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## **GOVERNMENT INTERVENTION IN THE HOUSING MARKET IN BRITAIN**

### INTRODUCTION

Government intervention in the British economy has traditionally been far more extensive than in the United States. The reasons for this are numerous and complex, but one of the most important has been the desire of successive governments to rectify various "deficiencies" in the workings of the free economy. This view of the role of government lay behind the pressure to create the Welfare State and its attendant National Health Service after the Second World War. It was the same belief that certain aspects of society were too important to be left to the "jungle" of the market-place which led to state intervention in the housing market during the last century. Ironically, as this paper will show, the result of that intervention has been a worsening of the problems of shortages and squalid conditions that intervention was designed to remedy.

Government intervention in housing has taken several forms, e.g., rent control, the provision of state-owned housing, the nationalization of certain building land, and the laying down of building standards. This paper will concentrate on the two most important aspects of government intervention--and the two which also have the most important lessons for the American observer--namely, rent control and government-owned housing.

### THE HISTORY OF COUNCIL HOUSING IN BRITAIN

#### a) 1890-1939

Attempts by government to improve the operation of the housing market stem from the nineteenth century. The 1890 Housing of

the Working Classes Act sought to improve the conditions of those living in the worst housing conditions by empowering local (i.e., county and city) councils to purchase land under compulsory order and to erect "working-class dwellings" of a specified basic standard. The act was strengthened in 1909 by the Housing, Town Planning etc. Act, which obliged councils to provide such housing, and to rent it at not more than a certain fee.

Government intervention increased sharply after the First World War in an attempt to reduce the housing shortage resulting from the wartime reallocation of building resources, and to provide a society which was "fit for heroes." The 1919 Housing, Town Planning Act (known as the Addison Act) tightened the requirement on local councils to provide inexpensive housing, and the central government agreed to assist the councils to meet the cost involved. This Act marked the beginning of a policy of massive state intervention in the housing market. As one economist has noted:

The Act of 1890 had made it possible to open the door to the introduction of state provision of houses, and state responsibility for housing conditions. In 1919 the door was kicked wide open.<sup>1</sup>

Measures followed to extend state involvement. Housing Acts in 1930 and 1935 gave further powers and obligations to local councils; and in the twenty years between the Act of 1919 and the outbreak of the Second World War, approximately one million state-owned council houses were constructed.

#### b) Since 1939

The Second World War led to a severe housing shortage. Labor and materials had been diverted to other uses and wartime bombing had reduced the housing stock in Britain's major cities. Such house-building as did take place immediately after the war was carried out by local councils; severe licensing prevented virtually any private building until 1953.

There was little opposition to the channelling of effort into state-owned housing. It was felt by many, including a large number of conservative politicians, that the chronic post-war housing shortage necessitated action by the state. Furthermore, the war had accustomed the British people to rationing and state provision as a means of allocation--instead of the price mechanism.

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1. Marian Bowley, Housing and State (London: Allen and Unwin, 1945), p. 17.

Table IHouses Built for Local Authorities: England and Wales  
(thousands)

1945-47	222 (a)	1962	99
1948	182 (b)	1963	93
1949	142	1964	115
1950	139	1965	128
1951	139	1966	138
1952	160	1967	152
1953	195	1968	141
1954	190	1969	133
1955	153	1970	125
1956	130	1971	108
1957	127	1972	86
1958	106	1973	72
1959	93	1974	89
1960	96	1975	111
1961	87	1976	112

## Notes:

(a) Includes 114,000 temporary dwellings ('pre-fabs').

(b) Includes 11,000 temporary dwellings.

Source: Department of the Environment.

Table I illustrates the extent of council building after the war. After the immediate post-war years, conservative opposition to state housing did increase, and it is noticeable that during conservative administrations (1951-1964, 1970-1974) the pace of council housing lessened. Nevertheless, council housing has continued even under conservative governments, and now the state sector accounts for almost one-third of the entire housing stock in Britain. In 1975 there were over six million houses under state control, and such houses accounted for half the annual level of construction.<sup>2</sup>

## THE HISTORY OF RENT CONTROL AND SECURITY OF TENURE

a) 1915-1939

The second major method of government intervention in the housing market has been by the control of rents, and by the accompanying policy of strengthening security of tenure. In an attempt to prevent short-term "profiteering" during the First World War, the 1915 Rent and Mortgage Restriction Act froze rents on most unfurnished

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2. Department of the Environment, Housing and Construction Statistics (Her Majesty's Stationery Office, London, 1976).

dwellings at their level on the day war was declared. This was intended to be a short-term measure; but, of course, by holding the price below the market level the effect was simply to make a mild housing shortage acute, as supply stagnated and demand rose. Unfortunately, the worse the shortage became the more difficult it also became for politicians to decontrol rents, since market rents would have to rise ever higher above the controlled rent to correct the imbalance between supply and demand. Thus, the "temporary" provision of 1915 became merely the first of a succession of rent control measures; controls still have force in practically the entire private rental market in Britain.

Between 1915 and 1939 controls became both more complicated and more extensive. Acts passed in 1920 and 1939 allowed rents frozen at 1914 levels to be increased by 40 percent (in line with inflation during the intervening years). In certain segments of the market, dwellings which had become vacant were decontrolled, but just before the Second World War these properties were again brought under control and rents were pegged at their 1939 market values. Thus, by the Second World War, some houses in Britain had their rents controlled on the basis of adjusted 1914 values, while others were controlled at their 1939 values.

An important effect of rent control which could be clearly seen during the 1930's was a decline in investment in private housing for rent, and a switch to owner-occupation. Rent control necessarily meant that rental property became less attractive as an investment when compared with a building for sale. Not surprisingly, the result was that the stock of private rented housing in Britain fell between the wars. Figures for England and Wales for 1914-1938 indicate that 900,000 new buildings for rent during the period were outweighed by the loss of 300,000 rented units which were demolished or put to other uses, and 1,100,000 units which were sold to owner occupiers. The net effect of the policy of control during the period was to reduce the stock of private rented dwellings in England and Wales from 7,100,000 in 1914 to 6,600,000 in 1938.<sup>3</sup>

#### b) 1939-1974

By the outbreak of the Second World War rent control had become a fundamental part of British housing policy, and was effectively economic orthodoxy. Although the housing market continued to stagnate and shortages of rented property increased, the public acceptance of war-time controls, and the belief that skyrocketing rents and profiteering would accompany decontrol, made even political opponents of the policy hesitate to reverse it.

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3. Department of the Environment, Housing Policy Manual (H.M.S.O., London, 1976), Table IX.2.



Some piecemeal changes were brought about by the 1957 Rent Act, a Conservative measure which decontrolled the rents on all dwellings with rental values above £40 in London and £30 elsewhere (just under 400,000 out of a total of 4,200,000 unfurnished dwellings were affected by the Act).<sup>4</sup> The Act also allowed for the "decontrol by movement" of privately rented dwellings below these limits (i.e. the rents could be adjusted to market levels when the sitting tenant left).<sup>5</sup>

It was hoped that the Act would remove the housing shortage over a number of years, and alleviate the side-effects of rent control such as the decline in the state of repair of rented property. The deterioration of property had been particularly acute after the war. The government's White Paper of 1953, for example, estimated that of 7 1/4 million houses rented from private landlords, 2 1/4 million were over 100 years old, and a further 2 1/2 million were over 65 years old.<sup>6</sup> Most of these properties were controlled at their 1939 rents, and many were still being held at the 1914 level plus the 40 percent addition allowed in 1920. Yet repair costs had risen by 300 percent between 1939 and 1953 alone!<sup>7</sup> Many landlords had to forego any return on capital whatsoever, and devote all the rent to maintenance (and often a sum in addition to the rent).

There had been no improvement in the housing shortage in the period between 1939 and the 1957 Act - indeed the situation had become worse. Between 1938 and 1960 the decline in the private rented sector was even more rapid than before the Second World War, due mainly to the increasingly uneconomic rents which were enforced. New building and conversions amounted to only 100,000 units during the period (compared with 900,000 between 1914 and 1938), and no fewer than 2,100,000 units were removed from the rental market.<sup>8</sup>

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4. Ibid., p.67.

5. On the eve of the 1957 Act, the distribution of housing in the United Kingdom was as follows:

Owner-occupied	4.75 million
Publicly-owned (council)	3.5
Rented furnished	1.05
Rented unfurnished (controlled)	<u>5.7</u>
Total	<u>15.0</u>

Source: Ministry of Housing and Local Government, Rent Control: Statistical Information (H.M.S.O., London, 1956).

6. Housing - The Next Step (H.M.S.O., London, 1953). A White Paper is a document setting out a government's policy and legislative proposals.

7. Report of the Committee on The Cost of House Maintenance (H.M.S.O., London, 1953).

8. Department of the Environment, Housing Policy Manual (H.M.S.O., London, 1977), Table IX.2.

The effects of the 1957 Act serve as a lesson in demonstrating the difficulties involved in effecting a gradual reversal of a policy which has led to major distortions in the supply and allocation of a resource. In the first place, the decontrol of more expensive accommodations simply resulted in many landlords switching from the provision of cheaper, high-density housing to luxury, low-density housing (although, under the Act, landlords could charge market rents upon vacant possession, they sought to convert to luxury accommodation in order to avoid any chance of being controlled in the future, if the policy of decontrol on less-expensive properties were reversed). Leases were terminated and houses were reallocated to high-income tenants. This not only resulted in the same housing now accommodating fewer people, but also it was the lower-income families who now found it extremely difficult to obtain housing - a bitter irony when one remembers that the original purpose of rent control was to insure a supply of inexpensive housing for the poor.

Another consequence of gradual decontrol was the bitterness that it generated between landlord and tenant. Since housing could only be rented at market rents when it fell vacant, it was hardly surprising that many landlords put enormous pressure on their tenants to persuade them to leave before their lease expired. Violence and intimidation became commonplace. In one particularly notorious case, a London landlord named Rachman went so far as to employ a gang of criminals to threaten and attack tenants who did not wish to terminate their leases. Such was the extent of these tactics that the word "rachmanism" has passed into the English language. The term describes the tactics of the period. Sadly, the word is frequently used to suggest that these are the methods of today's typical landlord.

The response to the effects of the 1957 Act was predictable. If decontrol had led to such terrible things, it was argued, then surely more controls were necessary - not fewer. And if tenants were being hounded out of their home, then they must have stronger security of tenure! An Englishman was not only to have his castle, but it must be made impregnable against the landlord. Elementary laws of economics were ignored as pressure mounted to tighten controls and improve the tenant's security.

### c) The Present Legal Position

Current law regarding rent control and security of tenure is the culmination of a number of Acts between 1961 and 1975 (passed in the main by Labor governments). Increased powers have been given to local councils to compel landlords to carry out certain repairs and to make improvements - even when the cost of annual repairs exceeds the controlled rent. Far more extensive security of tenure has been introduced, together with a highly complex system of so-called "fair" rents. Rent Officers and Rent Assessment Committees have been appointed by the state to calculate the "fair" rents

(a number of criteria are involved, bearing little relation to market forces). Under these provisions, a tenant is perfectly entitled to sign a lease and move into a property, and then appeal to a rent officer to have the rent reduced. The landlord, who may not have wished to offer the property for rent at the "fair" rent, is thus trapped into reducing the price after the deal has been closed. The following extracts from a Department of Environment handbook, entitled Regulated Tenancies - Your Rights and Responsibilities (H.M.S.O., London, 1976), gives some indication of the protection enjoyed by a tenant.

2. What does protection mean?

The tenant has security of tenure even when his tenancy expires and need not leave his home unless the court grants an order for possession against him. The circumstances in which the court can grant such an order are limited.

3. What is a protected tenancy?

It is a contractual tenancy to which the Rent Acts apply and these provide for security of tenure and a system for the registration of rents by Rent Officers.

4. Does it make any difference whether the dwelling is furnished or unfurnished?

No. From 14 August 1974 the protection of the Rent Acts was extended to furnished tenancies if the landlord does not live in the same house (see booklets Rooms to let and FR1).

5. The lease is for a fixed period of six months. Can the landlord make the tenant leave at the end of it?

No. When the lease or contract expires, the protected tenant can continue in occupation as a statutory tenant under the Rent Acts. (See question 7.)

6. If the landlord serves a notice to quit, does the tenant have to leave?

Not necessarily. A notice to quit brings to an end the lease or contract which created the tenancy but the protected tenant can continue in occupation as a statutory tenant under the Rent Acts. (See question 7.)

7. What is a statutory tenancy?

This is a tenancy which exists as a result of statutory protection under the Rent Acts instead of by contract. It comes into being when a protected contractual tenancy either is ended

by notice to quit or, if it is a fixed-term protected tenancy, expires and the tenant continues in occupation. It can also come into being when the landlord serves a notice of increase in order to obtain a rent increase to which he is entitled under the Rent Acts. A statutory tenancy lasts as long as the tenant continues to live there and can be passed on to a statutory successor. (See questions 10 and 11.)

10. If the tenant dies, do his family have to leave?

No. A regulated tenancy gives security of tenure not only for the lifetime of the original tenant but also for the lifetime of his statutory successor ("the first successor") and also for the lifetime of the latter's successor (the "second successor").

11. Who can be a statutory successor?

A successor must be either the widow of the person she succeeds or, if there is no widow, a member of the tenant's family who had been living with the tenant for at least six months.

The effect of recent legislation, as the questions and answers show, is that a tenant can not only remain virtually immune from eviction during his own lifetime, but his family can enjoy the same controlled rents for the next two generations!

## THE RESULTS OF RENT CONTROL AND EXCESSIVE SECURITY OF TENURE

### a) Decline in the Stock of Rented Accommodation

As with any product where the price is artificially fixed below market levels, while costs increase, rent control has brought about a serious decline in the availability of private rented housing. The median rent of unfurnished private dwellings in Britain during 1973 was £76 per year, and in the lowest 10 percent of the market averaged £24 per year.<sup>9</sup> In other words, \$10 per month was a common rent at the time. The costs to a landlord are, of course, many and varied - taxes, repairs, insurance and so on. But let us take only one cost - repairs. About 3/4 of all private rented dwellings were built before 1914. Of these, some 56 percent were in need of over £500 worth of repairs in 1976.<sup>10</sup> Given that rents on such older houses tend to be lower than the average, one can begin to appreciate why the rental market in Britain is collapsing.

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9. Department of the Environment, Housing Policy Manual (H.M.S.O., London, 1977), Table IX.3.

10. Ibid., p.70.



About one fifth of the stock of dwellings rented from private landlords at the end of 1960 had been demolished or closed down by the end of 1975, and the total stock fell from 4.6 million to 2.9 million (compared with 7.1 million in 1914).<sup>11</sup> If one visits any British city one can see the results of this catastrophe: basically sound houses left empty and slowly becoming uninhabitable, simply because it is against the law to charge sufficient rent to cover the cost of housing a tenant.

#### b) Urban Decay

An immediate consequence of the decline of the private sector has been urban decay resulting from the neglect of uneconomic property. Privately-rented houses are invariably kept in a lower state of repair than their equivalent houses under owner-occupation (only 35 percent of pre-1914 owner-occupied houses were in need of over £500 worth of repairs, compared with the 56 percent of private rented dwellings noted above).<sup>12</sup> The result has been the decline of whole districts of Britain's cities, and the rise of illegal occupation, vandalism, and other crimes.

The social consequences of rent control in Liverpool were well expressed in a recent letter to The Times:

It is no wonder that inner Liverpool has decayed after half a century of rent control and the consequent half century of disrepair; it was predicted by economists half a century ago. It is no wonder there is now a "desperate shortage" of accommodation; no wonder that landlords cut their losses by bricking up their properties in the hope of better times; no wonder that once fine properties have been demolished, to be replaced by barren estates of unspeakably mean dwellings worthy of refugee camps.

In Dublin the position is radically different; majestic Georgian properties are tenanted, with no problem of urban decay. The reason? No legislation similar to our Rent Acts has been passed. The same is true of Belgium, where there is no shortage of accommodation, despite its being the most densely populated country in Europe.

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11. Ibid., p.67, Table IX. 2.

12. Ibid., p.70.

If the Rent were repealed tomorrow there would be "To Let" signs in every road.<sup>13</sup>

Professor Assar Lindbeck once remarked that "rent control appears to be the most efficient technique presently known to destroy a city - except for bombing." The cynic might say that he is wrong: at least bombing will reduce the demand as well as the supply!

c) Maldistribution by Size

Rent control removes the price mechanism which is essential to the efficient distribution of housing by size and facility. Similarly excessive security of tenure reduces the willingness of house owners to rent space, even when a controlled rent could cover costs. Hence, the owner-occupier of a large house is discouraged from converting it into apartments or renting individual rooms, and the tenant in a large rent-controlled house has little price incentive to take in others to share the cost.

d) Immobility

Rent Act control and security of tenure reduce the mobility of labor. A tenant in a rent-controlled dwelling is being subsidized by the landlord. Hence he becomes accustomed to spending a lower proportion of his income on housing than he would in a free market. Since landlords tend to take controlled property off the market when it falls vacant, the tenant will find it very difficult to obtain an equally advantageous lease elsewhere; he is thus disinclined to move - even to a higher paid job. The same effect results from security of tenure, which also favors the tenant at the expense of the landlord. Again, the tenant is discouraged from moving, since it will be unlikely that he will be offered a similar lease elsewhere.

e) Injustice

A stated purpose of rent control is to give poorer people the opportunity of obtaining reasonably-priced accommodation, and to remove injustices in the housing market. The irony of rent control is that it results in achieving precisely the opposite effect. The shortage of housing resulting from controls selectively hits the low-income family. Very expensive housing is uncontrolled and freely available; but, of course, the poor cannot afford it.

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13. Letter from Mr. R. H. Freeman, The Times (of London), 19 February 1978.

More affluent people can also obtain controlled properties by coming to an arrangement with the landlord; "key money" or some other form of substantial payment (i.e. bribe) can be made to supplement the legally enforced rent, so that the landlord obtains, in practice, something approaching the market rent. Again the poorer families cannot match such payments.

Controls also tend to hurt the poorer more than the affluent landlord. A growing proportion of landlords are private individuals, rather than companies.

Table II

Tenants Classified by Landlord (England and Wales 1971 and 1975)  
(percentages)

	Renting Unfurnished		Renting Furnished	
	1971	1975	1971	1975
Property company	12.5	10.8	5	6
Other organization (*)	19.5	11.0	12	2
Employer (t)	9.1	14.8	4	12
Relative	7.6	10.6	11	5
Other individual	51.3	52.8	67	75
Total	100.0	100.0	100	100
(Sample numbers)	(1,705)	(1,288)	(361)	(374)

Notes:

(\*) Excluding housing associations.

(t) Excluding accommodation occupied by virtue of employment.

Source: General Household Survey.

As table II shows, 52.8 percent of landlords owning unfurnished dwellings in 1975 (and 75 percent in the case of furnished accommodation) were individuals. In both cases the proportion is higher than in 1971. This is not because private individuals are now finding the rental business attractive. Far from it! The reason is that the whole market is shrinking, but individuals cannot escape as easily as companies. The individual landlord is often a retired person, or someone who bought a house many years ago hoping to obtain a modest income (but who now finds himself subsidizing a tenant who is often more affluent than himself). A property company has the resources and legal skill to find ways of breaking uneconomic leases—the individual rarely has.

The appendix to this study contains details of two cases which illustrate the injustice of the Rent Acts respecting landlords. The

Table IV

Expenditure and Income per Dwelling in £s per week  
(London Borough of Haringay)

<u>Expenditure</u>	<u>1972/3</u>	<u>1974/5</u>	<u>1976/7</u>
Repairs, Maintenance etc.	1.62	2.71	3.56
Interest and Repayment of debt.	<u>4.96</u>	<u>8.40</u>	<u>12.18</u>
Total Expenditure	6.58	11.10	15.74
<u>Income</u>			
Rents	3.75	3.96	5.64
Government subsidy	2.48	5.46	8.13
Other Income	0.19	0.29	0.33
Contribution from local Property Taxes	<u>0.16</u>	<u>1.39</u>	<u>2.90</u>
Total income	6.58	11.10	15.74

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Source: London Borough of Haringay, Internal Report Prepared by the Borough Housing Officer and Circulated to Tenants' Associations and Council Members (unpublished, 1977).

Table IV gives the income and expenditure breakdown for council housing in a typical London borough. As the table shows, the rent charged on council property amounted to only a small fraction of the costs, and that fraction has been declining. The bulk of costs is met from general taxation, and from local property taxes.

The cumulative cost of subsidies to council housing is a heavy burden on the taxpayer. In 1975, for example, local and central governments spent over £4 billion on the provision of housing (accounting for 7.9 percent of public expenditure: the spending for the same year was less than £6 billion - 10.8 percent of the total).<sup>14</sup>

It is difficult to justify this subsidy by the taxpayer to the council tenant on the basis of income equalization. Although few very rich people live in council houses, they are often occupied by skilled workers earning well above the average wage (59 percent of council tenants in 1974 were from skilled or managerial classes), and the income profile of council tenants is only a little below that of house owners.<sup>15</sup>

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14. Government Statistical Office, Social Trends (H.M.S.O., London, 1976) Table 13.3.

15. Ibid., Table 8.9.



b) Competitive Effects on the Private Sector

Subsidized council housing accelerates the decline in the supply of private housing for rent. By charging rents well below market levels, and by financing much of the difference from property taxes, the government makes it extremely difficult for private landlords to compete. Even without the crippling effects of rent control, the provision of council housing would lead to a contraction in the supply from private sources (the economic effect of council housing is very similar to the international effects of "dumping").

c) The Social Consequences of Allocation

As with the provision of any good or service at a price held below market levels, there is a "shortage" of council housing. Thus some method of allocation other than price has to be employed as a means of rationing. Methods do vary from one area to another in Britain, but the principle involved in virtually all areas is some variation of the "points" system.

In this system, those wishing a council house are placed on a waiting list. The position they occupy on that list depends on a number of criteria for which points are awarded, e.g. length of residence in the area, present housing conditions, size of family, etc.. In the final analysis, however, the choice between people on the list, when housing becomes available, is a decision made by a bureaucrat.

The social consequences of this form of rationing are very disturbing. The possibilities for corruption and favoritism are obvious, but the less apparent effects are even more damaging.

If one reaches the top of the waiting list by accumulating points for one's poor housing, large family, etc., it follows that there is an inducement to worsen one's circumstances in order to move up the list. Many families are living in overcrowded conditions simply because they would lose points if they moved into better accommodation (with a relative, say). Similarly, heads of households will often remain unemployed, or in a low-paid job, in order to keep their income low.

The pointssystem also encourages immorality and a poor attitude towards family planning. Most councils give accommodation to unmarried mothers before childless couples, on the basis of need. But it is now common for a couple contemplating marriage to have a child out of wedlock, so that the mother can obtain housing. After a house has been allotted to the mother, the couple will live together rather than marry and run the risk of eviction. Similarly, the fact that large families are favored over small ones encourages