

HOMES FOR THE PEOPLE

by Norman Macrae

With Comments by:

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HOMES FOR THE PEOPLE

During the last twenty years of general (though not uninterrupted) advance in the standard of living of the British people, the most absurd shortfall has surely been that in the improvement of the standard of housing. The latest government survey indicates that of the 15·7 million permanent dwellings in England and Wales, only 9·2 million are considered to be in a satisfactory condition; 1·8 million are totally unfit by the criteria of successive Housing Acts, and another 4·7 million (some of them also not worth saving) need at least something doing to them. About 2·9 million of our houses have no internal w.c.; 2·1 million have no fixed bath; 3·4 million have no hot and cold water system; 3 million have no wash basin. In Scotland conditions are, if anything, worse.

Compare these figures with the facts that over 85 per cent. of British households have a television set, over 60 per cent. a washing machine, over 40 per cent. a refrigerator, over 40 per cent. a car. The vast majority of these consumer durables have been bought or rented, installed and often several times replaced, in the last dozen years. This extraordinary contrast between the improvement in the things that the mass of the people put into their houses, and the shortfall in the improvement in the houses themselves, indicates that something has gone quite crazily wrong with Britain's economic system.

There is no doubt what that something crazy is. In consumer durables, the private enterprise system, operating through a free market, has been enabled (and has managed) to produce and to provide a marketing mechanism (witness hire purchase and television rentals) that has brought these new products of our age within the reach of the mass of British families. In housing, a unique system of government controls, crippling official disincentives and discriminatory taxation against the building and landlord industry has prevented private enterprise from providing anything

like the same revolution; and public enterprise housing, good-hearted and welcome but generally operating on quite the wrong system, has singularly failed to fill the gap.

The object of this pamphlet is to suggest ways in which this mess needs to be radically reformed.

FOR THOSE IN NEED

The first craziness of the present situation is that a main barrier to housebuilding has sprung from standing a perfectly decent emotion economically on its head. It is recognised that it is socially important that every family in the land should be enabled to have a respectable home, because of the effect of poor housing on the kids if for no other reason. It is also recognised that a certain proportion of families are unable to pay for adequate housing out of their own resources. This should provide a case for stepping up the rate of housebuilding above the level that an entirely free market would otherwise dictate. At present, however, the mechanism for aiding these poorer families (and some others) takes a form which actually holds down the level of housebuilding artificially. This is because aid to the poorest families is given in two main ways.

First, in the privately rented sector the aid is given by controlling the rents that can be charged by landlords in a way that makes the provision of new housing for renting to the working class totally uneconomic.

Secondly, in the council housing sector, subsidies to the councils themselves are tied to the period when the housing was built. Houses built even before the war, at much lower costs than now, still attract a subsidy to the council even though they can be and often are let today at a profit above original building cost. But houses built today are naturally much more expensive. It follows—given present rent policies—that councils with a high proportion of modern to older houses on their estates often make a loss on their housing accounts. In areas like Glasgow, Aberdeen, Merthyr Tydfil, Salford and Islington between 31 and 42 per cent. of council housing expenditure falls on the rates.

Ratepayers naturally object to this, and councils which pay attention to the desires of their private ratepayers (which not all

do, especially if a high proportion of their voters happen to be council house tenants) therefore have a disincentive to build.

Moreover, in both the private and the public sector, this crazy system of directing the subsidy (at landlord's or ratepayer's expense) towards the sitting tenant in a particular house, instead of giving it directly to the poorest tenants, naturally means that the subsidy does not always go to those most in need.

It must be a fundamental feature of any housing reform in this country that subsidies should go directly to families in need. They should be means-tested subsidies, going equally to people living in private or council accommodation, through regional means-tested family allowances or other means. Once these had been granted, rents of both private rented accommodation and council accommodation should be raised—preferably to the full free market level, or (if that is for some reason regarded as politically impossible) at least to a "fair rent" level determined on the New York system (see below) rather than on the more restrictive London one.

We could all have different political recipes or philosophies about the proper role of council housing in such a system. But that is not my present theme. The rest of this pamphlet will be concerned with the private housing sector; first the privately rented sector, then the owner occupier.

PRIVATE LANDLORDS

At the time of the Allen Committee's investigation in 1965, about 25·8 per cent. of the houses in England and Wales had been built since 1940; of these, only one in thirty was privately rented, because building houses for rent has become completely unprofitable under the system that has operated here since the war.

This complete collapse of the privately rented sector has been almost peculiar to Britain among the civilised countries of the world. The Milner Holland report on London's housing in 1965 reported that in Greater London:

According to the 1960 Housing Survey less than 4 per cent. of the private dwellings rented in that year had been built since 1945; 75 per cent. of them were built before 1919. In Greater Stockholm 15 per cent. of private dwellings rented in 1963 had been built since 1950, in Greater Copenhagen 8 per cent. of private dwellings rented in 1960 had been built since 1945.

In Geneva, New York and Hamburg, private rented housing had been growing a good deal faster than this. In Paris and the principal Dutch cities the rate of growth in this sector had been slower, though still above that found in London. London's private rented housing is distinguished from that of other cities even more by its rapid rate of demolition than by its slow rate of construction.

The reasons are quite obvious. In Britain the provision of new private housing for rent has been rendered uniquely impossible by the system of rent control, the system of taxation and (compared with other countries) the lack of favourable forms of finance.

Of the 3½ million existing tenants of private landlords in Britain, about 2½ million still have their rents controlled at far below maintenance cost because they were never decontrolled even by the Conservatives' Rent Act of 1957. The other 1½ million were eventually decontrolled through that Act, but have since then had their rents rendered liable to fixing at so-called "fair levels" by Mr. Crossman's Act of 1965. Although the controls on these 1½ million houses are less severe than those that are automatically frozen under the 1957 formula, they are more inflexible than those in most foreign countries (see below).

Secondly, taxation. The biggest tax blight on private landlordship in Britain is that private landlords have to pay tax on funds used to amortise loans or set aside for depreciation. In nearly all other big cities (New York, Paris, Oslo, Stockholm, Amsterdam, Hamburg) there are not only tax exemptions for landlords' depreciation funds, but other sorts of fiscal or financial subventions as well. The key breakthrough occurs when the tax and marketing system is sufficiently unrestrictive to bring big developers into the "housebuilding for rent" booms. Here again one can best quote the Milner Holland report:

the dominant and growing type of private landlord is in many countries a big corporation through which a large volume of small savings is channelled, or a body that depends on such corporations for its capital. In the Netherlands, for example, a growing proportion (now one third) of new investments made by the principal insurance and pension funds goes into real property and mortgages, and much of this is devoted to private rented housing, mainly in the biggest cities, which is regarded as a safe (and socially laudable) investment by the authorities managing these funds. In France and Western Germany, too, investment in private rented housing by employers, savings banks, social insurance and pension funds and other financial institutions has been encouraged by government loans, grants and tax privileges of various kinds.

It is desperately important to get a similar movement going in Britain. My own preference would be for the direct-subsidy-to-needy-tenants-only system I have suggested above, plus tax exemptions for landlords' depreciation funds (although, of course, with normal income tax on their real profits) no further subventions, but a free market for rents. Failing that, the best alternative might be the subsidies-for-needy-tenants-only system plus a variant of the "Mitchell-Lama" system used in New York. To quote Milner-Holland once more:

In New York, under the "Mitchell-Lama system", developers can build housing with the aid of 90 per cent. mortgages furnished through the City government. These mortgages call for an annual payment (including interest and amortisation) of slightly less than 5 per cent. of the sum borrowed. Real Estates Tax is reduced by half, and the developer's annual net return is restricted to 6 per cent. of that part of the equity which he contributes from his own resources. These restrictions are removed after twenty years. This arrangement, which depends on low basic interest rates (due to tax-free municipal borrowing) reduces rents by at least one-third and brings large scale developers into the market for good but moderately priced apartments. More than half the dwellings built by private owners between 1950 and 1960 were subsidized by government in this or other ways.

This system in Britain would be more expensive than the freer market one I have suggested above. But it would be likely to be less expensive in the long run than the system being operated in Britain now; and, unlike our present British system, it would—by giving some play to the profit motive—at last be likely to get new private housing for rent in Britain built.

HOUSES FOR OWNER OCCUPIERS

Obviously, however, the biggest part of the private enterprise housebuilding effort goes towards building new houses for owner occupiers. It is sometimes said that owner occupiers are already well-treated in Britain for tax purposes, and therefore that those who build for them have no good reason to complain. There is a lot missing in this argument. The best method of writing the rest of this pamphlet may be to examine what is missing in it, and let further proposals for reform come out *seriatim* in the process.

(1) It is true that an owner occupier gets tax relief on his mortgage interest. Whether this is an over-generous subsidy can be opened to debate. At present (July, 1967), an owner occupier who gets such tax relief (or who qualifies for a cheaper mortgage under the Government's new scheme, because he is not an income tax payer) probably has his effective borrowing rate of interest reduced to around $4\frac{1}{2}$ per cent. Repairs and maintenance will add, say, another 2 per cent. on top of this. The annual cost of living in his house may therefore come to about $6\frac{1}{2}$ per cent. of its capital value. So far as one can judge, council rents in England and Wales now average about 2 per cent. of capital values.

(2) Against this, it is sometimes argued that in an inflationary age the owner occupier gets an automatic capital gain as his house appreciates in value, and gets it tax free at that. But to use this as an argument against any further help for housebuilding for owner occupiers is to stand economics on their head. It is more sensible to say that, if we are living in an inflationary age, then there is a gain in terms of opportunity cost in directing more of our current expenditure into making things that will last for a long time (which, relative to other things, houses do). A subsidiary point, of course, is that one of the side effects of the expectation that inflation will go on is precisely that interest rates paid by all borrowers (including those buying a house on mortgage) are higher than they would otherwise be.

(3) There is, however, another factor which has put interest rates in Britain artificially high: this is the fact that we are running sterling as an international currency, and have to keep interest rates up so that foreigners do not move out of it. There can be long arguments whether it is worth while to keep on running sterling as an international currency. But there is a hidden illogicality in putting a major part of the burden of this on those particular segments of our productive effort—of which private housebuilding is a prime example—which happen to be peculiarly hard hit by higher-than-average interest rates. The illogicality might not be altogether avoidable; but this point provides another major economic reason why private housebuilding should be particularly helped in compensation.

(4) Even in the private housebuilding-for-ownership sector, there is an occasional intrusion of the official craziness which we have seen to be even more sorely prevalent in the building-for-rent

sector: the craziness which says that because some people cannot afford to pay adequate prices for housing, it is essential to keep the price down for everybody—and thus, as a side effect, to prevent houses getting built. This craziness shows itself when governments intervene to tell building societies please to keep their lending rates artificially low—even if this means that they sometimes therefore have to keep their borrowing rates low, so that they cannot draw in enough money, so that in turn they have to ration mortgages. Those official interventions have got to be stopped—or ignored.

(5) One of the peculiarities of the British fiscal system is that local authorities draw nearly all their tax revenue in the form of rates: something over £1,300 million a year. In all practical effect, rates are the exact equivalent of an indirect tax on the use of house room. This means that the use of house room is subject to a heavier tax than that on any other good or service bought in Britain, except tobacco and some forms of alcohol (on certain methods of compilation, one might say higher even than them). One of the excuses for putting discriminatorily heavy taxation on tobacco and alcohol is that, to some extent, heavy consumption of them is regarded as socially undesirable and thus mete to be taxed. Nobody in his senses, if he was drawing up a new social philosophy of taxation from scratch, would put the use of house room into that category. If it is argued that it is administratively inconvenient to change the system of local authority taxation, then this consideration provides a strong case for helping the provision of housing in other ways.

(6) Instead, the provision of housing is actually discriminatorily taxed in other ways. The arguments above provide the strongest possible reinforcement to the always strong case for saying that housebuilding—which is really an investment activity—ought to be brought fully within the investment incentives system for manufacturing industry. My own preference has always been for the old investment allowances system rather than the new investment grants system; but, whatever system is used, housebuilding should be included in it. Also, of course, the imposition of the Selective Employment Tax on any form of building is absurd.

(7) Another new tax that the present Government has sought to lay on building houses for the people is the special capital levy on building land via the Land Commission. In its original conception, this threatened to be crazy. It is urgently necessary to get

more land released for building. At the precise moment a land-owner does release it, the theory is that he should have this tax imposed upon him. But, actually, as the Land Commission may tend to be operated—almost entirely against the Government's original intention—there may be some saving graces. The worst danger in the Land Commission Act was always the system of tenure known as Crownhold. Crownhold enables the Land Commission to let out land to builders, with the Commission itself retaining all the future development value (not just a percentage as under the levy). Therefore it would act as a complete disincentive to redevelopment, a dead hand on the market.

But, as emerged in an interview that the present chairman of the Land Commission gave to *The Economist* in its issue of April 1st last, there may be one way round this. It will be open to the parties in a land deal who want to avoid the ridiculous uncertainties of the present levy to ask the Land Commission to come in as a middleman. Instead of the Land Commission at some future date assessing the levy at 40 per cent. of development value, it would buy the land there and then for the price agreed between developer and builder, minus that 40 per cent. Then it would sell it back at once to the builder for the price he would have paid anyway. The title with which the Commission would "re-vest" the builder would be unassailable.

It is true that a tax would still have been paid, thereby almost certainly making this sort of building increasingly more expensive. But the point is that, under this procedure, the Land Commission would keep the money itself, in its Land Fund, instead of handing it on to the Treasury. And the Land Commission could then use this Land Fund as a sort of subsidy for buying up and then re-selling land in the so-called twilight areas of the big cities where, as the chairman of the Land Commission himself has said, "because it is so costly to clear areas, particularly of high density, the cost of acquiring Victorian houses built at high density is much greater than the value of the land when it is replanned in such a way that people have got somewhere to put their motor cars, other than the street"—in other words, when the land is used for building modern houses on it.

Too much hope should not be placed on this. The act which created the Land Commission had so many bad features in it that it will almost certainly need to be re-jigged over the years. But it may well prove right to re-jig it in a way which leaves any tax

element it still contains to be imposed only on sales of virgin land, and pushes an actual subsidy towards redevelopment and new building in the twilight areas of big towns.

(8) A few final comments are in order. One of the absurdities of present stop-go economic policies is that they always put the main burden on to the vital growth industries, such as motor cars, production and housebuilding. In any future squeezes, it is vital that governments should try deliberately to push the bigger burden instead on to industries which are obviously going to decline in the long-term (including many of their own nationalised industries), rather than those industries that are precisely the ones that on all economic criteria ought to be likely to grow.

(9) It is worth emphasising that housebuilding uses fewer imported materials for marginal increases in its production than almost any other major growth industry. This should provide a further good case for regarding it as an industry that ought to be encouraged to grow, not constantly forced to cut back.

(10) Industrialised methods of building need to be regarded as one of the new, technologically-based industries of the future that the Prime Minister is so fond of talking about. The town and country planning system should be used deliberately to encourage it, not to stand in its way.

(11) There is also a strong case for special contracts to private builders who undertake certain redevelopment schemes which are particularly desirable from a social point of view. Within a general new system of investment allowances, it would be right to give particularly generous allowances for private developers who renovate (or better still pull down) old buildings in the inner rings round our towns, and who build new modern flats or houses there either to sell or let at an economic rent. There is also a strong case for special subsidies—perhaps on the same system as special subsidies for industrial investment in the development areas—for the building of estates for letting to old people in approved areas of the country or seaside.

These are not log-rolling proposals, dreamed up in favour of some pressure group. They are economically motivated proposals. For the blunt fact is that up to now the country has been spending too small a proportion of its gross national product on new housebuilding. You can see that either by comparing Britain's record

with that of more progressive countries; or by following the analysis and argument briefly set down in this pamphlet; or, better, by just getting on a Clapham omnibus and looking out of the window. The reason for this shortfall has been very odd indeed.

The extraordinary philosophy of successive governments has been: (a) housing is a vital social need (to which one can utter, "hear, hear"); (b) so let's bring local councils into the job of providing part of the houses needed (to which most, if not all, would still utter, "hear, hear"); but then (c) let's therefore feel free to call everybody in the much larger private sector of the industry either a wicked landlord or an immoral speculative builder, and go and hit him on the head. This last is madness, and few things are more vital to the task of building an advancing society in Britain than that the madness should be reversed.

Comments on **HOMES FOR THE PEOPLE**

D. R. DENMAN,

Head of the Department of Land Economy,
University of Cambridge.

Anyone who has the welfare of the people of this country at heart, a sense of fair dealing and who is immune to the prevalent prejudice against private landlords will hail with delight Mr. Macrae's paper on Britain's post-war housing policies.

The broad sweeps of his charges against the restrictions which have distorted the market and suppressed enterprise are logical and decisive. There is no point in reiterating them here with what could only be a weaker logic and a lighter gravamen.

In the compass of his text, however, there is a noticeable gap: he has not mentioned the growing influence upon the housing market of the presence and activities of housing associations. Housing associations in general belong more to the private sector than to the public sector of the economy but are nonetheless free of the fetters of rent control. They are constituted to provide houses either by building them or buying them on a non-profit-making principle. But they are not required to undertake their tasks at as loss or uneconomically. Money has to be acquired by a housing association for building or purchase and it is at liberty to charge rent at levels which will provide the association with an income sufficient to meet interest on loans at going rates. Why should not the private landlord who is not a housing association be permitted to do the same? Surely here is the basis of a sound rent restriction policy if one is required. If rents of houses were free to rise so as to give competitive yields on investment in the building or owning of them, a widespread incentive to provide houses to rent would be restored to the private sector.

Mr. Macrae is, I suggest, too sanguine in his outlook upon the activities of the Land Commission. One of the many bad features in the Land Commission Act 1967 is the uncertainty introduced into land development by the complexities attending the imposition of the betterment levy. The intimation of the Chairman of the Land Commission that uncertainty can be avoided by allowing the Commission to act as middleman stems from a faulty logic. Uncertainty arises because of the complexity of the assessment formulae for calculating betterment levy. The levy has to be agreed between the Land Commission and the party liable to pay it—in the event of a sale of land, the vendor. Betterment levy has to be assessed whether the builder buys directly from a private vendor or from the Land Commission as middleman. The Land Commission has to agree the levy with the vendor in order to deduct it from the purchase price. If the Land Commission can agree the betterment levy when the Commission acts as middleman, it can just as quickly and effectively agree it for the purposes of an independent transaction. The middleman device can in no way expedite the removal of uncertainty.

While the uncertainty attending the assessment of the betterment levy must introduce a disturbing indeterminacy into the business transactions of house builders who, to protect their own interests, must impose a coverage increment on price, it prevails throughout the entire housing market as all sales and lettings are events potentially chargeable to levy. The levy can only act to raise prices. If the Land Commission can devise formulae for legally and completely discharging the sale of the run of the mill housing property from the potential liability to betterment levy, a cause of what will only be a mounting sense of debt and uncertainty will be removed. If, however, the Land Commission could devise formulae for this purpose, so could Parliament have done and introduced them into the Act. Government spokesmen, however, were adamant that such formulae could not be conceived, hence presumably the uncertainty must remain. The upshot can only be to impose safeguard increments on house prices and aggravate the housing problem.

A crownhold is more than a disincentive to development: it is a complete barrier. A crownholder who develops loses his house or land to the Land Commission.

It is argued, of course, that crownholds, especially "concessionary crownholds" will only be created for householders who

are either housing associations or domestic occupiers whose only motive of ownership is to occupy the crownhold as a residence or to provide it as a residence, and development rights will never be an influence affecting the minds of crownholders. When the time comes for redevelopment the crownholds will lapse and the land and houses pass to the Land Commission who will sell sites to developers for demolition and redevelopment. True enough: but at a price which will keep all development value out of the free market and from developers who, in the normal course of events, would look to it as an incentive to open up land for housing.

The concessionary crownhold is the only means in the Land Commission Act devised as an attempt to provide housing sites at lower than prevailing market prices. Crownholds are sold at reduced prices on the condition that in the event of resale the Land Commission shall have a right of pre-emption at a price reduced by the amount of the original concession. If the pre-emption is not acted upon, the crownholders are free to sell at unrestricted prices and the housing market loses the benefit of arbitrarily reduced prices. If the pre-emption right is acted on to any large extent, it will create a duality in the housing market similar to that operating under the Rent Acts of favoured and unfavoured householders and thereby impose a brake on the mobility of labour, which is one of the undesirable consequences of the Rent Acts.

Mr. Macrae was quite right to draw attention to the impact of the Land Commission and the Government's land policy upon housing. The consequences of the policy are bound to be harmful and the ramifications, nature and extent of them is a subject so complicated as to require a paper all of its own.

MARTIN GRAFTON, O.B.E., T.D.,

Director of the National Federation of
Building Trades Employers.

At long last public discussion on housing is beginning to focus on important issues rather than on emotional irrelevancies. Ever since the war politicians and others have fulminated about the slums and promised ever higher levels of housing completions in any one year. Because of the large number of bad houses in the country it has been assumed that all that was needed was for more and more council houses to be built every year and eventually "the housing problem" would be solved. Few bothered to ask "why are there slums?" or "why is it that the number of slums seems to be increasing?" or even "how many houses do we actually need?"

Yet these are the real questions—not whether the building industry is capable of building 300,000, 400,000 or 500,000 houses a year. A tremendous service to the level of political debate has been done by men like Mr. Macrae, who for so long have been voices crying in the wilderness. They have dared to suggest that it was *because* Great Britain was building so many subsidised council houses and *because* private rented accommodation was subject to rigorous rent control and *because* the private developer had no financial incentive to perform his natural task—to carry out private development—that "the housing problem" is actually getting worse.

British housing policy has been like the story of the small Dutch boy trying to hold back the seas with his finger in the dyke. The market has been distorted beyond recognition. Every successive distortion has been followed by yet another, culminating in the latest absurdity, the guaranteed 4 per cent. interest rate for council house building under the Housing Subsidies Act 1967, which insulates local authorities from the economic effects of their own extravagance.

Now, at last, there are signs that a change of heart is in sight. More and more people are coming to see that the amount of choice in housing is rapidly diminishing into either home ownership or council accommodation, a sharp division which has elements of both political and social madness. In showing that the tide *can* be reversed if we sweep away the present (completely unsatisfactory) subsidy system and replace it by subsidies to people who need them, rather than in respect of bricks and mortar which do not,

Mr. Macrae has identified the true battle-ground for housing debate. Let us hope that his article is read, marked and inwardly digested by the protagonists in Parliament and in local authority council chambers.

GEOFFREY McLEAN, B.Sc.,

President of the
Federation of Registered House-Builders.

It hardly seems a day since commentators on housing were concentrating on "wicked landlords" or the "land price scandal". It would have been a bold politician who made a speech in 1963 calling for a freer market in private enterprise building. But fashions change, and for good reasons. Our fifty-year-old system of Exchequer and rate subsidies for council housing and the strict control of private rents have obviously failed to make any impression on "the housing problem"; so the current vogue is for switching housing subsidies from bricks and mortar to individuals in need.

Mr. Macrae's study is in the fashion and it is timely and valuable. It is quite extraordinary that it has taken so long for our legislators to appreciate what builders have always told them—that private enterprise is ready and willing to build as many houses as the State allows. That can only be its purpose—otherwise it would be neither private nor enterprising. Similarly, our rulers only now realise that most people in this country want to own their own home, and that they could actually do so if some of the money which is currently wasted on needless and indiscriminate subsidies for council tower-blocks was devoted instead to assisting potential home-owners with their deposits.

Slums will never be cleared under our present system. There is only one way to do the job—by restoring a financial incentive to developers. Hence we need the progressive dismantling of rent control, abolition of the present system of housing subsidies, and tax relief on amortisation funds or the introduction of depreciation allowances for private building. Our present system serves only to create slums, to narrow consumer choice and to cause the maximum possible inconvenience and hardship to those least able to fend for themselves.

The free market must be balanced by subsidies to those unable to afford the economic cost of housing—which is only another way of describing people who are not paid a living wage. Such a system would serve to benefit the consumer because Government subsidies would necessarily be fixed in amount, and would require the developer to keep down his prices to a level which the individual in receipt of subsidy could actually afford.

SIR IAN MACTAGGART,

Vice-President, Economic Research Council.

It is steadily becoming apparent that it is necessary, and it is happily becoming more fashionable among politicians and economists of all parties, to realise that without something close to a free market the housing problem cannot be solved.

That private landlords of controlled houses get a return on their investment less than half what the Government consider is "fair" raises few eyebrows. It is indeed, much more important, if housing is to become as effective a social service as is the provision of food or clothing, that the benefits of a free market should be available to improve the unsatisfactory distribution of much of the country's housing.

The tangle of controls and subsidies obscures the danger that Local Authorities may build more expensively than they should, since the burden of unnecessary cost does not fall on them, encouraging them to build expensive housing instead of more, enabling them to ignore the tenants' preferences, and making it all but impossible to decide whether we are spending too much or too little on new housing. It obscures also the appalling waste of resources involved in letting decent houses decay where reasonable prices would pay for, and encourage, improvements as well as repair. In no field is it more true than in housing that "a stitch in time saves nine", and upon the principles which Mr. Macrae so clearly puts forward we may hope that a reasonable policy for housing will be built which does not, as does the present system, excite strong criticism even from such Government appointed authorities as the Milner-Holland Committee, and the Cullingworth Report on "Scotland's Older Houses".

NORMAN WATES,
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I welcome Mr. Macrae's salutary and penetrating article on "Homes for the People". It certainly lights up many dark corners which are very seldom examined in public. It reminds me of a statement I heard once to the effect that "to examine the economics of housing is to examine the economics of Bedlam".

Since the First World War the housing industry has been be-devilled by politically-inspired decisions (which were necessary at the time), but which no Party has had the political courage to reverse when conditions no longer warranted their existence. As we approach the end of the housing shortage—it is predicted that there will be a surplus of 1.2m. homes over families by 1970—all these troubles will come home to roost. We shall find ourselves faced with a fragmented housing market where houses of the same value have widely differing rents, merely because some are council-owned, some are rent-controlled from 1918 and 1939, and others are a fair rent less shortage value, and so on. This is a frightening prospect for the building industry of the 1970s.

Perhaps the following further points are worth making on the wider effects of our national housing insanity, viz:—

- (1) One of the objectives of our current Government policy is to permit "redeployment". If this is to be achieved of course people must be able to move freely from town to town in order to change jobs in accordance with economic requirements. Plainly in our present housing situation, this will be quite impossible for those "benefiting" from uneconomically low rents. People are so tied to their council house or their controlled tenancy at give-away rents, that they simply cannot afford to move. The only mobile workman in this country at the present time is the one who owns his own house. He can sell in one place and buy in another.
- (2) Absenteeism is said to be our "national malaise"—there are recent striking examples in the coal mines—and the same arguments obtain. Often the provision of accommodation requires a derisory part of a man's income; there can be very little incentive to increase productivity unless and until we see our nationalised homes as a national investment which ought to earn money (just as our nationalised industries ought to).

I remember seeing a Case Study by an American firm who tried to analyse the lack of productivity in their English factory as compared with their American counterpart. One of the major factors disclosed was the fact that most of their American workmen were buying their own homes and therefore had a strong incentive towards regular working and the earnings it brought.

- (3) One has to look at the political reality of advocating "economic rents". That they are necessary is true, but getting votes for it is something else again. The present Government has recently taken quite definite steps towards encouraging councils to operate differential rent schemes based, to some degree, upon the income of the tenants. This is a move in the right direction, but of course it goes nothing like far enough. The 1965 Rent Act provides for a "fair rent" for privately rented properties, and I often wonder whether this principle would be politically acceptable for council-owned properties. It seems just to me that it should.
- (4) Mr. Macrae properly attributes our national high interest rates to a national desire to retain sterling as an international currency. Within that statement of course it is also true to say that this does not in the least affect Local Authorities who borrow for housing purposes at 4 per cent. whilst the Exchequer pays the difference.
- (5) The same thing applies also to the cost of land where excess costs are met by the Exchequer. This encourages the squirrelling away of land by Local Authorities in excess of their immediately foreseeable needs. The shortage of land, under planning, is thus accentuated and the price of it driven up thereby. The private developer is thus forced to pay high prices for land and, because the price which people can afford to pay for the finished house is limited by their incomes, the "bricks and mortar" content of the end product is reduced. Houses are therefore much smaller than they should be for any given sum of money. For example, if the price of a house is £5,000 and the land cost is £1,000, then that house will have a far higher bricks and mortar content than a house selling at the same price on a plot cost £2,000. Plot plus development costs of less than £2,000 on quite ordinary land around prosperous cities in Britain, are uncommon.

(6) I thoroughly endorse the need for attracting institutional capital back into the field of the provision of homes for rent. Since 1939 this has been practically unknown in this country, whereas in the continental countries and in North America, institutional investment—whether it be insurance companies or trade unions—is a big factor in housing. The immense present and potential growth of life funds in this country is, of course, well known. A lot of this money does go into property, but only into offices, shops and factories. None of it goes into housing. This is partly because of the fragmented rents already referred to, which give a totally false idea of what a home is worth, but I suppose the major factor is the senseless linking of “private landlordism” with “Rachmanism”. In my opinion there is no more proper outlet for life and pension funds than in the provision of homes for the people from whom those funds come.

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