through increased sharing and overcrowding.

policy response

These increasing pressures confronting the stress areas of cities, compounded by the fall in public sector building and the increased cost of housing in relation to income, have given rise to increasing demands for counteracting policies, particularly for the extension of municipal control of housing and the granting of security of tenure to furnished tenants. The purchase of private rented property by local authorities to expand the council stock and stem the loss of rented accommodation has already become an increasingly important activity in the last few years. Some councils in London are now acquiring more homes through private purchase than through new building. This is a move that has very recently been aided by the slump in the housing market since some owners are only too grateful to find a buyer in the form of a local council. Local authorities may find this policy more difficult to implement with a buoyant market, however, and stronger powers may be necessary. Certainly it is now widely felt that municipalisation is the most effective way of preserving homes for those in the greatest need (see for example, M. Wicks, *Rented Housing and Social Ownership*, Fabian Tract 421). Selective municipalisation is also a policy that has been advocated by successive official reports including the Milner Holland Report on Housing in Greater London (1965) and more recently the Layfield Report (*Report of the Board of Inquiry into the Greater London Develop-*

ment Plan, 1973). Municipalisation is also the most effective way of dealing with the problems of lack of amenities, overcrowding and harassment, of securing more consistent rent levels, and by enabling local authorities to take a wide view of their housing responsibilities, of securing a fairer distribution of the housing stock.

There have also been renewed demands for extending security of tenure to furnished tenants. Lack of security has enabled landlords wishing to sell to evict their tenants, has kept rents in the furnished sector high and encouraged the transfer of accommodation from the unfurnished to the furnished sector of the market. It has therefore become increasingly difficult for families to find unfurnished accommodation and they are often forced reluctantly to accept inferior furnished accommodation at high rents. The Francis Committee showed that a high proportion of families living in furnished flats would prefer unfurnished if they could find them.

Moreover, it is poor families concentrated in the centre of cities, where the profits to be made by conversion or selling are greatest, who have suffered particularly heavily. Security would both protect tenants from such action while facilitating the more effective regulation of rents. The main objection to providing security, given for example by the Francis Committee, was the fear that this would have speeded up the decline of the whole private rented sector. However; it can be argued that the acceleration in the decline in the last few years has in fact been substantially due to lack of security. Provided that the granting of security was accompanied by extensive publicity to inform tenants of their new rights, was limited to absentee landlords and certain resident landlords, and provisions were made to authorise landlords wishing to sell, at least in areas of shortages, to sell to the council or a housing association, security of tenure for furnished tenants need not cause a serious loss of rented accommodation.

Municipalisation and extending security

of tenure, however, were policies specifically rejected by the Conservative government. While not actively preventing local authorities buying rented accommodation, the government in fact effectively discouraged it in many cases by their slowness to approve compulsory purchase orders where these were needed for acquisition. The problems of the families concentrated in these congested urban areas, accentuated by the inevitable decline of the rented sector, were finally recognised, but the solutions proposed did not match the seriousness of the situation. The White Paper, *Better Homes: The Next Priorities* (HMSO, June 1973) gave further emphasis to the aim of directing resources to inner city areas with the greatest needs and reasserted the principle of rehabilitation in preference to widespread clearance.

It saw the strengthening of the role of the voluntary housing sector as the long term solution to the replacement of the private landlord and the preservation of cheaper rented accommodation and improvements in standards. To encourage housing associations, a single new Chairman—Lord Goodman—was appointed for both the Housing Corporation and the National Building Agency with the function of reviewing the role of these organisations and promoting the development and effectiveness of the voluntary housing movement. This move alone was however quite inadequate to deal with the depth of the problem, particularly in the short term; the housing association movement is not geared to the full responsibility of preventing the loss of accommodation to let.

The central proposal of the White Paper was to give powers to local authorities to declare Housing Action Areas. These were to be small areas of some 400-500 houses characterised by stress from overcrowding and unfit housing, or a high proportion of furnished tenants or large families. Within these areas local authorities were to be given new but discretionary powers to compel owners to improve and repair their homes, to minimum standards, to attach conditions to the payment of improvement grants to

keep improved rented accommodation in the rented sector, to require landlords selling to offer first refusal to an approved housing association or, when impracticable, to the local authority, to nominate tenants for house kept empty, and to give larger improvement grants and cash for repairs to low income households. The White Paper also proposed a statutory duty to rehouse displaced tenants. (There were other proposals for preventing the misuse of improvement grants, as we have seen). The extent to which these proposals would have been effective in helping low income families in housing need by speeding up improvement of unfit houses in stress areas and stemming the loss of cheap accommodation to rent is open to serious doubt. While they represented moves in the right direction they were quite inadequate to deal with the serious problems in inner city areas. A study of likely effects of the proposals on a typical stress area in Islington, for example, concluded that "the proposals would not halt the impending obsolescence of much older housing in the area, not ensure the provision of self-contained accommodation with modern amenities for the majority of tenants, not enable tenants in the furnished sector to obtain security of tenure, and not ensure that improved accommodation was let at rents which low income families can afford" (C. Holmes, *Better Homes; The Next Priorities: A Critical Review*, North Islington Housing Rights Project, July 1973).

In the first place, the proposed powers were discretionary and it is far from clear that all authorities would use the extended powers. Some writers suggested that the proposed obligation to rehouse tenants might have discouraged some authorities from declaring Housing Action Areas. Further the most effective way of dealing with many of the problems is by the wider use of Compulsory Purchase Orders, but the White Paper while declaring its "sympathy" for the use of such powers implied that they should be used only as a last resort. The use of pressure by local authorities in the past to persuade landlords to improve their property has been

generally ineffective and slow. The failure to extend security of tenure to furnished tenants was a serious omission. The influence of the proposals would have depended crucially on the resources made available to local authorities for implementing the proposals. While there has been a whole series of measures in the past designed to help relieve housing conditions in stress areas, they have all fallen short of their aims through lack of resources. Any effort to make substantial headway in dealing with the problem of these areas will depend for its success on the commitment to provide the necessary funds.

In the event, these limited proposals were diluted in the Housing and Planning Bill published in January 1974, and a number of the proposed powers in Housing Action Areas dropped. Thus landlords selling tenanted property were no longer required to offer the property to a housing association or a local council, local councils were no longer to be given the right to nominate tenants for empty property, and local councils were no longer to have the statutory duty to rehouse tenants displaced by improvement or rehabilitation. Since the former statutory obligation on local authorities to rehouse their homeless under the National Assistance Act was abolished from April 1974 as a result of local government re-organisation this was a further serious failing in the proposals.

The emphasis in the Bill was still on compulsory improvement, though the scope for compulsory purchase was widened to secure improvement of housing, its effective use and management, and "the well-being of the persons residing in the area". This was a welcome amendment to the original proposals although it again lacked the necessary force. In addition the Bill would have enlarged the role of housing associations through the range of powers and finance designed to strengthen the Housing Corporation, with the aim of complementing the responsibilities of local authorities in the building and management of rented property. The Bill also proposed stronger action against large office blocks such as

Centre Point that had been empty for over two years.

But, fundamentally, while the Bill suggested that local authority expenditure on rehabilitation would increase some £100 million over five years as a result of the provisions this was a totally inadequate amount to deal with the scale of substandard housing. Although finally brought round to realising that its original policies were not relevant to improving conditions in stress areas the Conservative Government was still unwilling to give this problem sufficient priority and to take the necessary powers.

6. conclusion

While the 1964-70 Labour Government's housing record cannot be described as strikingly egalitarian, there were moves in the direction of greater equity. Its housebuilding performance was a considerable improvement on earlier years and by concentrating effort on council building many local authorities were enabled to improve their services. This alone benefitted many people previously suffering poor housing conditions. The 3½ years of Conservative government, in contrast, were marked by failure in many areas and, in general, regressive trends.

Between 1970 and 1974 there was a steep fall in the rate of house building, a dramatic rise in house and land prices and in rents, and increasing stress of various forms in many urban areas. Resources were misallocated and the position of those enjoying better than average housing conditions improved while many of those most in need failed to receive help. For most of these developments the Conservative Government can be held partly or fully responsible.

one nation ?

While it is not possible to analyse in detail the change in the distribution of housing services and the burden of housing costs by such factors as income and family composition, a broad movement towards a more unequal distribution is apparent.

The housing conditions of some, predominantly low income households, deteriorated, while those who gained were largely among the better off. That this is the case can be seen from a number of trends. In the area of physical conditions an increasing share of the new additions to the housing stock were only available to those least in need, and the same holds for dwellings improved or rehabilitated.

The decline in the rate of completion of new dwellings, especially in the public sector, and in those areas where shortages are most acute and conditions most serious, combined with the acceleration in house prices and housing costs, were the root cause of deteriorating housing con-

ditions in many areas. The declining output of new dwellings had serious repercussions, especially on renewal schemes and slum clearance programmes since fewer dwellings became available for those displaced, and was one of the factors causing longer waiting lists and increasing the number of homeless families.

In many of the bigger cities outside of London where shortages are still acute more council houses were pulled down than were built. The increase in house and land prices put buying beyond the reach of many families, even at average income level, and greatly increased the resources needed by local authorities to meet local housing needs. In many areas the housing situation reached crisis point (see for example *London's Housing Needs—The Deepening Crisis*, London Council of Social Service, May 1974).

The boom in house prices also tipped the relative benefits of owning or buying compared to renting decidedly against the tenant, the person without property, despite the extension of means tested rebates and the introduction of allowances. These have only benefitted those who have claimed them, and against the background of steeply increasing rents have been at the expense of better off council tenants and those who failed to claim them. Existing owners and house purchasers who bought before the property boom enjoyed very substantial gains primarily at the expense of new buyers but also of tenants whose rents inevitably increased at a faster rate as a result. No action was taken to relieve the insecurity of many private tenants, and the period was characterised by increased harassment and eviction following landlords' attempts to acquire vacant possession.

For these reasons it has to be concluded that the developments in housing under the 1970-74 Conservative Government did not lead towards one nation. Whether or not it was their intention the effects of Government action or inaction were to widen and accentuate differences not to mitigate them. In the broadest terms owners gained whilst tenants and new

buyers lost. Rather than one nation there remained many.

1974 Labour Government

After the General Election at the end of February 1974 the Conservatives were replaced by a minority Labour Government. The problems facing the new Government were considerable, and quick action was particularly required in housing if the deteriorating situation was to be improved.

The new Government's immediate priorities were a freeze on rent increases, the allocation of an additional £350 million to local authorities for spending on various purposes, a loan of £500 million to building societies to provide them with extra funds without the need to raise interest rates (these last two steps would help the ailing building industry) and a Bill to extend security of tenure to furnished tenants. In March in his Budget speech the Chancellor announced a top limit of £25,000 to the amount of a mortgage that would in future be eligible for interest tax relief, and tax relief for second homes would be stopped. Measures to take effect over a longer term were also planned. The Housing and Planning Bill was reintroduced in amended form as the Housing Bill, and interim proposals were made for local authority finance as a prelude to repealing sections of the Housing Finance Act. Tougher controls over property development were proposed, the municipalisation of private rented accommodation was to be encouraged and the eventual public ownership of development land promised.

A clear difference in action and intention to its predecessor was obvious from the very early days of the new Government. A particular contrast was the response of committing more Government funds to housing: it had after all been the Conservatives' aim to secure an overall reduction. By mid 1974 many of the proposals and specific promises made in *Labour's Programme for Britain 1973* and the 1974 election manifesto either had been carried out, or were in the process of being so,

or were receiving the initial attention relevant to long term reform.

Introducing the Housing Bill in the House of Commons, Tony Crosland said that lack of time in which to prepare the Bill meant that it was far less radical and comprehensive than it would otherwise have been. Yet it still underlines some important differences in policy outlook. Although the measures directed against empty office blocks were dropped it was proposed that new tougher measures would come in legislation at a later date. Action against the misuse of improvement grants was strengthened marginally; landlords selling property improved with a grant will have to repay the grant if they resell within five years compared with three years under the original version. Under the new Bill local authorities will have greater freedom to designate Housing Action Areas. The Greater London Council, for example, will be able to declare them over the heads of boroughs within the GLC. It is also intended that local authorities should be able to designate additional areas of stress adjoining Housing Action Areas in which "special safeguards" will be provided, including a wider power of acquisition by local authorities.

While the Bill did not provide for the first right of sale of tenanted properties to housing associations, this reflected Labour's preference that such priority should be given to local authorities, and it is intended that, by way of alternative, amendments will be introduced in the Committee stages to require landlords selling such property in Housing Action or "safeguard" areas, or issuing notices to quit, to give prior notification to the local authority. Labour still hopes that effective action can be taken to prevent private property leaving the rented sector by strengthening the role of the local authority. This represents a significant difference in the approach of the two major parties. The Conservatives clearly intended that the Housing Corporation under Lord Goodman and the housing association movement were to play a much stronger role in the provision of rented accommodation in the face of the

decline in the private rented sector. Housing associations were seen as becoming an important third sector of housing alongside council housing and owner occupation. Perhaps in the long run this was intended as a way of limiting the responsibilities of local authorities. Labour, in contrast, while seeing the continuation and the strengthening of housing associations as important, envisages that the main task of providing a comprehensive housing service should fall on local authorities.

While all these provisions represent desirable improvements many hoped for even stronger measures and the extent to which the final Bill represents an effective weapon against the problems of stress areas will also depend on the strengthening of compulsory purchase powers and the amount of resources made available. It is important too that ways are found of speeding the processing of compulsory purchase orders as well as extending their use.

The Labour Government has also made available an additional £350 million in the Finance Bill, April 1974, to local authorities for housing purposes. This increase in public expenditure is to be used to enable local authorities to build more rented accommodation, to acquire unsold private houses, and to buy flats from private landlords. The sale of council houses is to be restricted in areas of mortgage. Councils have been given strong encouragement to buy out private landlords in stress areas and have been urged to draw up five year plans for municipalisation. The Circular announcing these changes (*Department of Environment Circular 70/74*) also gave general authority for 1974/75 for the acquisition of property falling into certain categories including accommodation where a compulsory purchase order had already been confirmed, where there was evidence of tenants being in need from bad housing conditions, harassment, or the risk of homelessness, or where property had been standing empty for six months. In this way it was intended to speed the acquisition of property needed for the relief of housing stress. However, in view of the

restricted coverage of properties falling within the general consent, some authorities have expressed fear that many other types of property falling partly or wholly outside the consent would be lost through the delays caused in obtaining the necessary ministerial approval. The additional burden placed on already hard pressed local authority officials engaged in property acquisition, especially in London, of assessing whether properties fall within the stated categories may also inhibit rather than facilitate local authority purchasing policies.

The Rent Bill extending security of tenure to furnished tenants was introduced in May 1974 and should be passed by the end of the current session. The Bill extends the full protection of the Rent Acts to all furnished tenants with the exception of those also receiving board, those with a resident landlord and tenancies granted by certain educational institutions to students and tenancies granted for holiday purposes. The Bill also provides for Rent Tribunals to give up to twelve months security instead of the current six months. While the Bill proposes a welcome and long overdue improvement in the legal rights of furnished tenants there are some worrying aspects, and as it stands it may allow some landlords the opportunity of avoidance by, for example, the nominal declaration of a tenant as the resident landlord or the installation of vending machines. Further, excluding *all* tenants with a resident landlord from the provisions of the Bill may leave many needy tenants unprotected and open to arbitrary eviction. A large proportion of furnished tenants live in houses also occupied by their landlord, many of whom are essentially commercial landlords using these houses for the business of letting often with two or more tenants. While the indiscriminate exemption of all tenants of resident landlords is designed to avoid discouraging private letting, and this is important, it may be leaning too far in the direction of caution, allowing many landlords to subdivide large houses for considerable gain without providing their tenants with adequate security. The Bill still provides for reasonable protection for the landlord, allowing repossession on

the grounds of nuisance, damage or arrears, and further consideration should be given to whether, for example, the provision of security in cases where resident landlords let to more than one household puts either unfair pressure on the landlord or is likely to restrict seriously the supply of such accommodation. Another consideration is that, in view of the widespread failure of many tenants to claim their rights, often because they just do not know them, if the Bill is to be successful widespread publicity and campaigning must accompany the passing of the Bill.

Following the introduction of the rent freeze almost immediately on coming to office, the Labour Government announced in June its interim proposals for local authority housing finance as a first step towards the repeal of the Housing Finance Act. The new proposals are intended to operate for three years from the ending of the rent freeze on 31 December 1974 until fuller proposals can be implemented following a long term review. They aim to set up a simple system capable of being enacted quickly, remove the requirement on local authorities under the 1972 Act to move towards "fair rents," abolish the Rent Scrutiny Boards, and allow local authorities to fix rents. The effect of the proposals will also be to prevent a situation whereby local authorities could raise more rental income than is required to balance their Housing Revenue Account. Under the proposals authorities will have the freedom to fix *reasonable* rents sufficient to meet their pooled historic costs after Exchange subsidies and the rate fund contribution. Reasonable rents will be determined on the basis of a reasonable balance between tenants and ratepayers. The current subsidies payable under the 1972 Act are to be consolidated into a basic subsidy at the level actually payable in 1974/75, but in addition in 1975/6 and onward there is to be a straightforward 66 per cent subsidy towards reckonable loan charges on all new construction and the acquisition of existing houses, and a 33 per cent subsidy towards increases in reckonable loan charges relating to present housing stock. There is also to be a supplementary sub-

sidy in a limited number of areas where rents are abnormally high due to high general costs. The proposals meet many of the objections to the Housing Finance Act. The actual impact of the new subsidies on areas of high cost, however, and so the impact on the rate of new building will depend upon the details of the supplementary subsidy which are as yet unknown.

lessons learned ?

In the opening chapter we suggested that the directions which characterised periods of the Conservative Government's life as a whole had their equivalents in housing policy. The benefits of free enterprise were emphasised in the first period, and state assistance was supposedly to be limited to those most apparently in need.

After the first year to eighteen months some of the original policy choices came to be reconsidered. In housing there were similar instances of reconsideration. However, the changes that were eventually made in housing policy were neither as wide ranging nor as fundamental as elsewhere. In the case of the problems of stress areas the fact that private enterprise would not be able to respond to the stimuli given it does appear to have been accepted by the Government. In response they sought a new "third arm" in housing in the form of housing associations, but seemed singularly reluctant to grant local authorities significantly increased powers to tackle the problems with which they were best placed to cope. In the matter of home purchase finance the undesirable effects of large fluctuations in the flow of building society funds were similarly admitted, but no reforming action seems to have been contemplated. The grant to the societies in April 1973 of £15 million managed only to forestall for a few months the increase in the interest rate and did nothing to encourage a steadier flow of mortgages in the future. Some of the essential principles of Conservative housing policy remained, and remain, the same: further encouraging owner occupation is a high priority and all rents, whether of private

or council property, should be set at "fair" levels and not be related to costs.

Although the Conservative Government did not make great changes in the principles of its housing policy, the three and a half years of its period of office do provide some lessons about the type of housing policy that is relevant to the 1970s. These lessons are not new, but they cast doubt on the Conservatives' own approach. The experience of 1970-74 was one of widening inequalities and a failure to deal with some of the worst housing problems. The reasons for these developments were partly faulty analysis, partly a failure to anticipate or react to changing circumstances, and, underlying both these, an aversion to state intervention.

Faulty analysis was evident in the narrow considerations of the Housing Finance Act and the belief that private enterprise would be able to cope with housing problems in stress areas. There was a basic conflict between the principle of concentrating resources where they are most needed and placing emphasis and reliance on the private sector and on owner occupation.

Failure to act and lack of foresight were most obvious in two cases. First, no attention was given to the effect on property values of attempts to stimulate the economy, nor was action taken to soften the effect of fluctuations in the supply of mortgage funds resulting from credit expansion and high interest rates. A second case is that of improvement grants. No delay was necessary or should have taken place in ensuring that the provisions of the 1969 Housing Act were amended so that the original objectives were achieved.

Finally, and perhaps most importantly, was the aversion to state intervention that characterised so many of the Government's actions. Housing was not the only area where there were attempts to promote the influence of the private market, to the neglect of the social services but housing is an area in which the Conservatives have consistently shielded public involvement and control. A number of

policies and actions are indicative of the attempts to increase the power of market forces in distributing housing resources and suppress the role of local authorities over this period. The Housing Finance Act and the higher rents and rebates and allowances introduced by it, the increasing emphasis on private building and the selling of council houses, the increasing share of public funds for housing going to finance private building and purchase rather than direct building for public provision, together with various independent forces, all combined to reduce the role of the state and the social service element in housing. They were an attempt to limit the role of local authorities to "holders of the ring" and providers of cash and little else besides. The consequences and errors of this approach began to dawn towards the end of the Conservative's period of office but even then action was slow in coming and inadequate.

The most important lessons to be learned, therefore, are that there is no substitute for comprehensive and direct action by the state in meeting housing problems, and that in housing, the benefits of public expenditure and tax concessions cannot be channelled to those most in need if reliance is also placed on uncontrolled market forces.

The return of the Labour government in February 1974 has brought changes in policy direction and attempts to shift resources back towards the less affluent, but these policies will inevitably be slow in their impact. The period 1970-74 was a severe setback for equality and social justice in housing. The legacy of that period is one of an intensification of problems requiring more resources, tougher measures and more political courage if housing problems are to be effectively and speedily dealt with.

appendix

RELATIVE COSTS (£) FOR AN OWNER OCCUPIER AND A COUNCIL TENANT IN EACH OF THE THREE PERIODS 1964-1970, 1964-1973 AND 1964-1988 ASSUMING A 1964 HOUSE PRICE OF £3,220.

year	deposit and legal costs of purchase	net weekly mortgage repayments	insurance and main- tenance	total outgoings of purchaser	weekly rent	annual savings from renting	value of invested savings by end of period
1964-70							
January							
1964	422.0	—	—	—	—	422.0	704.7
1964	—	3.64	.40	4.04	1.83	114.9	178.3
1965	—	3.64	.42	4.06	1.96	109.2	157.5
1966	—	3.94	.44	4.38	2.14	116.5	156.2
1967	—	3.94	.45	4.39	2.36	105.6	131.6
1968	—	3.94	.47	4.41	2.60	94.1	108.9
1969	—	4.38	.49	4.87	2.77	109.2	117.5
1970	—	4.38	.52	4.90	3.01	98.3	98.3

value of house in 1970 £4,580; amount still owed £2,508.

value of invested savings £1,653.

therefore owner's net gain is £ (4,580—2,508—1,653) = £419 (1970 prices)
£540 (1973 prices).

1964-73							
1971	—	4.38	.57	4.95	3.28	86.8	106.9
1972	—	4.38	.61	4.99	3.77	63.4	70.4
1973	—	4.38	.67	5.05	4.53	27.0	27.0

value of house in 1973 £9,000; amount still owed £2,300.

value of invested savings £204.7 (1971-73) £2,464.3 (1964-73).

therefore owner's net gain is £ (9,000—2,300—2,464.3) = £4,236.

1964-88							
1974	—	4.64	.72	5.36	4.85	26.5	100.7
1975	—	4.67	.77	5.44	5.19	13.0	44.9
1976	—	4.70	.82	5.52	5.55	-1.6	-5.0
1977	—	4.74	.88	5.62	5.94	-16.6	-47.4
1978	—	4.78	.93	5.71	6.36	-33.8	-87.6
1979	—	4.83	1.00	5.83	6.80	-50.4	-118.8
1980	—	4.88	1.08	5.96	7.28	-68.6	-147.1
1981	—	4.93	1.15	6.08	7.79	-88.9	-173.3
1982	—	4.98	1.23	6.21	8.33	-110.2	-195.3
1983	—	5.04	1.32	6.36	8.92	-133.1	-214.4
1984	—	5.12	1.41	6.53	9.54	-156.5	-229.2
1985	—	5.20	1.51	6.71	10.21	-182.0	-242.3
1986	—	5.28	1.61	6.89	10.93	-210.1	-254.3
1987	—	5.38	1.73	7.11	11.69	-238.2	-262.1
1988	—	5.49	1.85	7.34	12.51	-268.8	-268.8

value of house in 1988 £24,831; mortgage paid off.

value of invested savings: minus £2,100 (1974-88) + £11,321 (1964-74 invested to 1988).

therefore owner's net gain £ (24,831+2,100—11,321) = £15,610 (1988 prices)
£5,657.8 (1973 prices).

assumptions in the table opposite

in the 1964-1970 section

1 Mortgage interest rates were 6 per cent in 1964 and rose to 7 per cent in 1966, 8½ per cent in 1969.

2 Insurance and maintenance all rise at the general rate of inflation.

3 Between 1964 and 1970 prices rose by an annual average of 4.6 per cent and the rate of interest obtainable on invested savings was taken as 7.6 per cent.

in the 1964-1973 section

Between 1970 and 1973 the average annual rate of inflation was 8 per cent and the rate of interest obtainable on invested savings was taken as 11 per cent.

in the 1964-1988 section

After 1973 assumed that average mortgage rate is 9 per cent, house prices and general prices both rise at an average annual rate of 7 per cent and the rate of interest obtainable is 10 per cent.

Stewart Lansley and Guy Hodgson are economists. They have previously written for the Fabian Society on the reform of housing cost accounting schemes (Housing Allowance and Rentality, Young Fabian pamphlet 36). They have also written on the tax credit proposals. They wish to thank all those who have given help with advice and criticism.

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appendix

RELATIVE COSTS (a) FOR AN OWNER OR TENANT IN EACH OF THE THREE PERIODS 1954-1963, 1964-1973 AND 1974-1983 ASSUMING A 1964 HOUSE PRICE OF £100,000

Year	Deposit and legal costs of mortgage	Net weekly mortgage repayments	Annual interest on mortgage	Annual interest rate
1954-63	4250	—	—	—
1964	—	3.64	40	—
1965	—	3.64	42	—
1966	—	3.92	44	—
1967	—	3.94	45	—
1968	—	3.94	47	—
1969	—	4.23	48	—
1970	—	4.38	50	—
1971	—	4.38	53	—
1972	—	4.38	54	—
1973	—	4.38	57	—
1974-83	—	—	—	—
1974	—	4.64	57	—
1975	—	4.64	58	—
1976	—	4.64	60	—
1977	—	4.64	62	—
1978	—	4.64	64	—
1979	—	4.64	66	—
1980	—	4.64	68	—
1981	—	4.64	70	—
1982	—	4.64	72	—
1983	—	4.64	74	—

value of house in 1983 £150,000; mortgage paid off.
 value of house in 1954 £100,000; mortgage paid off.
 (cost 1954) 100,000 - (1983) 150,000 = 50,000 (1973 prices)
 (cost 1973) 100,000 - (1983) 150,000 = 50,000 (1973 prices)

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