housing allowances and inequality

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young fabian pamphlet 36 25p

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Fabian Society, 11 Dartmouth Street, London SW1H 9BN.
December 1973 ISBN 7163 2036 3

1. introduction

Housing has long been an area of central and local government concern, and this reflects its vital importance for both individual and social welfare. Yet it remains a major problem area of social and economic policy. Britain is an advanced and prosperous society in which the majority of citizens enjoy high material living standards, but in which significant sections of the community endure poor housing conditions. Housing standards have risen since the war, but shortages have persisted. Our housing stock remains very unequally distributed, and housing needs are not being fully met. Many families are still living in sub standard homes or in overcrowded conditions, and the number of homeless people is steadily increasing.

If these inequalities in housing conditions are to be tackled policy needs to give attention to both the size and adequacy of the housing stock and its distribution. Government action in the past has been inadequate and in some areas seriously at fault. For example, a crucial factor influencing housing policy is the difficulties faced by low income families in meeting the cost of decent accommodation, but the forms that financial assistance with these costs have taken have often had the result of aggravating rather than overcoming this problem.

Measures are needed on the two fronts of encouraging housebuilding and improvement, and assisting people with their housing costs. To deal with the problem of shortages a greater degree of public control is required. This is recognised in the wide discussion of the need for the municipalisation of private rented property, the public ownership and control of land and the building industry, and the expansion of the supply of council accommodation.

In this pamphlet we are concerned with policies of housing finance and particularly the role that personal subsidies can play in reducing housing inequalities. To put the discussion in context a review of the housing situation and the structure of current financial assistance is given. Some proposals for reform are then considered, in particular the scope for introducing a scheme of universal housing allowances.

housing conditions

Although there are now marginally more " dwellings " than " households " in Great Britain (in 1971 there were 18.3 million households and 19 million dwellings), we still suffer from a shortage of homes. In the first place, some proportion of the housing stock at any one time should be vacant to allow for adequate mobility and improvement. Nor do the figures allow for the number of second homes.

Thirdly, the need for homes has been increasing rapidly with changes in demographic patterns, and the existing number of households is still less than the desired number of separate dwellings. Further there are problems of " fit." There is a shortage of homes for small, especially single, households and the elderly. Housing is imperfectly distributed relative to jobs, and some regions have a severe shortage. Housing space is also poorly distributed, much housing being under occupied. Finally, and most important, much of our existing stock is completely unfit or lacking in basic amenities. The Housing Conditions Survey of England and Wales conducted in September 1971 (*Housing and Construction Statistics* Department of Environment, 1st quarter 1972) found that some 7.3 per cent of the total stock failed to meet basic standards of fitness, while a further 10.9 per cent were in a poor and unsatisfactory condition. Nearly a fifth of the housing stock in 1971 was therefore totally or partially unsuitable for habitation. There were wide variations between tenures and regions, over 50 per cent of the unfit houses being privately rented though this tenure type accounted for only some 14 per cent of the total stock.

Meanwhile the numbers of homeless have been increasing. In 1971 the number of families applying for admission to temporary accommodation in England was 23,830 while only 6,300 (25,600 persons) obtained admission. The comparable figures for 1968 were 18,390 and 5,180.

While the majority of the population thus enjoy relatively high housing standards, overcrowding, homelessness and sub standard conditions are commonplace for a significant minority. Moreover, these inequalities in standards seem likely to persist well into the future on current trends and policies. In spite of the urgency of the need, the rate of house-building has been declining steadily since 1968. The number of completed houses in 1972 was the lowest since 1963. This downward trend must be quickly reversed if housing standards for the less well off are to be raised.

An impetus to the housebuilding programme alone, however, will not solve the problem of inequality in housing. The new houses must be of the right type and help to relieve the areas of greatest need or allow other housing to be released for this purpose. Moreover, housing inequalities are not solely reflected in wide variations in physical standards. Housing takes a high proportion of income especially for low income groups, and this outlay is often related neither to the quality of accommodation obtained nor to ability to pay.

the cost of housing

In 1971 the Family Expenditure Survey shows that households in the UK spent an average of 15.5 per cent of their gross income on housing. This compares with around 19 per cent for households in Greater London and 22.5 per cent for households with incomes between £10 and £20 a week.

The private rented sector includes some of the worst housing conditions, and it contains a higher proportion of low income households than any other sector. In 1971 47.5 per cent of households in private furnished accommodation had weekly incomes of less than £25 compared with 38.3 per cent of households in council houses and only seven per cent of owner occupied households with a mortgage. Evidence of the poor conditions found by private furnished tenants is provided by the Francis Committee (*Report of the Committee on the Rent Acts,* Cmnd 4609, HMSO 1971). This shows, for example, that in Greater London in 1970 median rent as a percentage of median take home pay of heads of such households, who were typically low earners, was as high as 33 per cent. 53 per cent of these households were paying more than 30 per cent of their take home pay as rent. Moreover apart from the significant disadvantage of lack of security, furnished flats in general offer inferior accommodation. Accommodation tended to be small with 25 per cent of tenants living in two rooms and 28 per cent in only one room. In the stress areas of London 26 per cent of furnished tenants were living in over 1½ persons per room, although nearly a half of these tenancies were occupied by families with children. Many furnished tenancies also suffered from poor amenities. On average, therefore, low income groups in this sector pay a relatively high proportion of their income for generally inferior acommodation.

The situation whereby households can pay identical sums for widely differing standards of accommodation is partly due to regional variations and partly to the effect of past policy, for example, the differing costs and benefits and associated subsidies which distinguish each sector of housing. Within sectors large variations also exist, and even within a particular region a given outlay can purchase very different standards of accommodation. If we are to improve the housing situation, reforms designed to smooth these differences in costs and reduce these inequalities are needed alongside efforts to increase supply.

To aggravate these problems, housing is becoming relatively more expensive. The table below shows the average price of new dwellings mortgaged with Building Societies since 1963, the average rents of local authority dwellings, and the index of retail prices and average weekly earnings of manual workers. Only the average price of new dwellings for the whole of Great Britain is shown. Average prices of modern existing houses and houses in London and the South East are higher and have been rising at an even faster rate. Over the period since 1963 both house prices and local authority rents have been increasing considerably faster than the overall cost of living. New house prices kept roughly in line with average earnings up to about mid-1971 but earnings have lagged some way behind house prices since then. Rents grew at a slightly faster pace than earnings through most of the period and house prices up to about 1972.

During 1971 and 1972 the increase in house prices accelerated largely as a result of the easing of credit facilities, rapidly rising money incomes, and the subsequent increase in demand for owner occupation during a period of a very slow rate of housebuilding. Thus new house prices rose by 16 per cent between the fourth quarters of 1970 and 1971 and by the unprecedented rate of 42 per cent between the same quarters of 1971 and 1972. The index of retail prices rose by 9.2 per cent and 7.6 per cent respectively during these periods. Local authority rents rose by 21.0 per cent between October 1971 and 1972.

The increases in rents under the Housing Finance Act have meant that many households have found their housing costs forming an increasing proportion of their income. In addition existing non-owners wishing to buy their own homes are faced with much higher house prices. At the end of 1972 new houses cost an average £9,000, modern existing houses about £9,700 and new houses in London and the South East £13,200. This leap in prices means that large numbers of families are no longer able to buy their own homes.

Under present building society arrangements the maximum mortgage that households can obtain is three times their gross household income. In practice, the mortgage obtainable may well be less than this if a lower ratio is allowed, or if parts of household income such as subsidiary income, overtime, or wife's income are disregarded. It is also common experience that manual employees with more irregular earning patterns and less employment and income stability are offered lower mortgages than salaried or professional persons with equivalent current incomes.

Even assuming a full three to one ratio is allowed, at the end of 1972 a 90 per cent mortgage on an average new home would have required an income of at least £52 a week and savings of well over £1,000 for a deposit and other expenses. This is beyond the means of most families who do not already own a house. The New

COST OF HOUSING

year	price of new houses mortgaged		council weekly rents		retail price index	weekly earnings of full time manual workers	
1963	3195	100.0	1.27	100.0	100.0	16.75	100.0
1965	3768	117.9	1.45	114.2	108.2	19.60	117.0
1967	4283	134.1	1.78	140.2	115.3	21.40	127.8
1969	4819	150.8	2.08	163.8	127.2	24.80	148.1
1970*	5082	159.0	2.33	183.5	134.7	28.05	167.5
1970†	5206	162.9			139.0		
1971*	5630	176.2	2.52	198.4	147.9	30.93	184.7
1971†	6051	189.4			151.8		
1972*	6947	217.4	3.05	240.2	156.9	35.82	213.9
1972†	8571	268.3			163.4		

These figures are average local authority rents and do not allow for the higher rents that would otherwise have been paid by recipients of supplementary benefit.
* 2nd quarter; † 4th quarter.

source: *Housing and Construction Statistics* Dept. Environment; *Dept. of Employment Gazette.*

Earnings Survey of April 1972 (*Department of Employment Gazette* November 1972) shows that less than six per cent of full time male manual employees earned over £50 a week. While earnings had increased slightly by the end of the year this gives some picture of the difficulties faced by those trying to buy a home. In October 1972 average industrial earnings were £35.82 and this would have been sufficient to obtain a mortgage of about £5,500, quite inadequate for even most relatively low priced dwellings.

Further, the net weekly cost for the first year of a 90 per cent 25 year mortgage on an average home during the last quarter of 1972 would have been just over £12, and this is before rates, insurance and maintenance (and rates of interest have increased since then). Two years previously, at the end of 1970, a similar mortgage on an average new home would have cost £7. The mortgage cost of a new home increased by over 70 per cent over this two year period while earnings increased about 28 per cent.

Purchase of a house in these circumstances for average income families would almost certainly involve restricting necessary expenditure on other items and so cause some hardship. Under current circumstances the large majority of households who are not in the owner occupied sector are therefore quite unable to become so, and those few who do will be faced with heavy financial commitments which may lower their standard of living elsewhere.

Soaring house prices have greatly benefitted those who bought before the boom but have meant that the privileges of owner occupation are becoming increasingly beyond the means of large sections of the population, and that future buyers may be even more than in the past concentrated amongst better off households. This is likely to accentuate the social and economic differences that have tended to distinguish households living in each sector. As long as home ownership remains a more privileged form of tenure than other types of accommodation, the increasing limitation on the choice of housing for lower and average income earners will have unfavourable social repercussions, increasing inequalities of opportunity and widening class and status divisions within the community.

2. policy and the housing market

Housing conditions have a major influence on the health, attitudes, opportunities and quality of life of individuals and communities. Inequalities in these conditions are reflected in educational, cultural and economic opportunities and are restricting to social and individual welfare. Most of those concerned with housing problems would accept that housing policy should aim to guarantee everyone a home of a minimum standard at a price that can be reasonably met (this for example was the broad aim underlying the 1972 Housing Finance Act). There is no universal agreement, however, on how this aim can best be achieved nor on what constitutes " minimum standards " and " reasonable cost," nor even on the need for government policy.

policy aims

The view of those on the Right would largely be that the supply and distribution of housing should be left to the price mechanism with the State playing a minimal role confined, for example, to slum clearance and subsidising those who, through lack of income, cannot afford some minimum standard of housing in the private market. The Conservatives' Housing Finance Act with its move towards economic rents in the public sector, the implicit stimulus to the private rented sector and owner occupation and the introduction of means tested rent rebates and allowances for tenants is a partial expression of this outlook, though an even more non-interventionist approach would be advocated by some.

A contrasting view, and the one held here, is that extensive government involvement is needed to ensure that decent housing of a high standard is provided to all households, that housing resources are distributed equally and fairly on the basis of need and independently of income. Housing standards should be relative and set against the background of the average standards enjoyed by society, and housing conditions should therefore not vary widely.

Market forces operating freely would provide neither an adequate stock nor its fair distribution. This is because both global and individual housing need in the social sense differs markedly from economic demand to which market forces respond. In a free market, the extent to which housing needs are met depends upon the population's capacity to pay and hence the relationship between the level and distribution of income and the cost of housing. In Britain the high cost of housing and the unequal distribution of income has meant that significant sections of the population have been unable, without assistance, to afford the full economic price of decent accommodation.

The private market left to itself would produce a very unacceptable distribution of housing resources. Indeed it is the failure to control adequately the regressive nature of the market for housing that is responsible for many of our current problems.

To guarantee adequate housebuilding and its fair allocation, therefore, wider assessments of housing need, overall planning of housing programmes and comprehensive involvement by central and local government are required. In view of the crucial importance of housing to living standards and the problems of an unequal distribution of income, financial aid is needed to enable families to spend more on housing than they otherwise would, especially low income families. This assistance should be progressively distributed with help being concentrated on those with low incomes.

A housing programme must have as its goal the removal of the housing problems outlined earlier, but it must also face up to the constraint of limited resources and the competing demands of other welfare services. In the short run difficult choices have to be made between the conflicting needs of increasing the stock, raising standards and keeping costs down. Nevertheless more equality in housing can only be secured with the aid of more comprehensive government intervention, the restriction of the private market mechanism and a series of radical reforms designed to re-allocate existing resources and reduce inequalities while increasing and improving the existing stock.

the market for housing

The housing market in Britain is divided into three major sectors, the owner occupied, private rented and public rented sectors. Other sectors are insignificant in overall terms though the number of housing association tenants is increasing. The table below shows the distribution of dwellings by tenure in a number of years since the war and indicates how the significance of each sector has changed. In particular the owner occupied and public rented sectors have become increasingly important forms of tenure while the private rented sector's dominance has been gradually eroded. This shift in the distribution of the housing stock has been strongly influenced by the nature of government policy and its interaction with market forces as well as by rising real incomes.

The total supply of housing is very inflexible ; in the very short run it is fixed and even in the longer run it will adjust to major changes in demand only slowly.

In 1972, for example, the net addition to the stock of houses of some 214,000, represented only 1.1 per cent of the total stock. The market solution to a housing shortage is to allow house prices to rise sufficiently to ration the available stock, encouraging a more intensive use of the existing stock in the short term and an increase in housebuilding only in the long run. Excess economic demand would be eliminated but not the social need.

It is against this background that housing policy and in particular subsidies to demand must be appraised. Demand subsidies used with the aim of reducing individual housing costs and stimulating supply will in the absence of wider controls increase prices before they affect output, and be of main benefit to existing house owners, landowners and landlords. Even in the longer run higher house prices may have little impact on new construction if the main beneficiaries have been landowners rather than builders. Certainly in recent years much of the increased price of new dwellings has been absorbed by faster rising land prices. In the fourth quarter of 1972 site values accounted for some 27.7 per cent of the cost of new houses while in London the figure was 37.5 per cent. In 1969 the proportions were 21.2 per cent and 28.9 per cent respectively (Nationwide Building Society *Occasional Bulletin*). Indeed land prices rose by 85 per cent between 1966 and 1971 while house prices rose 43 per cent and construction costs only 39 per cent.

government housing policy

Since the war a combination of increasing financial aid, rising living standards and demographic changes has given rise to a steadily increasing demand for more and better homes. But housing needs have not been fully met. Supply has failed to keep pace with this increasing demand

STOCK OF DWELLINGS BY TENURE—GREAT BRITAIN

year	local authority 1000s	%	owner occupied 1000s	%	privately rented 1000s	%	other 1000s	%	total 1000s
1950	2,500	18.0	4,100	29.5	6,200	44.6	1,100	7.9	13,900
1951-60	4,320	26.6	6,805	42.0	4,170	25.7	920	5.7	16,215
1966	5,064	28.7	8,318	47.1	3,331	18.9	947	5.4	17,660
1968	5,389	29.6	8,847	48.5	3,033	16.6	965	5.3	18,234
1970	5,705	30.5	9,270	49.5	2,798	14.9	958	5.1	18,731
1971	5,824	30.7	9,508	50.1	2,682	14.2	953	5.0	18,967

source: *Social Trends* Central Statistical Office; *Housing and Construction Statistics, op cit.*

and shortages have remained. Moreover inequalities in housing conditions have persisted.

The government's response to this situation has varied widely, and even in the immediate post-war period there has never been a fully co-ordinated and comprehensive approach to housing problems. Housing needs have been continuously underestimated, policies have been piecemeal and intervention partial. While average housing standards have risen considerably, variations in these standards have not been reduced. Policies particularly in the area of housing finance must take a large share of the blame for this situation.

In an attempt to replace and expand the depleted housing stock the immediate post-war Labour government imposed extensive controls on all building and accepted almost total responsibility for the finance and organisation of the housing programme. The twin elements of their programme were subsidies to council house building and rent control. The elaborate provisions produced an initial housing drive, but they were temporary and were only successful in meeting temporary needs. Economic difficulties together with serious underestimates of future requirements led to future building programmes being restricted.

These comprehensive post-war controls were gradually dismantled as immediate needs appeared to be met and as more resources were required elsewhere, a process which was quickened with the return of a Conservative government in 1951. Throughout the 50s there was a greater emphasis on the free market, and in 1957 rent control was partially lifted. Cuts were made in local authority building programmes too. Owner occupation was encouraged and the proportion of houses built for private owners rose from 15 per cent in 1952 to 63 per cent in 1961. Under the Labour government of 1964 there was a return to greater involvement with the introduction of rent regulation and other policies. But economic circumstances again led to this involvement being limited.

A number of steps have been taken to reduce individual housing costs, and these have stimulated housing demand. In addition to building subsidies in the public and rent control and regulation in the private rented sector, households buying and owning their own homes have been assisted through tax relief on mortgage interest payments and other tax concessions. Together with the shortage of supply of rented accommodation, these financial aids have contributed toward the expanding demand for home ownership. More recently measures aimed directly at helping lower income groups to become owner occupiers have been introduced. The option mortgage scheme started in 1968 enables households paying little or no tax to choose, instead of an ordinary mortgage with tax relief on the interest, an option mortgage with a government subsidy which reduces the interest rate paid. In the fourth quarter of 1972 22.8 per cent of mortgage advances by building societies and 22.3 per cent of local authority loans were option mortgages. The equivalent proportions for mid-1970 were 7 per cent and 12.6 per cent (*Housing and Construction Statistics,* Department of Environment).

Another measure to help lower income families buying houses is the 100 per cent mortgage given by local authorities which should assist those who have not been able to save a deposit. Although such mortgages declined in importance between 1965 and 1969 when the total of local authority loans fell, their number has been increasing again recently. Their availability depends, however, on money market conditions and central and local government initiatives. While these measures have undoubtedly had the desirable result of improving the access of lower income groups to home ownership, they have also been partially self-defeating through their impact on house prices.

Apart from these policies a number of indirect factors have been at work. House purchasers who first bought in the 1950s and early 1960s have benefitted from the high rate of inflation in the 1960s. Indeed the combined effect of tax relief and inflation has been that the real rate of interest on mortgage loans has been negative in a number of years (see R. L. Harrington "Housing—supply and demand" *National Westminster Bank Review,* May 1972). An additional advantage enjoyed by owner occupiers has been the tendency of house prices to increase faster than the general rate of inflation thus providing house owners with real capital gains on their accommodation. This rise in the price of houses has been assisted by the policy of subsidising demand in a situation of limited and inelastic supply. Moreover, the ability to obtain capital gains from buying houses has encouraged an investment demand which has further stimulated the rise in prices.

The demand for home ownership has thus been continuously rising but new construction in this sector has not kept pace so that the increased supply has been partly provided from the stock of existing houses. The long period of rent control has reduced the rate of return available to landlords and led to a deterioration in quality and reduction in quantity of private property to rent; many houses in this sector have been transferred into the owner occupied market. Another measure influencing the shift of houses into the owner occupied sector has been the introduction of additional improvement grants in the 1969 Housing Act. The aim of this Act was to encourage a higher rate of improvement and rehabilitation of older houses but while the grants have been successful in improving the quality of the housing stock, their use has been inegalitarian in effect. Many landlords have made use of the grants to improve their property and then sell to owner occupiers. There is also considerable evidence that property developers have taken advantage of the scheme in inner urban areas by buying private rented property, improving it with the aid of grants and re-selling or letting at a substantial profit. The scheme has therefore contributed towards the transfer of accommodation for rent to the more expensive end of the owner occupied market, a clear abuse of the aims.

The inability of the private market to provide sufficient homes for buying or renting at a price which lower and even average income families can afford has increased the need for council accommodation. The supply of council houses depends mainly on the political will and initiative of central and local governments and on the prevailing economic climate and cost of borrowing. Among the main reasons for the decline in housebuilding in the public sector after 1967 were the deflationary policies which led to cuts in housing programmes, and the heavy swing to the Conservatives in the 1968 local elections with their lower commitment to council house building. More recently land availability and the difficulties of obtaining contractors within the limits of the cost yardstick have become important factors.

While a clear need exists for government intervention, the actual policies followed have been insufficient to meet housing needs. The supply of housing responds only slowly to rising incomes and prices and is also critically related to the prevailing economic climate. The rate of housebuilding in both the public and private sector has not kept pace with increasing need. In this context, governments' haphazard attempts to bring demand and social need into line have been partially self-defeating by encouraging inflation. Further, by treating different sectors very differently they have tended to reinforce rather than remove inequalities.

inequalities between sectors

Our system of tenure and the different advantages afforded by living in different sectors are a major source of inequality in housing. The sectors of housing differ widely in their physical condition and in the legal and financial privileges they offer, yet for most of the population no choice exists between them. Access to the most privileged sector, the owner occupied, is largely denied to lower income groups, despite the measures outlined above, a situation that has been accentuated by the recent boom in house prices. This has prevented many from buying their own homes while providing existing owners with large capital gains.

Different sectors not only offer different qualities of accommodation, in that private rented property tends to be the oldest and least well maintained, but also varying degrees of security of tenure; yet security is vital to the accommodation needs of all households. Owner occupiers enjoy complete security. Council tenants in law do not have security but in practice are rarely evicted. Against this, they are restricted in their geographical mobility because of the great difficulty in finding new council accommodation in another area. Private unfurnished tenants who have the right to security often fail to claim it through lack of awareness or the very real fear of harassment. Private furnished tenants on the other hand include some of the poorest and least powerful sections of the population but enjoy little or no security.

Further, while the aim of housing subsidies is to assist people with their housing costs, the means used bear little relation to principles of fairness or need. Financial assistance is unequally distributed and often gives most help to those least in need. A number of devices are used to protect households from bearing the full market cost of their housing.

private rented sector

Private tenants in the past have been protected by the use of rent controls. Although the 1957 Rent Act led to a considerable relaxation of these controls, many tenants still occupy controlled dwellings. Under the Housing Finance Act of 1972 all existing controlled dwellings will be gradually decontrolled over the period to 1974 when rents will have reached "fair rent" levels. Under the 1965 Rent Act tenants or landlords of formerly decontrolled tenancies could apply for a regulated "fair rent" to be determined on the basis of the "age, character, locality and state of repair of the dwelling" while disregarding the value due to any local shortage of similar accommodation. (The Francis Committee found that, on average, registered rents were some 20 per cent below market rents.) A large number of properties, however, remain unregulated either because they have a gross rateable value too high to be covered by the Act or because their tenants do not take advantage of their right of regulation. The assistance provided in this way is therefore probably relatively small in comparison with other sectors. As decontrol is implemented and the national rent allowance scheme introduced in the 1972 Act begins to operate the extent and nature of subsidisation in this sector will alter. Rent regulation and control help tenants purely at the expense of landlords, though "fair rents" are meant to be sufficient to give the landlord a reasonable rate of return on his property. Moreover, they tend to subsidise all tenants alike, irrespective of personal circumstances and ability to pay.

the public sector

Council house rents have been generally lower than either historic cost or market levels. Before the Housing Finance Act they did not cover the full cost to the local authority of council housing which consists of maintenance and administration, and the payment of interest on past loans obtained to finance building. The difference was met by direct central government grants and from local rates. In 1970-71 these subsidies amounted to £217 million, £157 million from Exchequer grants and about £60 million from the rates, making £39 per council house (*Social trends*). Council tenants were also helped to the extent of the difference between this historic cost rent and the rent obtainable on the open market.

While the subsidies provided were substantial, their allocation was quite haphazard. Before the Housing Finance Act, rent levels had been set at the discretion of local authorities with the result that actual rents charged to individual households for similar accommodation varied widely both between and within authorities. This was partly because Exchequer subsidies received by individual authorities were related to the time when they built up their housing stock and the then prevailing costs of building, interest rates, and levels of central government subsidies. Differences in the degree of support were also due to the variations in criteria used to determine rents, and the differing policies on rent rebates, rent pooling and rate contributions adopted by authorities. Exchequer subsidies tended not to be related to local needs nor to tenants' incomes.

the owner occupied sector

Owner occupiers enjoy a very privileged financial position in comparison with other sectors. First, they obtain financial support in the form of tax relief on mortgage interest payments which is greater the larger the mortgage and the higher the income and rate of tax incurred; tax relief is therefore regressive in its effect. Until 1963, house owners had to pay tax on the value of their imputed rental income from ownership (Schedule A taxation), and it is arguable that the mortgage interest incurred in obtaining that income represented a justifiable allowance against this tax. However, even then they were considerably undertaxed since the imputed rent element was calculated on the basis of 1936-37 rating valuations. With the abolition of Schedule A tax in 1963, the mortgage interest tax relief which remained became in effect a substantial source of subsidy to this sector. The abolition of Schedule A tax for owner occupiers means that while house ownership provides considerable income in kind, it is not taxed. Although the owner occupier with real income from his home has a higher standard of living and a greater capacity to pay tax than a non-owner occupier with identical money income they are treated identically for income tax purposes. This confers a considerable financial advantage on the house owner as is clear from, for example, a comparison with landlords who have to pay income tax on rent incomes or with investors in shares who pay tax on dividends. The extent of this tax saving can be gauged from a comparison of two standard rate taxpayers with identical incomes one living in and one letting his home. If the rental value of the house is say £500 per annum the person occupying his home obtains income in kind of £500 per annum while the person letting obtains a rental income of £500 per annum less tax at 30 per cent (£150).

A further advantage is that even if house prices increase at the same rate as general inflation, the real value of mortgage repayments declines while the real value of property remains constant. If, as has been the case, house prices appreciate more than other prices occupiers will make real capital gains but be exempted from capital gains tax when selling their property.

This represents another advantage over both renters with no property and landlords letting property who have to pay tax on capital gains. The combined effect of giving tax relief on mortgage interest and exempting occupiers from paying tax on both their imputed income and their capital gains is a considerable inequity of treatment between occupiers and landlords and both private and public tenants. Furthermore, the value of these tax concessions is greater for those with higher incomes and more expensive houses. These concessions have other undesirable consequences. They encourage the demand for housing by the well off and thus help to stimulate the inflation of prices and aggravate the difficulties of access to owner occupation for lower income groups. This in turn diverts building resources and land to the luxury end of the market and so inflates the cost of building at the poorer end. They also discourage the building of houses for letting rather than owner occupation.

The major fault of this system of financial aid is that house purchasers and owners receive greater support than either private or council tenants, although the latter are on average lower income households. In 1970-71 tax relief on mortgage interest amounted to some £300 million or £60 per mortgaged house. The saving accruing to owner occupiers through not paying tax on imputed rental income or on capital gains is much higher and has been estimated at around £700 million in 1967. (Colin Crouch and Martin Wolf, "Inequality in housing," *Labour and Inequality,* Fabian Society 1972). It has increased substantially since then.

3. alternatives

This was the situation operating prior to the 1972 Housing Finance Act, which changed this system in a number of fundamental ways. The aims of the Act as set out in the White Paper *Fair deal for housing* were: first, a decent home for every family at a price within their means; second, a fairer choice between owning a home and renting one; and, third, fairness between one citizen and another in giving and receiving help towards housing costs.

the housing finance act

The White Paper expressed particular concern about the projected rise in the cost of subsidies to council tenants if the existing system of finance were to continue, and the Act therefore sought to stabilise subsidies to this sector at their current level and redistribute them in what was considered a more ordered way. The main features of the Act were: first, a change in the methods of subsidising local authority housing involving a major reduction in central government grants to this sector; second, the raising of rents in the public sector in a series of stages until they reach a " fair rent " level; third, the phasing out of controlled tenancies and raising controlled rents to "fair rent " levels; and, finally, the introduction of a national scheme of means-tested rent rebates in the local authority sector and rent allowances in the private unfurnished sector. Some private furnished tenants, also became entitled to rent allowances from April, 1973.

The way in which public housing is now subsidised has as a result been radically changed. Under the old system the size of central and local government subsidies to council tenants varied between authorities according to when their housing stock was built, the principles used to determine rent levels, and their individual policies on rent rebates and rate fund contributions. Councils no longer have the freedom to determine rents, and these are to be fixed after a series of increases at " fair rent " levels defined as for private dwellings. " Fair rents " will provide a total rent income that will in most cases be greater than local expenditure on housing. The state of housing revenue accounts and the extent of subsidies required will therefore depend on the cost of rent rebates and so on the incomes of tenants. Two situations can arise. (See R. A. Parker, *The Housing Finance Bill and council tenants,* CPAG Poverty Pamphlet no 9).

First, total annual rent incomes (after paying out rebates) may be less than total annual expenditure, in which case the Exchequer will provide a " rent rebate subsidy " equal to 75 per cent of the deficiency and the remaining 25 per cent will be met from rates. The Exchequer will also pay a " rent allowance subsidy " equal to 80 per cent of the cost of paying allowances to private unfurnished tenants, and rates will cover the remaining 20 per cent.

Secondly, a surplus can arise if rebated rent income exceeds expenditure. In this situation rent rebates will have been financed out of rent income, and no Exchequer " rent rebate subsidy " will be required. The surplus will be used first to offset the government's " rent allowance subsidy " and when the surplus is more than the cost of these subsidies, 50 per cent of the extra is to go to the central government and the rest to the local authority's general rate fund.

While the broad objective of the Act to rationalise subsidies in the rented sector in an attempt to produce a closer relationship of benefit to need is to be welcomed, the methods used fall far short of what is required to produce genuine fairness in the distribution of housing aid. The effects of the Act will be quite different from the laudatory aims it claims for itself.

In the first place total subsidies to the public sector are to be substantially reduced (the explanatory and financial memorandum to the Housing Finance Bill (p vii) suggested that total Exchequer subsidies would be stabilised at their 1971-72 level until 1975-76 and then reduced). This follows from the application of " fair rents " which will normally produce a surplus, before rebates are paid, on housing revenue accounts, thus turning the provision of council housing into a profit making venture. In this situation the rebate scheme, which is a means of giving income support to low income families, is to be largely financed from the rents of moderately well off council tenants rather than from general taxation. Indeed these tenants will meet not only a major part of the costs of rebates and allowances but also the future estimated saving of £300 million through lower subsidies. The Act therefore involves a redistribution of income from better off council tenants facing higher rents but not receiving rebates to less well off public and private tenants. The precise extent of any redistribution will depend on the exact subsidy saving resulting, and how it is distributed. The underlying principle of dealing with poverty in this way is unacceptable. But, further, in cases of surplus after the payment of both rebates and allowances non-rebate receiving council tenants will be subsidising local and central government expenditure on non housing projects. This, too, is to be deplored. 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 the housing revenue surpluses.

But while reducing the differences in financial aid given to private and public tenants, the privileges of owner occupiers remain unaltered. Subsidies to this sector have been expanding and will continue to do so especially with the acceleration of house prices and higher rates of interest. The untaxed potential capital gains received by existing owners as a result of the recent boom will alone be substantial. Reducing subsidies to the public sector while leaving intact concessions and subsidies to owner occupiers shifts the relative advantages between owners and tenants even further in the direction of the former. This is clearly an expression of the Conservative belief in the innate desirability of home ownership and is presumably intended as a further encouragement to the demand for owner occupation. This is surely short sighted for many households would still prefer to rent than buy. Indeed it is the case that the swing to ownership since the war is a circumstance of the shortage of rented accommodation combined with the relative privileges of house purchase. What is needed is a move towards equality in the financial and legal advantages of renting and buying. This Act has involved a move away from rather than towards " a fairer choice between owning a home and renting one."

A further weakness is that the principle of " fair rents " while attempting to provide consistency of treatment is inadequate. " Fair rents " are meant to be set on the basis of the rents of accommodation in a locality where the number of persons seeking to become tenants is not substantially greater than the number of dwellings available. In practice scarcity value, which is in any case very difficult to measure, is inconsistently and rarely fully excluded. Nor is it clear how " fair rents " can reasonably be based on the standards, amenities and locality of the accommodation without a set of rigorous criteria. Their determination in practice therefore tends to be somewhat arbitrary. Moreover, there is no right of appeal against the decisions of Rent Scrutiny Boards who are responsible for the final setting of fair rents in the public sector.

Perhaps the major objection to the Act, however, is its massive extension of the selectivist approach to the problem of poverty. Rent rebates and allowances are means tested. Yet the weaknesses of means tested benefits are well known. They are a clumsy, divisive and ineffective way of assisting low income groups. For reasons of stigma, ignorance of rights and administrative complications many who are entitled fail to claim them. The problem of non-take up is likely to be more severe for private tenants who have less contact with local authority housing departments but who are often in great need of help. (See Chris Purnell *The prospects for rent allowances*, Wandsworth People's Rights, 1973.) In addition, the effect of a wide range of benefits that are related to income is that any increase in the earnings of low income workers leads to a loss or reduction in these benefits. At some levels of income, the actual income gain following an increase in earnings may be slight or even negative. The addition of a benefit to cover rent has accentuated this problem of the "poverty trap." For families with incomes below the needs allowance, rebates are reduced by 25 per cent of increases in income, for those with incomes above this allowance rebates are reduced by 17 per cent of additions to income. This represents a substantial increase in the effective marginal rates of tax faced by low income groups.

While some furnished tenants have become entitled to rent allowances from April 1973 under the Furnished Lettings (Rent Allowances) Act this Act has a number of shortcomings. Tenants in this sector will continue to lack security, although this is a major source of hardship. Apart from ignorance of the law, it is often the fear of a notice to quit that prevents many tenants applying to the Rent Tribunal for a rent assessment. The rent eligible to be met by the allowance is based on 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 therefore receive inadequate help. Eligibility for an allowance is also dependent upon a local authority residence qualification. Since furnished tenants are a highly mobile group, often because of their insecure status, this qualification may preclude many tenants, especially in London where mobility across borough boundaries is frequent. The new benefit is also likely to suffer from a very low take up. The complicated regulations governing the scheme will combine with ignorance and fear of the landlord to prevent many applying.

Finally the Housing Finance Act may well have divisive social effects. There may be an increasing tendency, already apparent in some areas, for councils to concentrate low income tenants in low rented, poorer quality accommodation in an effort to reduce their rebate bill. Some tenants, even after rebates if they draw them, may find themselves worse off through the movement towards "fair rent" levels and may move to cheaper, lower standard private accommodation.

We have argued that the system of financial aid operating before the Housing Finance Act was inefficient and inequitable. Despite its declared intentions, that Act has done little to improve this situation but much to aggravate it. The average owner occupier is economically better off than the average tenant, enjoys higher social status, and the benefit and freedom of personal ownership, yet remains in effect the most heavily subsidised. He receives tax concessions not available in other sectors and is cushioned against the effects of inflation in a way that tenants are not. In contrast the subsidies to be spent on local authority housing are being reduced while the rents of council tenants are gradually increased. A system of personal means tested benefits has been introduced for most tenants but these will not be received by many who most need them. If fairness and equality are to be of central concern then an alternative approach is required.

labour's programme

The broad policy of the Labour party as set out in *Labour's programme for Britain* is to make some desirable changes within the framework of existing institutions. The full details of these proposals have not yet been spelt out, but the main features appear to be as follows.

1. Local authority rents would be set in terms of pooled historic costs which would in general be below "fair rent" levels. Whether council house rents would actually be reduced would depend upon the extent of the progression towards fair rents, the nature of each authority's housing stock mix (the older the average age of the stock the lower the pooled cost), and upon the new central government subsidies which the *Programme* proposes. The profit element in council house rents, however, would disappear.

2. There would be four types of subsidy to local authorities: to those areas with abnormally high costs such as inner city areas and those with a high proportion of new houses so that rents could be set below pooled historic cost levels for these authorities; to finance national rent rebate and allowance schemes so that council tenants would no longer have to bear the main burden of this form of poor relief; for urban renewal programmes; and finally as part of the programme to municipalise private rented property.

3. The present arrangements for giving tax relief on mortgage interest would be abolished and a "universal mortgage subsidy" scheme introduced which would operate in a similar fashion to the option mortgage scheme by reducing the rate of interest instead of giving tax relief. Restrictions could be imposed on the amount of benefit any one householder could derive, for example, no relief for second homes or for that part of a mortgage above a certain figure. If this scheme were extended to all borrowers to replace indiscriminate tax relief, higher income earners paying high rates of tax would find the level of their assistance greatly reduced.

4. The level of public sector subsidies would be raised to the total value of mortgage interest relief given to house purchasers. It is argued that this would achieve equality of treatment since there is approximately the same number of households in the local authority sector as there are owners in the process of buying their own homes.

These proposals have to be viewed in the context of the whole of Labour's intended housing programme which includes commitments to the partial public ownership of land, the municipalisation of privately rented property and the granting of security of tenure to local authority and private furnished tenants. These latter reforms are desirable and long overdue. The housing finance proposals would represent an improvement over past and existing arrangements, but as longer term goals they have a number of shortcomings. In particular it is not clear how far they would ensure fair treatment between individuals and tenure groups.

The aim to equate mortgage interest relief with total local authority subsidies will not produce the equitable distribution of financial subsidies that is implied since similar per capita subsidies in each sector would not allow for other concessions to owner occupiers. The total local authority subsidy bill would also include sums for urban renewal programmes and municipalisation that should not be included in the comparison. For the private tenant the Programme makes no financial proposals so that, until his home is incorporated within the public sector, he will continue to pay a "fair rent" if he is registered, and probably a higher one if not, unless entitled to and claiming a rent allowance. Finally, Labour's proposals continue to rely on means-tested rent rebates and allowances. Although rent levels would be relatively lower and, presumably, fewer tenants would therefore be entitled to rebates and allowances, the less widespread need for means testing would not remove the objections to it and might conceivably make it more difficult to ensure take-up of benefit.

Ideally a reform of assistance with housing costs should attempt to do at least two things; first, it should remove existing anomalies in subsidies and tax concessions and, secondly, it should establish the progressive allocation of such aid without the need for means testing. The Labour Party proposals move some way towards the first goal but only a little way towards the second. Correcting the anomalies and removing means testing inside one complete reform, however, has been the object of proposals for a scheme of housing allowances and accompanying tax changes. Housing allowances would have a number of attractions, but such a thorough reform would not be without its problems, and its viability has been the subject of some controversy. In the next section an attempt is made to clarify the issues involved and discuss the strengths and weaknesses of such a proposal with the aid of a particular example.

4. universal housing allowances

The case for some form of housing allowance has been considered by a number of authors (see, for example, Audrey Harvey's and Della Nevitt's papers in *Social services for all?* Fabian Society, 1968; Colin Crouch and Martin Wolf "Inequality in housing" *op cit;* Peter Townsend *Everyone his own home: inequality in housing and the creation of a national service,* a paper presented to the Royal Institute of British Architects, April 1972; *Housing allowances: an alternative to the Housing Finance Act,* Wandsworth People's Rights 1972; Malcolm Wicks *Rented housing and social ownership.* Fabian Tract 421, 1973). While some common themes have emerged, especially on the need for accompanying tax reforms, the various proposals have differed in their coverage and structure and in the level of detail presented. The case outlined and examined in this section is for a scheme of *universal* housing allowances which would be received by all households irrespective of their income or tenure.

universalism

Benefits, whether in cash or kind, can be discriminating in essentially two ways, by income or by social group. Rent rebates, for example, are restricted to tenants with low incomes, while family allowances are available to all families with more than one child irrespective of income. Alternatively benefits can be provided to all individuals or households. Here we discuss a scheme of housing allowances that would be provided to all households so that the implications of a fully universal or comprehensive scheme might be examined. Allowances could instead be given to certain social groups such as families and pensioners or to all households except outright owners. Full universality is not an essential feature of housing allowances and in fact would give rise to certain problems of cost and equity. What is fundamental to the fair and effective operation of such a scheme is that there should be no discrimination on the grounds of income. In all schemes of financial assistance there is the inherent danger of stigmatising potential recipients. It is important that benefits are not considered as being solely intended for the poor as this discourages those entitled and in need from claiming. Not only are means tested forms of help liable to suffer from a low take up, but they can be socially devisive. Financial benefits, ideally, should be given and be believed to be given, as part of a basic right. The introduction of means tested assistance for tenants alone adds to these problems by discriminating by tenure group as well. Present arrangements provide the basis for distrust between groups, tenants feeling that owners and buyers are oversubsidised and vice versa. These problems are compounded by the status differences between tenure groups, and it should be the aim of government policy in general to eliminate such differences and to make clear for all the financial conditions under which each sector of housing operates.

There are other advantages to universal schemes. They do not entail the disincentive effects for low income families that means tested schemes do. We have already referred to the effective marginal rates of tax that are implied by the withdrawal of benefit as incomes rise. While universal schemes do entail higher taxation, the high marginal rates of tax implicit for the low income household claiming means-tested benefits can be shifted to those who are better off and more able to bear them.

There are also certain practical advantages to universal schemes of benefit. In operation universal schemes have tended to be more efficient than means-tested ones, in terms of administrative cost and of ensuring that those in need receive the benefit to which they are entitled. Efficiency in administrative costs arises from avoiding repeated detailed assessments of personal circumstances. Extensive information about the applicant's income is required for a means-tested scheme; this income is generally measured in the past although the benefit is paid in the present and future. Claimants may therefore be required to notify authorities of changes in income. In a universal scheme the administrative costs per pound of benefit also relate to the information required, but by definition this excludes income which is the most difficult item to measure. A universal housing allowance related to housing costs and family type would require information on these items alone. As an example of the relative costs of administration Peter Townsend quotes the following figures: for national insurance administrative costs were 3.5 per cent of total benefits plus administrative costs in 1969-70, whilst for the National Assistance Board the comparable figure in 1965 was 7.4 per cent (Peter Townsend, *The scope and limitations of means-tested social services in Britain,* Manchester Statistical Society, 1972). However, although administrative costs measured in this way are relatively lower for universal schemes, the set of measures discussed in this chapter might lead to an overall increase in such costs. Such an increase would be reasonable if the beneficial effects justified it.

One justification would be that universal schemes have been more efficient in channelling help to the less well off. This is the main function of all benefit schemes, and we discussed in section 3 some of the reasons why take-up of means-tested benefits often falls far short of 100 per cent. As a contrast to this family allowance take-up is well over 90 per cent, and amongst those who do not claim are higher rate tax payers for whom family allowances entails little or even negative benefit. Universal schemes avoid the impression that benefits are only for the poor, the repeated enquiries into financial circumstances and the confusions that arise from the complex income eligibility scales. By avoiding these deterrents a universal housing allowance scheme could be more effective than rent allowances and rebates in giving help to those who most need it.

an example

To illustrate how a scheme of universal housing allowances might work, an example is provided here based on the following main principles.

1. Every household, regardless of tenure, should be helped according to its housing needs and its ability to meet them.

2. The overall effect should be progressive such that those worst off receive more help in relation to their costs and income than their better off neighbours.

3. Any means testing, that is, relating net benefits to income, should be effected through a universal means test, income tax, and should involve additions to marginal tax rates only for those with incomes above certain levels.

4. The lower paid should not suffer financially when moving from inferior accommodation and should receive help when improving their housing conditions where this involves a higher rent.

5. No low income family should be made worse off after replacing rent rebates and allowances with housing allowances.

To satisfy these principles it is suggested that the allowance would have a two part structure, a flat rate element, related to family size, age of children, presence of disabled persons and other factors affecting housing needs, and a variable element, related to housing costs or rent. The variable element would produce a rough measure of equity between those facing different housing costs and help to ensure that the poor do not face too great a disincentive in the form of higher rents when moving to better accommodation. It would be necessary to impose some upper limit to housing costs against which this variable element could be measured. These limits could be allowed to vary between regions in correspondence to variations in average rent levels. New criteria would have to be established for determining appropriate housing costs, against which to apply allowances in each sector and for setting rents. To ensure that the net benefit of such a scheme was confined to those in need the allowance could be taxable and subject to "clawback."

In addition, to ensure that individuals in identical circumstances were treated equally independently of tenure the tax treatment of owner occupiers would have to be modified.

1. The imputed rent to the owner occupier from his house would be taxable at the same rate as his income.

2. A capital gains tax would be levied on the sale of all houses on the value of any appreciation. A penal tax rate on early resales would also be desirable to discourage speculation.

3. Tax relief on mortgage interest payments would have to continue as an offset against tax on imputed rent for house purchasers. However, it could be limited to the value of houses below certain levels. It could also be withdrawn for mortgages on second houses.

The present assistance that owner occupiers receive would thus be replaced by the net value after tax of their housing allowances. The net effect on the more wealthy house purchaser would be to eliminate his subsidies, whilst the position of moderately well off home buyers would be unchanged and the poor occupier improved. Buyers would then no longer be treated more favourably than tenants with identical needs and incomes as is the case at present. A capital gains tax would restrict the gains that can be made on the buying and selling of homes, and therefore help to curb inflation and speculation. Limiting the amount of tax relief available on mortgages would end the anomaly by which financial support tends to increase with income. The revenue received from these reforms would also help to finance the expansion of assistance to lower income households.

The rates of allowance finally adopted would depend on a number of factors, including prevailing rent levels and the total desired level of subsidies. The scheme need not necessarily involve any additional cost to the Exchequer ; the net cost would depend on the rates adopted, the manner and degree to which the allowances are withdrawn from the better off through the tax system and on the additional revenue accruing from the tax changes outlined. A " no additional cost " scheme would simply involve a re-allocation of existing subsidies and concessions.

The following example is based on values and rents in mid 1972 (the Appendix presents some estimates of the gross cost and savings involved). A flat rate element of £1.75 for an adult, £2.50 for a married couple, 75p for each child up to three, and 50p for all subsequent children, combined with a variable element of say 50 per cent of the difference between the flat rate element and the household's actual housing costs or an upper limit, whichever is the lower, would yield *gross* allowances as in the first table below.

Variations in the assistance given could be obtained by using different relativities and different combinations of the variable and flat rates or by having a more complex formula for their calculation.

Housing allowances would, in this example, vary with family size and level of rent in the first instance, but could be made to vary with income through the tax system. They could, for example, be made taxable so that low income households falling below the tax threshold would benefit from their allowances in full though the effect of making them

GROSS HOUSING ALLOWANCES BY FAMILY SIZE AND RENT

	rent			
family size	£3	£4	£5	£6
single person	2.37½	2.87½	3.37½	3.87½
married couple	2.75	3.25	3.75	4.25
married couple 1 child	3.00	3.62½	4.12½	4.62½
married couple 2 children	3.00	4.00	4.50	5.00
married couple 3 children	3.00	4.00	4.87½	5.37½
married couple 4 children	3.00	4.00	5.00	5.62½

taxable would be to lower the tax threshold on earnings. Moderately well off households paying tax at the standard rate (currently 30 per cent) would lose a portion of their allowance in tax. The first table below shows the tax thresholds (for 1972-3) and the *net* values of the allowance to standard rate taxpayers before clawback.

For higher income earners the allowance could be gradually removed by some new form of "clawback" or through a set of progressive marginal tax rates. This would ensure that the scheme is "progressive," help being systematically withdrawn from those who do not need it, without the need for a separate means test. Families of a given size and rent would receive the same allowances initially whatever their income; their allowance would then decline proportionately with income, and the net benefit be gradually reduced through the tax system as incomes increase.

The subsequent two tables look at rent rebate sizes in 1972 for scheme comparison. This shows that in general the illustrative rates of universal allowances would have provided in 1972 considerably more assistance to low income tenant households than rent rebates and allowances. There would however have been some isolated cases of very low income earners being marginally worse off than if they were drawing rebates. For example, married couples earning £10 a week and paying £5 in rent. Such cases are likely to be few, and most would be entitled to supplementary benefit.

In the case of owner occupiers with mortgages. lower income purchasers would face lower housing costs while higher income households would pay more. Take for example a married couple with two children buying a house with say a rental value assessed at £6 per week. With the re-introduction of Schedule A tax for owner occupiers this amount would be included in their taxable income. If their original income is above the tax threshold, they would pay additional tax of £1.80 a week, but against this they would receive a net housing allowance of £3.50 (£5.00 less tax at the standard rate) and in total be better off by £1.70 a week. If their original income is below the tax threshold their net benefit would be greater than £1.70 since only a portion of their imputed income and housing allowance would be lost through tax. For example, with their tax threshold at £22.12 and with original income of £20 only £8.88 of their additional income of

NET HOUSING ALLOWANCE

family size	tax threshold	rent £3	£4	£5	£6
single person	£11.44	1.66	2.01	2.36	2.71
married couple	£14.90	1.93	2.28	2.63	2.98
married couple 1 child	£18.75	2.10	2.54	2.89	3.24
married couple 2 children	£22.12	2.10	2.80	3.15	3.50
married couple 3 children	£24.81	2.10	2.80	3.41	3.76
married couple 4 children	£28.71	2.10	2.80	3.50	3.94

RENT REBATES/ALLOWANCES

family size		rent £3		
	income £15	£20	£25	£30
single person	1.05	0.20	—	—
married couple	1.76	0.81	—	—
married couple 1 child	2.43	1.38	0.53	—
married couple 2 children	3.00	1.87	1.00	—
married couple 3 children	3.00	2.55	1.47	0.62
married couple 4 children	3.00	3.00	1.99	1.08

RENT REBATES/ALLOWANCES

family size	income £15	£20	rent £5 £25	£30	£35
single person	2.25	1.40	0.55	—	—
married couple	2.96	2.11	1.26	0.41	—
married couple 1 child	3.63	2.58	1.73	0.88	—
married couple 2 children	4.32	3.07	2.20	1.45	0.60
married couple 3 children	5.00	3.75	2.66	1.81	0.94
married couple 4 children	5.00	4.44	3.19	2.28	1.43

£11 (£6 of imputed rental income plus £5 housing allowance) is taxable, making total tax of £2.66. They are better off by £2.34 a week.

Better off households, and the large majority of owner occupiers in the process of buying their house are relatively well off (in 1971 the *Family Expenditure Survey* indicates that only 13.9 per cent had household incomes less than £30 a week and 22.8 per cent less than £35), would find the whole of their housing allowance withdrawn through clawback and/or progressive taxation. In addition, any realised capital gains from house ownership would be partially offset through the payment of tax. The scheme would therefore ease the financial burden of lower income families wishing to buy their own home, while reducing the considerable support given at present to families who can afford to purchase without State assistance.

There is a further reform that would be desirable in connection with house purchase, and that is providing a choice as to how mortgages are repaid over the period of the loan. At present repayments bear most heavily in the early years of the loan but decline in real terms over time with inflation and rising incomes. Combined with the acquisition of a capital asset this means that house purchase involves a re-distribution of consumption from early towards later life. Smoothing these repayments so that they are relatively low at first but rise with income would in many circumstances greatly help first time low income buyers, though it might involve higher total repayments.

Supplementary benefit recipients whose " reasonable " housing costs are fully met would receive their allowance, and any remaining deficiency between the level of their income plus the allowance and supplementary benefit entitlement would continue to be made up. For some recipients the allowance would lift them above the supplementary benefit level.

rent levels and housing costs

The fair operation of the scheme would depend on the method adopted for assessing relevant housing costs in each sector. The variable element of housing allowances would depend, in the rented sector, on the level of rent paid, and in the owner occupied sector on some equivalent measure of housing cost. At present tenants enjoy varying degrees and standards of security, tenure, fittings and services. The current system of rent regulation is quite inadequate, many tenants fail to register and there are wide discrepancies in the way regulation is applied. Rents in the private sector, as a result, often bear little relationship to the quality of accommodation. In the public sector, too, the determination of fair rents has often been quite arbitrary. In both the private and public sector rents should be set on the basis of detailed criteria covering physical state, size, facilities and location of each property. In the private sector this would require compulsory and vigorous action on behalf of local authorities. The setting of rents on a more consistent basis would be facilitated by the absorption of private property into the public sector.

In the public sector rents should be set at levels sufficient to cover historic costs. This means that rent in the private sector for similar accommodation would be higher since any imposed level of rent would have to cover a fair rate of return to landlords. This difference would be partially removed by the variable element in the allowance scheme; the municipalisation of private property would of course remove the problem altogether, but until then private tenants would still be disadvantaged against council tenants.

Given that local authority rents would be set to cover costs, the precise costs to be included must be carefully defined. The costs to be met by rent revenue should be the annual costs of debt repayment, repairs, maintenance and management. Costs incurred for the purpose of slum clearance or urban renewal and costs that are exceptionally high should be met by special subsidies and not be made a charge on the housing revenue account. Areas of special need where extensive new building is required which would otherwise force up rents to unacceptably high levels should also qualify for a special building subsidy. In this way variations in rents between areas could be kept to a minimum, though some differences might be considered justified as an element of regional policy.

Given the total rent revenue required to cover costs, individual rents can be determined either on the basis of pooling, or with the aid of gross values or using a system of points. Pooling involves making all rents approximately equal to the average cost. In the past complete pooling by one authority has never been operated, and rents have been allowed to vary somewhat with the age and size of property. Nevertheless, the degree of pooling has varied widely between authorities, and the extent of cost redistribution from new and more expensive to older and less costly properties has often been quite high. No dwelling normally bears its precise cost. A disadvantage of this method is that rent levels could still vary considerably between adjacent authorities if their average costs differed significantly, though the special high cost subsidies would help to reduce variations. Another possibility might be to pool costs on a regional basis such that redistribution would not only take place within but between authorities. However, pooling does mean that rents would not reflect the amenities and standard of accommodation enjoyed, and pooling would therefore often involve tenants in old, low cost housing paying relatively high rents to subsidise newer accommodation..

An alternative and, pre "fair rents," increasingly popular way of fixing rents would be to use gross rateable value. An authority knows the total gross rateable value of its stock and the rent income required to cover the cost. One can therefore be expressed as a multiple of the other, and rents for each dwelling then set at this multiple of its individual gross value. The weaknesses of this method are that, in practice, it produces many small variations between broadly similar properties and that valuations for rating purposes do not accurately reflect the age, size and amenities of dwellings. A better procedure might therefore be to award points on the basis of a set of criteria about standards and set rents according to the ratio between the total points and rent revenue required with some smoothing to avoid marginal differences.

To the house purchaser, housing costs are the repayment of the mortgage loan together with maintenance and insurance. In contrast to the rented sector where rent is purchasing housing services alone, the purchaser's costs buy both accommodation services and a capital asset.

Housing allowances should assist purely with that part of costs which are satisfying accommodation needs and should be assessed against some notional rent equal to the cost of purchasing housing services alone and based on the same principles applying in the rented sector.

administration

There are two aspects to the administration of a housing allowance scheme. The first is determining the value of the allowance. Although there are certain attractions to having one central organisation similar to the family allowance office in Newcastle, this would involve every householder obtaining separately a formal certificate of his allowable housing costs. Many of these would be issued by the local authorities to their tenants, and it is possible that building on to the present rent rebate and allowance machinery would be more economic. Unless a series of local offices responsible to a central body were established, the other alternative would be to place further burdens on the local Department of Health and Social Security or Inland Revenue offices.

The advantages of placing the administration with local authorities would lie mostly in their experience of running the Housing Finance Act schemes and their accumulated details of rents and rateable values. However, a centralized organisation might be a better guarantee of anonymity for the householder and of security for his personal details.

The second aspect of the administration would be the actual payment of the allowance. In the case of local authority tenants this could be set against rent due, but an alternative and preferable method would be for all householders to receive a regular Giro order or to have cash order books similar to existing social security benefits. It has been suggested (for example, in evidence to the Select Committee on Tax Credit) that a housing allowance or credit could be given to the taxpayer through the proposed tax-credit system. Were such a system in operation it might be relatively easy to graft on a housing cost related credit. However, as the Conservative Government's proposals stand at present, the tax-credit system would not be comprehensive, and, in particular, it would exclude many poorer households.

Both determining the value of allowances and their payment would therefore require additions to or the creation of new administrative machinery, although this machinery would be more effective in getting help to those in need, and the separate rent rebate and allowance schemes would disappear. There would also be additional responsibilities for the Inland Revenue.

cost and finance

One problem of a housing allowance scheme would be its cost and how it could be financed. The Appendix gives an estimate of the gross cost of the illustrated scheme for the year 1972 of approximately £3,000 million. This gross cost depends upon the number of households receiving the allowance and upon its average value which in turn, in this example, would be related to rent levels. The possibilities for reducing the cost of the scheme therefore would be either to exclude certain types of household, or to reduce the average value.

The gross cost of the scheme is high partly because it attempts to leave no, or at least very few, low income and rebate receiving households worse off. One difficulty in moving to a universal, non means-tested scheme is that the means-tested benefits it has to replace can give considerable help to low income households who claim them and at a relatively low cost. (The Conservative Government will face similar problems when it attempts to replace the means tested family income supplement by the universal tax credit system.) The more generous a selective scheme, the higher universal benefits replacing them should be; correspondingly, the amount that has to be taxed away from the better off is increased.

We have said that the net benefits of a housing allowance scheme should only be related to income through the tax system, so that the degree to which such a scheme were progressive would depend upon the redistributive force of the tax system itself. Without a progressive tax system there would be no case for introducing housing allowances. It might be argued that a more progressive tax structure is needed anyway to re-distribute income without linking it to housing. It is however the failure in the past to achieve a more equal distribution of income that has been responsible for some of our housing problems and has produced the need for a system of personal subsidies that is both more generous and progressive than would otherwise be. If there were a concerted drive to equalise incomes the degree of help needed to enable low income households to afford decent accommodation would be relatively less, though not eliminated. It is not possible, though, to predict the future structure of taxes and benefits nor changes in the distribution of factor incomes. The housing allowance scheme has therefore been presented in relation to recent circumstances (1972).

Much of the gross cost would be met by the revenue accruing from the extension of the tax base (including tax on the allowances themselves) and by savings in government expenditure. The remaining net cost of the scheme, about £600 million, would have to be met from the use of " clawback " and from other taxation, preferably progressive income tax. Making large transfers of money income between households however has certain implications for the structure and level of demand and for demand management policy that would have to be taken into account in introducing a scheme of housing allowances. These implications would also depend on who were net beneficiaries in real terms, and on any inflationary consequences.

Subsidies to any product or service can benefit either the consumer or the producer or both. In housing where increases in demand do not lead to immediate increases in supply there is a danger that a general housing allowance would merely tend to increase rents and house and land prices. However, the degree to which housing allowances would be " passed on " to the existing house and land owners would depend upon the extent of public ownership and the effectiveness of rent and price control. (We have argued for firm controls in this area.) In addition, the withdrawal of certain subsidies and tax concessions that is also proposed should tend to stem rises in rents and house and land prices. Given that housing allowances were introduced within the right institutional arrangements, inflationary effects on housing would be avoided.

If housing allowances did not lead to increased house prices, recipient households who were net beneficiaries in money terms would be able to spend more on other goods and services. These increased claims on non-housing resources could themselves be inflationary if they led only to higher prices. Taxing the rich, in particular the assets of the rich, to an equal amount may not be sufficient to finance a housing allowance scheme in a non-inflationary way, especially where the net beneficiaries were households with higher propensities to consume. This is a problem facing the financing of all redistributive schemes (see, for example, *Paying for Labour's programme,* Labour Party, 1973).

It might be argued that these problems of cost and financing could be reduced by amending the scheme so that, when it was introduced, it applied only to certain types of household. For example, outright owners might be excluded altogether on the grounds that their housing costs are comparatively small, being limited to insurance and maintenance. Under the scheme as described these costs for many outright owners would be entirely covered by the flat rate element alone, although most would also be paying tax on this allowance and on their imputed rental income. If outright owners were not covered by the scheme, the fact that its universal nature had been reduced in one respect would be balanced by the fact that no household with regular significant housing costs would be excluded.

However, excluding other types of household would change the nature of the scheme, and criteria for *inclusion* would need to be established. Having significant housing costs would no longer be sufficient to receive an allowance, and a household would have to belong to a particular category. Initially such categories could be families with children, pensioners and the long term sick and disabled, all of whom could be said to have special housing needs.

5. conclusion

Despite government effort, housing objectives are not being realised. Housing policy particularly in the field of finance has played a curious role. Financial aid is still of principal benefit to the better off who are in least need of help, and this has accentuated the housing problems of low income groups. Each housing sector offers very different types and standards of accommodation, but policy has done little to even out these differences. The Housing Finance Act has introduced a system of personal subsidies for tenants in the form of means tested rebates and allowances in recognition of the need of low income groups for income support, but this help, especially in the private sector, will not reach many who are in greatest need. Moreover, the Act will involve a reduction in subsidies to housing at a time when the urgency of the problems requires more not less expenditure. Existing financial arrangements are neither adequate, equitable nor effective.

As one possible approach to reform, we have considered a scheme of universal housing allowances which with the aid of accompanying tax reforms would enable the re-distribution of financial aid while avoiding the need for a separate means test. Such an approach relates to some of the main issues that underlie policy making in the area of housing finance, the misdirection of existing subsidies and concessions, the inequality of incomes and the unsuitability of selectivist approaches to the provision of assistance. Universal housing allowances would attempt to tackle all three simultaneously. Each could, however, be tackled independently. Existing financial assistance could be redirected in a more equitable and efficient way through the appropriate removal of tax concessions and the fairer setting and more adequate regulation of rents. A more equal distribution of income could be secured with the aid of a comprehensive programme of a minimum wage, a child endowment or improved family allowance scheme, higher social security benefits and a progressive tax system. (Indeed a progressive system of personal housing subsidies should not be seen as a substitute for the redistribution of income in these ways.) Such policies by themselves would enable the currently less well-off to consume a fairer share of housing services and reduce the amount of help that would need to be provided specifically for housing. However, some form of assistance would still be necessary to deal with variations in rents and to encourage families to spend what society considered an adequate amount on housing. The third problem would therefore remain as to how this help should be allocated, selectively through a test of means or universally irrespective of income, to certain groups of household or to all.

Some form of universal housing allowance is preferable to continuing reliance on means-tested rent rebates and allowances, and the longer term goal of the Labour Party should be to replace these and other selectivist benefits. The advantages of a universal scheme of housing allowances would be the avoidance of stigma, greater efficiency in ensuring take-up of benefit and reducing disincentive effects for the low paid. Their introduction would however involve certain problems of cost and financing. The generous levels of allowances described in this scheme would undoubtedly place considerable burdens on the tax system, and the gradual introduction of the scheme to include at first only particular groups of household would only partially reduce these problems. Further, the use of "clawback" and higher rates of tax could be regarded as unacceptable in a housing context alone.

Many of the other reforms described in this pamphlet that would have to accompany a housing allowance scheme can be supported in their own right. In particular, many outright owner-occupiers and existing purchasers have been over-protected against bearing the full cost of their housing. Changes in the tax concessions given in favour of this group should be made and the help given be more effectively directed to lower income purchasers. The methods of determining and controlling rents in both the public and private sectors need immediate improvement. Security of tenure to all tenants should also be given a high priority.

appendix: estimates of allowances and savings

Here is attempted a very approximate cost estimate of the illustrative housing allowance scheme set out in chapter 4. The net cost would be the gross-outlay on allowances less the various savings from clawback, tax on the allowances, the extension of the tax base to include imputed income from house ownership, the partial removal of tax relief on mortgage payments, the imposition of a capital gains tax, the savings from supplementary benefit payments to cover rent and from rent rebates and allowances, and the reduced subsidies to local authority housing revenue accounts from charging tenants, on average, rents sufficient to cover local authority housing costs. The net cost would be dependent on the allowance rates, the level of rents prevailing in each sector and the rates of tax and extent and realisation of capital gains. All these factors are speculative. In particular, since the introduction of the scheme would make significant changes in the way different sectors are subsidised, relative housing costs would change.

The table below gives an estimate of the gross outlay in 1972 based on an estimate of households by size in Great Britain (the household figures have been estimated by projecting the 1966 figures by the rate of increase in the total number of households between 1966 and 1971), the rates of allowance set out earlier, and some assumed average levels of rents facing each household size in 1972 (that is £2.60 for a single person, £3.00, £3.40, £3.70, £4.00, £4.25 and £4.50 respectively for the other household sizes). The gross cost is a maximum figure based on the assumption that all households will receive an allowance. If outright owners, who constitute a fifth of all householders, are either excluded from the scheme or receive a lower allowance the gross cost would be lower.

Against this, some estimates of likely savings we made below:

1. Tax on imputed income from house ownership assuming an average annual notional rent of £300 in 1972 and 30% tax rate. £850m

2. Capital gains tax on owner occupied property, assuming an annual average increase in price of 5%, a tax rate of 30% and allowing for certain exemptions. The average house price at the beginning of 1972 is taken as £6,500. £400m

3. Withdrawal of mortgage tax relief for second homes together with a ceiling on the relief given for the first home. £100m

4. Tax on housing allowances at a rate of 30%. £700m

5. Savings from supplementary benefit payment, rent rebates and allowances and rent subsidies to local authorities. £350m

This leaves a sum of approximately £600 million to be found from clawback and additional income taxation to produce a scheme which does not require additional expenditure on personal housing subsidies. By way of example, in 1972 some 25 per cent of households had a household income of over £55 a week (*Family Expenditure Survey,* 1971 updated to 1972), and if their allowance was withdrawn entirely this alone would provide a saving of approximately £500 million.

GROSS OUTLAY ON HOUSING ALLOWANCES 1972

household size	numbers (million)	gross average weekly allowance	gross annual cost
1 person	2.8	2.17½	317
2 persons	5.5	2.75	388
3 persons	3.8	3.32½	657
4 persons	3.2	3.70	615
5 persons	1.6	4.00	332
6 persons	0.8	4.25	176
7 or more	0.5	4.50	117
all households	18.2	3.20	3,000

young fabian group

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Cover design by Dick Leadbetter. Printed by Civic Press Limited (TU), Civic Street, Glasgow G4 9RH.

ISBN 7163 2036 3

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