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POLICY, PLANNING AND THE HOUSE CONSTRUCTION INDUSTRY.

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Submitted as part
of the requirements
for the Degree of
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and Regional Planning
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SYNOPSIS.

This dissertation sets out to examine the inter-relationships which exist between housing policies, at both the national and the local level, planning policies and the house construction industry. The rationale behind this examination being that a full understanding of the nature and operations of the house construction industry, the housing market and the way in which policy initiatives affect them is essential if policies are to achieve their objectives and if, in the process, the best use is to be made of resources so committed.

Chapter One examines the nature of the house construction industry, and in particular the size and type of firms, the inputs to the construction process, the importance of the level of productivity in the industry, and the inter-relations between house construction and other forms of construction. The industry is shown to be highly fragmented, being dominated by small firms, often dependent upon larger firms for their work. This, together with the complex operation of assembling the many inputs required, makes the process of construction long, difficult and often inefficient. The implication of this for policy makers is that policies designed to affect the level of productive activity may in the event create bottlenecks in the supply of inputs to the industry leading to demand outstripping supply with inflationary consequences. The chapter consequently concludes that a consideration of the capacity of the industry and its organisation is essential for efficient and effective policy making.

Chapter Two goes on to examine the market in which the house construction industry must operate and which policy-makers attempt to

manipulate. It is recognised that in the long-run demand is derived from the demographic structure of the population and the levels of real income, but that in the short-run it is that demand made effective through the provision of house purchase finance or via local authority investment which is the important consideration. In the long-run it is demand which is seen as the main determinant of the cost and supply of land, materials and manpower, but it is recognised that short-run changes in the level of demand, even small changes, might have an inflationary effect since market imperfections make the response of the construction industry somewhat 'sticky'.

Chapter Three identifies four rationales for public intervention in the housing markets of advanced capitalist societies. The first, 'housing policy as social policy' holds that the market cannot or will not provide housing at a high enough standard and in sufficient quantities on its own. Consequently public policy is employed to distort the market mechanism to produce the desired housing stock. This view is directly opposed to the second rationale 'housing policy as a lubricant to the market mechanism'. It holds that the market is the most efficient and reliable way of distributing housing resources and that the function of policy should be to make the market mechanism more effective. The two other rationales view housing policy as secondary and subservient to the more important policies of macro-economic management and the potent forces of class-struggle. Both may be envisaged as consistent with the first two rationales, although both are dependent upon other events within government and society as a whole.

Chapter Four examines current central and local government housing strategies. It highlights the growing subservience of the

satisfaction of housing needs to macro-economic policy. It shows that investment in housing is falling in the name of reduced public expenditure, but that much of the apparent savings are illusory as low income groups must be supported by Supplementary Benefit and rent rebates, while the promotion of owner-occupation is encouraging people to move into a more heavily subsidised tenure. Local housing strategies are shown to be increasingly constrained by central government policy which has led to local authority housebuilding falling into a deep decline and a concomitant reliance upon a depressed private sector to fulfil housing needs. In the process of developing the argument the housing finance system is described.

Chapter Five examines the promotion of private housebuilding in Glasgow as an example of the way in which local housing and planning departments attempt to influence the construction industry in the pursuance of policy objectives. The history of this policy, its objectives and its performance so far are described and evaluated.

The final chapter draws together the main arguments of the preceding five chapters, laying particular emphasis upon the implications of this discussion for central government housing policy and the chosen example of a local policy, the promotion of owner-occupation in Glasgow. The main defects and limitations of these policies are outlined and possible improvements and reforms are suggested.

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I N T R O D U C T I O N

This dissertation takes as its subject the inter-relationships which exist between housing policy-makers, planners and housebuilders. Important policy decisions are seen to take place at the level of both national and local government, the latter principally through local authority housing and planning departments. The rationale behind this examination is that if policy initiatives are to be successful, and if in the process the best use is to be made of resources, it is essential that policy-makers understand the nature and operations of the house construction industry and the housing market.

The importance of these inter-relationships has been sorely overlooked in the past. The most articulate recent exposition of government housing policies has been contained in the Green Papers of 1977 (DoE 1977, Scottish Office 1977) which, while discussing other aspects of policy in great depth, barely mention the house construction industry at all. Academics too tend to pass over this thorny subject, the standard texts (such as Donnison 1967, Lansley 1979, Merrett 1979, and Murie et al 1976) largely treating the industry as 'given', some alluding to its 'sluggish' response to changes in the level of demand.

It is hoped that here some light might be thrown upon this neglected subject, that some of the limitations and pit-falls of attempts to influence the industry might be illuminated, and that the implications of this for the formulation and implementation of housing policies will become apparent.

CHAPTER ONE

THE NATURE OF THE HOUSE CONSTRUCTION INDUSTRY.

1. 1.

If the purpose of public policy is to alter the nature and operations of its subject, then it is necessary to understand the composition of the material it is trying to influence. With respect to housing policy, then, the structure of the housebuilding industry and its operational practices must be understood if policy objectives are to be satisfactorily realised. Certain policies will place demands upon certain sizes and types of firm and their respective requirements for labour, materials and capital. Thus, it is essential that firms are capable of the response required and, furthermore, are willing to respond in the desired fashion. Unfortunately, many policy initiatives pay little regard to this aspect, (the Green Paper on Housing Policy, for example, hardly mentions the industry - DoE 1977), and must, therefore, be based more on wishful thinking and guesswork, than thorough analysis. This chapter, then, examines the basic raw material of the housebuilding industry attempting, at one and the same time, to be descriptive while keeping an eye on the potentials of the industry's responsiveness.

Any attempt to discuss the 'house construction' industry runs up against an immediate problem of demarcation, for such an industry, per se, does not exist. Housebuilding is an activity carried out within the context of the construction industry as a whole, and many firms engage in other forms of construction activity and in activities outside the field of construction altogether. The spread of firms, for example, ranges from the large multinational and national companies, who may be involved in large civil engineering projects, down to small firms which engage in repair and maintenance work. The consequence of this merging of housebuilding activity into other fields, is that much of the discussion and

statistical information in this chapter must be conducted at the level of the construction industry as a whole, while information specific to house construction may have to be tentatively inferred from these sources. The description which follows, therefore, is not as full, up to date and accurate as the author would wish, but it is felt that a sufficiently clear picture can be drawn to place subsequent chapters in their correct context.

1. 2. FIRM SIZE

The construction industry is numerically dominated by very small firms with extremely low levels of capitalisation. This situation is partially determined by the nature of the activity. Much of the work consists of very small projects which provide little scope for technical or managerial economies of scale. Secondly, construction is an industry which is highly constrained geographically. A great deal of the construction process, particularly in house-building, consists of a complex on-site assembly process, most of the components being very bulky and uneconomic to transport. Consequently, most firms, with the exception of those engaged in very large civil engineering projects, are constrained to regional operation. The smallest firms would find it difficult to operate beyond a fifty mile radius. Finally, it is very easy to enter the industry, since very little capital or qualifications are required, and materials may be obtained on credit from builders' merchants. It might be noted that the rate of failure in the industry is high and this may, in part, reflect this ease of entry. In 1971, small firms of 25 operatives or less, accounted for about 90% of the total number of construction firms and 27% of new house construction, (Balchin and Kieve, 1977).

The high number of small firms is not reflected by output and employment, as Table 1.1 illustrates, which seems to indicate a concentration of activity in a small number of large firms. Although large firms in construction have not reached the dominant position enjoyed by large manufacturing firms, the trend does appear to be towards concentration. Fragmentation appears to be more prevalent in housebuilding, the largest English housebuilder contracting only 6% of the total new housing, (Balchin and Kieve 1977, Dunleavy 1981).

Table 1.1 The Structure Of The Construction Industry 1935-68.

No. of Employees	% of Firms			% of Gross Output			% of Employment		
	1935	1954	1968	1935	1954	1968	1935	1954	1968
≤100	99	98	98	60	44	36	67	53	41
100 - 500	1	2	2	24	25	25	22	23	25
> 500	--	--	--	15	31	39	11	23	35
Total	100	100	100	99	100	100	100	99	101

(Source : Dunleavy, 1981)

This low level of concentration, especially when compared with manufacturing industry, has led neo-classical economists to view the industry as highly competitive and to have, consequently, employed models of a competitive market, immediately adjusting to market conditions with perfect information. This interpretation is highly deceptive, however, and is not borne out by more detailed examination. As has already been pointed out, most construction firms are regionally, not nationally, based. Consequently, the correct geographical level at which to examine competitiveness is

the local. Indeed many of the large companies, such as Barratt and Wimpey, operate through a series of regionally based, and largely autonomous companies, linked to the parent. Secondly, this ignores the fact that a great many companies are sub-contractors.

Sub-contracting operates on the basis that the main contractor engages other firms to perform certain specific tasks in the construction process. This may allow small firms to specialise in a particular part of the construction process, and so support specialised labour and equipment which may be transferred from project to project as demand dictates, so maintaining continuous employment. Labour-only sub-contracting, known as 'the lump', is also prevalent. Under this form of organisation, individuals or gangs of labourers are engaged to perform specific tasks in return for a lump sum. Sub-contracting has obvious advantages for the main contractor, who does not have to support a specialised workforce, and is able to shed unwanted labour easily. The lump carries additional advantages, since National Insurance can be avoided. Thus, the industry is much less fragmented than the statistics suggest, many sub-contractors being fundamentally dependent upon larger companies for work. The actual degree of concentration is somewhat difficult to calculate, however.

1. 3. FIRM TYPE

There are essentially three types of house building firms: speculators, private contractors, and Direct Labour Organisations, (D.L.O.'s). Each will be discussed in turn, and their contribution to the industry considered.

1. 3.1. Speculators - Discussions of private housing speculators tend to arouse a degree of passion, and arguments tend to be conducted

at an ideological level. One lobby has argued that it is undesirable even immoral that profits should be made from a good which is so socially essential, (The Community Development Project, 1977), and that in his quest for profits the builder and landowner make housing unnecessarily expensive. At the other extreme, usually forwarded by the housebuilding lobby, the developer seems to be raised to a philanthropic status, who essentially buys what the customer wants. Thus, Jenkins (1977 p.52), in a book commissioned by Taylor-Woodrow writes :

'A speculative builder today is a man who studies the market, finds out what kind of houses people really want, tries to give the buyers something his competitors haven't thought of, and then designs and builds houses with as much individuality as possible in the pleasantest possible surroundings at realistic prices.'

But, beneath the ideology is a more complex pattern, which requires elaboration.

Speculative builders are not a homogenous group. the main division being between regionally based, small to medium-sized firms and the large national, and multi-national firms, generally described as the 'volume builders'.

The small to medium-sized regional builders are generally, family concerns, or have only recently ceased to be such. The very small firms tend to concentrate on acquiring small plots of land close to well established, and generally up-market, owner-occupied areas, and develop a small number of houses for the upper end of the market, (which carries fewer risks). These builders are not particularly concerned with growth, being content to construct a few houses a year and take a reasonable profit. Their small output

requires only a small land bank, and consequently, they incur low capital costs. They may also build houses to commission (Harloe et al 1974).

The medium sized speculator generally began as a small firm and has subsequently grown, perhaps taking over other firms, to take a sizeable share of the regional market with a relatively high output. Often, such firms have very large land banks, much of it with planning permission, which they may hold onto for a number of years in order to maintain an adequate input of land to the production process and in order to speculate on the land itself, either through sales to other builders, or through the final cost of the completed house some years later. Large land banks may also be a way for firms to maintain their market position, as local authorities will be reluctant to release more land than they feel is necessary for housing development. This means that other firms will find difficulty in entering the regional market, (Cameron 1981).

The volume builders have a very different modus operandi. They tend to be large, national and multi-national firms, which have often grown out of family concerns. Many still carry the original family names and still have familial connections, (Barratts, Leech, Taylor-Woodrow, McAlpine, Costain, Wates and Wimpey, for example). Many of these firms are also contractors and civil engineers and perform other activities outside the construction sphere. They are almost all public companies and want to achieve a high rate of turnover to satisfy their shareholders. Their operations have more in common with production-line techniques, since they constantly need to acquire land, build, sell and move quickly on to new sites, a high rate of turnover being essential to their survival. Their

sites have generally been located on the periphery of the large conurbations, since land is cheaper and more easily acquired and built on than in city centre locations. Their lust for land has often brought them into conflict with the medium-sized builders with large land banks, and they have often bought out such companies, simply to acquire land. The volume builders build for all levels of the market, but tend to concentrate on the lower end, especially on first-time buyers, as it is here that there is the greatest potential for market expansion. (Community Development Project, 1977, Cameron 1981).

1. 3.2. Contractors - Contractors tend to be private construction companies, who compete for large scale housing schemes, usually for council housing. They tend to be very large construction companies and often engage in speculative volume building as well. Companies such as Wimpey, Taylor-Woodrow, McAlpine and Costain, are well known in both fields. Smaller contractors may build a small number of houses for local authorities, but since the 1950's there has been a growth of large-scale schemes, especially during the high-rise boom, and a concomitant growth of large contractors, (Dunleavy, 1981).

To obtain work from local authorities, contractors must take part in the tendering system. There are four main types of local authority tender :

- i) Open tendering - is open to any company who wishes to make a bid on the basis of a project designed or commissioned by the local authority and costed by their quantity surveyor. The usual practice is for the lowest tender to be accepted. This type of tender has become increasingly uncommon, and has been criticised by a number of government reports, and discouraged

by central government. The most recent critical report was the Wood Report, (NEDO,1975), 'The Public Client and the Construction Industry'. The main criticisms are that open competition is wasteful, since a large number of firms will produce schemes, but only one will be accepted. Secondly, the contractor who prepares the lowest cost tender may not be the one to produce the best quality work.

- ii) Selective tendering - is supposed to overcome problems of the quality of workmanship, by limiting competition to a small number of firms whom the local authority knows are capable of completing the work to a competent standard. The problem with this method is that the smaller the number of firms involved, the greater the likelihood of collusion to achieve price rigging. Corruption scandals, such as those associated with Poulson have illustrated these and other dangers. Some local authorities now have as much as 40% of their work undertaken by one firm, (Direct Labour Collective 1978, Merrett 1979).
- iii) Registered tendering - involves the local authority approaching a single contractor. The architect and building firm then have detailed discussions on the type and scope of the work, and its financial implications. The contractor will eventually negotiate the final contract with the client. There has been criticism that this form of tendering reduces the scope of public accountability because of the closed nature of the negotiations, (Merrett, 1979). While the Wood Report pointed out that E.E.C. Regulations require that public sector projects costing over one million units of account, should be open to competition from firms of all member states, thus limiting the scope for this type of contract, (NEDO, 1975).

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iv) Package Deals - In this type of contract design and construction are united in a single firm. This is particularly prevalent in systems building projects, where the system is probably copyrighted by one company. This type of contract was most common during the high-rise period. (Merrett, 1979, Dunleavy, 1981).

Work carried out by the contractor is usually paid for by the local authority, stage by stage, normally on a monthly basis. Some are paid in a lump sum on completion of the project, but this is only usual with the smaller projects. The total value of work is determined by the client's quantity surveyor and is set down in an 'interim certificate', on the basis of which the contractor may demand payment. This system of periodic payment means that the amount of capital that a builder has to advance is very much less than it would have been if payment was made on the project's completion. Because of the nature of evaluating the work, it is possible for the contractor to 'work the contract', so that it appears that the earliest sections of the production process are most expensive. This, in effect, means that the local authority is paying a cash advance to the developer, which can be used to finance the rest of the project. It is estimated that after 30% of the project is completed, it becomes self-financing, (Burchell and Hill, 1980).

1. 3.3 Direct Labour Organisations (DLO's) - DLO's have a long history, originally being set up in the Nineteenth Century to counteract price-rigging by contractors. In 1977 only 12 out of 549 local authorities had no DLO, and a total of 165,580 operatives, were employed. These figures are probably much larger than presently prevail, as DLO's have been severely affected by the recent cut-backs in public expenditure. Most of their work is concerned with the repair

and maintenance of council housing, and their share of new-build has been small and declining. (See Table 1.2)

Table 1.2 DLO's Share of New House Construction.

1924	-	10 %
1948	-	8 %
1974	-	5 %

(Source : Direct Labour Collective, 1978).

Since their inception DLO's have been the subject of political controversy. Their proponents claim they are publicly accountable, efficient, avoid the abuses of the contracting system, and provide stable employment for building workers. Their opponents characterise DLO's as inefficient, removed from the rigours of the market mechanism and posing a threat to local contractors at the expense of the rate-payer. These allegations have led some DLO's to behave as contractors, placing bids for local authority contracts along with private contractors. Most of the work carried out by DLO's is of the traditional type, most being too small to support industrialised building methods.

1. 4. INPUTS TO THE HOUSE CONSTRUCTION INDUSTRY.

If the industry is to respond to policy initiatives, it must have the resources to do so. This section describes the inputs to the industry and attempts to make some comment as to their availability. The emphasis of this section is not economic, however, this aspect being dealt with in Chapter 2. There are four main inputs to the production process : finance, land, materials and labour, each of which will be discussed in turn.

1. 4.1. Finance - In the private sector over 50% of loans to builders come from the clearing banks. This is particularly true of small firms, who do not have assets for reinvestment. The loans tend to

be large when compared to builders' assets, and land banking is one way of providing collateral, as well as being an essential part of the production process. The flow of funds tends to be unstable, builders having to compete in the open market, and their competitive position has declined since 1974, (see 1.3). Builders are, therefore, highly susceptible to variations in interest rates and availability. Loans from the clearing banks will tend to be between $1\frac{1}{2}\%$ to 5% above the base rate. The smaller and less diverse firms have to meet higher interest charges. Smaller firms may also be able to obtain funds from the building societies, but this form of finance is far less common. (MacLennan, 1982 a, NEDO 1975, Harloe et al 1974, The Housing Monitoring Team 1980).

Table 1.3 Advances Outstanding By Reporting Banks In The U.K. To Construction Companies And The Manufacturing Sector 1972 - 1978 (£M).

	Total Lending To Construction Companies (a)	Total Lending To Manufacturing Industry (b)	(a) as % of (b)
1972 Mid-Nov.	911	4977	19.5
1973 " "	1867	6658	28.0
1974 " "	2199	9374	23.4
1975 " "	1524	7080	21.5
1976 " "	1548	8550	18.1
1977 Mid-Feb.	1626	8715	18.6
" Mid-May	1622	8671	18.7
" Mid-Aug.	1636	9400	17.4
" Mid-Nov.	1583	9370	16.8
1978 Mid-Feb.	1607	9805	16.4

(Sources : Bank of England Statistical Abstract; Various Bank of England Quarterly Bulletins. Published in Housing Monitoring Team, 1980).

Larger firms tend to finance their activities through retained profits and share capital, and to a lesser extent, through pension funds and insurance companies. The volume builders in particular, are dependent upon share capital, and this is a major incentive for them to maintain a high turnover to satisfy their shareholders.

In the public sector, finance for construction is heavily dependent upon the level of public expenditure in the form of government subsidies and prevailing interest rates. For the most part, loans are paid off with income from rents. (Merrett, 1979). When borrowing, local authorities must do so at prevailing market rates, although a pool rate for the local authority borrowing as a whole, is charged and repayment is spread over sixty years, the expected life of a house.

1. 4.2. Land - The economic and planning significance of land will be discussed in Chapters Two and Four. While acknowledging the interdependence of these factors, it is sufficient here to recognise that land is an essential input to the production process. As such, it is necessary for builders, not only to have enough land to continue present production, but a land bank sufficient for $2\frac{1}{2}$ to 3 years production, which is in the process of obtaining planning permission, and which can be brought into production if an upswing in demand occurs, (Drewett, 1973).

1. 4.3. Materials - Construction is a complex process, which requires many materials from both manufacturing industry and extractive processes. The total output of the materials industry in 1977 was £5,000 M (at current prices - NEDO, 1978) and at its peak in 1973, the industry employed 500,000 people. Materials account for about 40% of

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the value of all construction work, consequently, the performance and capacity of the materials industry is crucial to the building industry and housing policy.

Shortages of materials will, obviously, place a constraint upon the construction process, which may foil attempts to alter the rate of production through policy initiatives. Shortages may occur if competition is forthcoming from more profitable, alternative markets. On the other hand, if a materials industry is heavily dependent upon construction, it will be badly affected during periods of slump. Consequently, the NEDO (1978) concluded that the ideal situation for construction, is where the industry accounts for half the sector's output. Due to the bulky nature of most material, alternative markets abroad are largely impracticable, only 17% of materials produced are exported, while 27% of those used are imported.

Since the level of demand in the construction industry is somewhat volatile, the materials industry must be sustained during periods of low demand, if it is to expand production when demand rises again. If the materials industry is not supported, this may result in factory closures and the cessation of quarrying activities, which will make its response to a rise in demand very sluggish, since these will take some time to be reopened. The construction industry is also vulnerable due to the high levels of concentration in the materials industry. In 1948, there were 900 materials firms, but by 1975 there were only 200, (Balchin and Kieve, 1977). In that year, London Brick accounted for 95% of Fletton output, housing consuming 75% of that. This high degree of concentration is to be found in all the major materials manufacture (see Table 1.4), which raises questions as to the extent to which the industry is able to exploit its position, by pushing materials prices up during periods of high demand.

Table 1.4

The Degree Of Concentration In Certain Materials Industries.

<u>Materials</u>	<u>Leading Companies</u>	<u>% of U.K. Market</u>
Asbestos	Turner and Newall	55
Bricks	London Brick	45
Cement	APCM	63
	Rugby	14
	Tunnel	13
Ceramic Tiles	Johnson Richards	65
	Pilkington (Tiling)	14
Concrete Roofing Tiles	Marley	50
	Redland	45
Flat Glass	Pilkington	100
Plasterboard	BPB Industries Ltd.	100
Ready Mixed Concrete	Ready Mixed Concrete Ltd.	40
	Amey Roadstone	12
Sanitary Ware	Armitage Shanks	30
	(Glynwed) Ideal Standard	25
	Poulton	15
	Twyford (Read International)	15

N.B. All the above named companies are privately owned.

(Source : Stockbrokers Savory Miln : Annual Report on the Construction Industry. Published in the Direct Labour Collective, 1978)

1. 4.4. Labour - Most on-site operatives (as opposed to professional staff) are employed on a casual basis, their term of employment being determined by the length of time they are needed to complete their particular part of the construction process. Direct labour has traditionally enjoyed more security until the recent public expenditure cuts. This insecurity has been associated with high levels of unemployment among operatives, which has been growing as economic conditions have deteriorated. In 1973, there were 90,000 unemployed building operatives, by 1978 this had risen to 221,817, at that time 14% of the U.K. total, (Direct Labour Collective, 1978).

Despite innovations such as the increased use of prefabricated components, such as window frames and plasterboard, there is a very high percentage of skilled labour, (see Table 1.5). This high dependence has repeatedly created problems during periods of rising demand, which have been characterised by labour shortages, and wage inflation. This has occurred at every significant rise in demand since the Second World War. The problem is made more acute by the lack of security in the industry. Those who are able to find more secure employment in other industries seldom return. The main form of entry into the labour force has been by apprenticeship. But, despite labour shortages, the number of apprenticeships has declined dramatically from 60,000 in 1964 to 32,000 in 1973, (Cowley, 1979).

Unskilled labour has been increasingly employed on 'the lump', (discussed in section 1.2. above). It is difficult to tell how many operatives are employed in this way, especially as it is primarily used as a method of avoiding Income Tax and National Insurance Contributions. It is estimated that the Inland Revenue loses £10 M per annum through this practice, (Balchin and Kieve, 1977). Despite

Table 1.5 Skilled Operatives In The House Construction Industry.

<u>Skills Type</u>	<u>Private Housing (%)</u>	<u>Public Housing (%)</u>
<u>Structure</u>		
Bricklayer	9.1	9.0
Roofer	1.1	0.9
Erector	-	0.3
Glazier	0.2	0.2
Other	0.2	-
TOTAL	10.6	10.4
Carpenter	8.3	7.9
<u>Services</u>		
Plumber	2.8	2.5
Heating	0.2	0.8
Electrician	1.8	2.5
Others	0.2	0.4
TOTAL	5.0	6.2
<u>Finishers</u>		
Plasterer	4.2	3.7
Painter	4.5	4.6
Floor-Layer	0.5	0.5
Others	0.8	0.4
TOTAL	10.0	9.2
<u>Other</u>		
General Labourer	14.5	16.8
Plant Operator	2.0	1.1
Scaffolder	0.8	0.3
Steel Fixer)		
Welder)	-	0.3
Pipe / Drain Layer	0.2	0.8
Tarmac / Asphalt	0.2	0.2
Other	0.8	0.4
TOTAL	18.5	19.9
General Foreman	3.3	3.0
ALL TRADES	55.7	56.6

(Source : NEDO, 1978).

these tax avoidances, unskilled construction workers must be among the very lowest paid. The working conditions in the industry are also very poor. The work necessarily takes place out of doors and construction has probably the worst safety records of all industries.

It is difficult for operatives to press for better conditions, security, or pay (except in times of labour shortages), because of the low levels of unionisation in the industry. In 1968, 78% of businesses with fewer than eight employees had no union members, while only 34% of businesses with over 300 employees had at least 90% membership, (Balchin and Kieve, 1977). This low level of unionisation is probably facilitated by the high turnover of operatives, which makes unionisation difficult. Low union membership and job security may well be advantageous to employers, who are able to employ labour flexibly and shed excess labour during periods of low demand. But, a high rate of labour turnover may result in low levels of productivity from workers unfamiliar with the type of work and firm.

1. 5. PRODUCTIVITY.

When compared to manufacturing industry, improvements in productivity in the construction industry have been very slow. Mechanisation has affected certain on-site activities, such as earth-moving, material-handling and concrete mixing. The amount of work on-site has been reduced through off-site prefabrication of products, like window frames and plasterboard. Nonetheless, the majority of housing units are still produced by traditional methods, which have not changed significantly since the last century, (Ball, 1978).

There have only been two major developments to improve productivity. The first is by the reorganisation and integration of

traditional on-site methods. This has been pursued to the greatest effect by the volume builders. It involves the acquisition of fairly large sites on which a number of houses can be built at the same time. This allows the housing starts to be staggered, so that the firms' workforce and capital equipment can be fully employed by moving from house to house to perform their part of the production process. Large sites also cut down the necessity to transport materials and capital equipment from site to site.

The second innovation is factory, or systems, building and it is an attempt to increase productivity by making as much on-site work as possible into the assembly of factory made components. The method is only economic where the additional factory overheads are more than off-set by the higher productive efficiency, and this will depend upon a high and stable demand to justify the high initial capital input. The savings obtained by factory building are not as great as originally envisaged. The component parts of the building, must be made to a higher degree of precision than traditional building components, such as bricks, so that they will fit together properly on-site. Secondly, the savings in skilled labour are not great, since traditional skills have tended to be replaced by new ones, such as those skilled in the construction of concrete moulds. Lastly, the aesthetic, social and maintainance costs of many industrialised buildings, particularly high-rise council flats, more than outweigh the savings in construction costs. These methods have increasingly fallen into disfavour, following the 1965 Ronan Point disaster, (Balchin and Kieve 1977, Dunleavy 1981).

Despite these innovations, the performance of the industry has been particularly poor. Between 1905 and 1955, productivity in

the industry rose by 0.2%, compared with 2.1% in manufacturing. This is reflected in costs, construction costs increasing eight-fold, between 1915 and 1965, compared to a five-fold increase in the Retail Price Index (RPI), (see Table 1.6). Local authority housing rose by 33% relative to the RPI, and owner occupied housing by 42%, (Ball 1978). The performance of the British industry has been disappointing, when compared with other countries, such as Sweden. (Duncan, 1978). The Wood Report (NEDO 1975), attributes this poor performance to the division of design and construction activity, which makes architects unaware of construction difficulties, and unresponsive to increasing productivity. Ball (1978) has argued, however, that housebuilders have no incentive to increase productivity, as the savings made would merely be translated, by the operations of the land market, into higher land prices.

Table 1.6 Building Costs, Building Industry Pay, and the General Level of Pay and Prices (1970 = 100)

	<u>Construction Costs</u>	<u>General Price Level</u>	<u>Earnings in Construction Per Week</u>	<u>Earnings in Manufacturing Per Week</u>
1938	23	23	12	12
1950	52	49	27	27
1955	67	59	40	40
1960	72	67	52	52
1965	82	80	70	74
1970	100	100	100	100
1976	258	207	245	235

(Source DoE, 1977).

1. 6. HOUSEBUILDING AND THE CONSTRUCTION INDUSTRY IN GENERAL.

As has already been pointed out, the housebuilding industry is part of the construction industry as a whole, and very often different construction activities take place within the same firm. This is particularly advantageous to the firm, since the demand for different types of construction activity, often do not coincide. Consequently, the firm is able to move out of sectors in decline and into those that are expanding, thus, achieving higher returns to capital. The firm is also able to spread its risks.

Small firms tend to spread their activity into small projects, such as repair and maintenance. This kind of activity is attractive since there is always a demand and little capital is needed. Small firms, small contractors, and some of the larger contractors, have been moving increasingly into rehabilitation, in conjunction with policy moves away from comprehensive redevelopment since the end of the 1960's. (Hillebrandt 1971).

Larger contractors, especially those concerned with major civil engineering projects, have moved increasingly into civil engineering, as opposed to housing. This trend has also been associated with a movement of activity abroad. So far as housing is concerned, these firms had their hey-day in the high-rise period, when they could apply their factory-building techniques to council housing. Since the decline of high-rise, civil engineering has proved to be more profitable.

The movement of activity overseas, has been rapid, and is concentrated in a small number of very large firms. In 1970 overseas contracts in construction accounted for £311 M, by 1976 this had risen to £1,433 M. Costain now have 75% of their business overseas. 95% of

overseas orders are undertaken by 20 companies, who tend to form consortia. The Middle East has proved to be the largest growth area, accounting for 46% of British firms' overseas activities in 1976, (Direct Labour Collective, 1978). Some contractors, such as Wimpey, Taylor-Woodrow, and McAlpine, have large sections concerned with volume building for owner-occupiers. So their concern appears to be more to spread risk than to move out of house construction.

The volume builders who have concentrated very much on speculative housebuilding in the past, have also begun to diversify. Barratts, for example, have moved into the construction of holiday homes, notably in Scotland, and into house construction in California. While another company, Leech, have diversified into leisure activities, such as restaurants, pubs and sports centres, and into shopping centres.

In general, the trend in the construction industry since the late sixties has been to move out of housing, and into other fields. This raises questions as to how far the industry would be able, or willing to devote resources to domestic house construction, while other activities continue to prove lucrative.

1. 7. CONCLUSIONS.

The house construction industry is, in many ways, highly diverse and difficult to delimit. It is very largely inseparable from the construction industry as a whole, being made up of a multitude of firms, of various sizes, engaged in highly diverse activities, in both the public and the private sectors. Policy, if it is to be successful, must take account of the commercial and resource requirements of the industry and the constraints imposed by its structure and input supply. Failure to do so may result, at best in an unresponsive industry, or

at worst, create undesirable bottlenecks in the flow of inputs.

To gain a deeper insight into the ability of policy to influence this complex and diverse industry, it is necessary to discuss the characteristics of the housing market, and in particular, its influence upon the house construction industry. This is the purpose of Chapter 2.

CHAPTER TWO

THE HOUSING MARKET AND THE HOUSE CONSTRUCTION INDUSTRY.

2. 1.

An understanding of the operations of the housing market is essential to any discussion of the influence of public policy on the house construction industry. Indeed, it is difficult to conceive of any policy which does not have economic ramifications, or relies on the operations of the housing market in some way. As has been shown in the previous chapter, the vast majority of house construction activity is undertaken by private firms, and contractors, who must be governed by profit criteria, while construction through public enterprise will also require the marshalling of capital and labour. Equally, whoever constructs the final product, that commodity will affect other commodities within the housing market - the quality and costs of accomodation in one tenure will exert a profound influence upon other housing commodities. While all house construction will consume capital, manpower and materials, inputs may be scarce. This high degree of inter-dependence of the many and complex elements of the housing market, make it essential for policy-makers to have a full understanding of the ramifications of their actions, if the desired consequences are to obtain. As the Report of the Implementation in Planning Working Party of the R.T.P.I. stated :

'If planning objectives and procedures are devised with little regard for the realities of the constraints and objectives influencing the decisions of the developpers - private and public, individual and corporate, large and small - then it will fail.'

(R.T.P.I. 1979 p.9)

This chapter, then, attempts to examine the relationship between supply and demand within the major tenures, by describing

the operations and complexities of the housing market, and in particular, focussing on the suppliers of new housing, the house builders.

2. 2. DEMAND.

'The actual demand for housing as expressed in the market is very different from housing need... and is important because the demand determines the extent to which needs will be met through the market and in turn the scale of activity in the building industry.'

(Lansley, 1979 p.47).

If a need is not met by the market, however, policy may be used to translate that need into an effective demand. In any case, 'need' is a highly subjective concept, which requires precise definition to be meaningful, while effective demand has a precise economic definition.

Demand is derived from individual households and is dependent upon a complex set of criteria as to their preferences for tenure, quality, size, and location of the accomodation, and the relationship of these preferences to the household's ability to pay for the accomodation. The relationship between demand and supply is, obviously, a dynamic one since the more desirable and scarce the property the higher will be the price. The behaviour of households is further complicated by their imperfect knowledge in the search for accomodation. So far as the individual household is concerned then, the demand for housing is the product of a complex interaction between preference for, and their ability and willingness to pay for, accomodation. It is both easier and more usual, however, to discuss demand in aggregate terms, and to sub-divide such a discussion into the major tenure types.

In the short-term, it is more useful to discuss demand in terms of the main tenures, since demand is made effective in different ways in each. In the long-term, however, demand is derived from the demographic characteristics of the area in question, and in a crude sense, from prevailing population levels. Consequently, the demographic statistics of birth, death and migration, are important. More important, however, is the number of households, and the rates of household formation and dissolution, which will determine future trends in housing demand. These figures are notoriously difficult to predict.

2. 2.1. Demand in the Owner-Occupied Sector - The demand for houses to purchase, comes from newly formed households, existing owner-occupiers moving to another house within the tenure, households moving into the tenure from other tenures, certain immigrants to an area, and the purchase of second homes. The criteria determining the choice of owner-occupation above other tenures, are complex, since they are often bound up with subjective assessments of status and desirability. But, there are important economic criteria in the decision-making process, which mediate these preferences. A comparison of initial and anticipated mortgage outgoings may well be made with current and expected rental levels in other tenures. Thus, house prices, credit availability, and credit charges, will be compared with local authority and private rents (i.e. the substitution costs will be examined). (See Table 2.1). Owner-occupation is not considered solely as the purchase of housing services, as are the rented tenures, it also constitutes the purchase of a building with an investment value. This is often a very important element in the choice of housing tenure, and must be borne in mind when comparing the figures in Table 2.1. (Gough 1975, Whitehead 1974).

Table 2.1 Weekly mortgage payments or rent (less rebate or allowance, excluding rates) as percentage of
 (a) usual gross weekly income of head of household by tenure
 (b) usual gross weekly income of head of household and wife by tenure

Households¹

Great Britain : 1979

(a)	Tenure		Rented					Total
	Owner occupied with mortgage	With job/business	Local authority/New Town	Housing association/co-operative	Unfurnished private	Furnished private		
Weekly mortgage/rent as % of usual gross weekly income of head of household ²	%	%	%	%	%	%	%	
Nil	0	65	2	3	12	10	5	
Over 0 but under 5%	10	15	12	11	24	5	12	
5% " " 10%	26	12	37	26	25	14	30	
10% " " 15%	21	4	19	21	14	19	19	
15% " " 20%	16	2	14	8	13	18	14	
20% " " 25%	12	1	8	8	5	8	9	
25% " " 30%	7	0	4	4	3	8	5	
30% or more	8	1	4	18	5	19	6	
Base = 100%	2715	251	3331	131	704	240	7372	
Median ³	13	6	10	13	9	17	11	
Median mortgage or rent payment ³	£13	£5	£6	£8	£4	£10		

(Continued)

Table 2.1 (Continued)

Households¹

Great Britain : 1979

	Tenure							Total
	Owner occupied with mortgage	Rented With job/business	Local authority/New Town	Housing association/co-operative	Unfurnished private	Furnished private		
Weekly mortgage/rent as % of usual gross weekly income of head of household and wife ²	%	%	%	%	%	%	%	%
Nil	0	65	2	3	11	11	5	
Over 0 but under 5%	17	18	21	16	31	5	20	
5% "	31	12	37	29	25	18	32	
10% "	23	2	15	18	12	18	17	
15% "	14	1	12	7	10	18	12	
20% "	8	0	7	7	4	7	7	
25% "	4	0	3	4	3	7	3	
30% or more	3	2	3	16	4	16	4	
Base = 100%	2595	238	3245	129	691	238	7136	
Median ³	10	5	9	11	8	16	9	

¹ Excluding households unable to distinguish rent rebate/allowance from rate rebate.² Boxed figures indicate the median relationship of rents/mortgages to income.³ Excluding those paying nil rent or mortgage. Values may differ slightly from those shown in previous tables because of non-response to income.

(Source : Central Statistical Office "Annual Abstract of Statistics" No. 118, 1982).

The cost of buying a house, then, is dependent upon house prices and mortgage interest rates, (see Table 2.2). For first-time buyers, higher prices would be expected to reduce demand, everything else being equal, unless there is a widespread expectation of significant rises in house prices in the near future, in which case demand may rise initially. For purchasers who already own a house, rising prices pose less of a problem, since the price of the property they sell may well have risen at a similar rate to that which they are purchasing. Indeed, if a household is trading down, a profit may be realised, (Lansley, 1979).

Table 2.2 Dwelling Prices and Mortgage Interest Rates, U.K.

	Average Price of Dwellings With Approved Mortgages From Building Societies		Building Society
	New Dwellings	All Dwellings	Mortgage Rates (%)
1969	£ 4,880	-	8.5
1970	£ 5,180	-	8.5
1971	£ 5,970	-	8.0
1972	£ 7,850	-	8.5
1973	£ 10,690	-	11.0
1974	£ 11,340	-	11.0
1975	£ 12,406	£ 12,119	11.0
1976	£ 13,442	£ 12,999	12.25
1977	£ 14,768	£ 13,922	9.5
1978	£ 17,685	£ 16,297	11.75
1979	£ 22,728	£ 21,047	15.0

(Source : 'Housing and Construction Statistics 1969-79' DoE 1980)

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Credit costs and availability are contentious subjects, and are of paramount importance in converting latent demand into effective demand. Most mortgage finance is supplied by the Building Societies, (Table 2.3), and their activities are crucial to the operations of the housing market. Local authorities have played a decreasing role in the supply of mortgage finance, following cuts in public expenditure, although that role is likely to increase again significantly, through the financing of the sale of council houses. Banks and insurance companies have, traditionally, supplied a very small proportion of mortgages, but recently the banks have become increasingly competitive with the Building Societies, as investment in manufacturing industry becomes more hazardous. Building Societies, as the largest lenders, have financed the widest spectrum of housing types. They claim their policies tend towards a preference for first-time buyers, an assertion which has not always been borne out in actuality. Local authorities have tended to lend to the lower end of the market, especially where Building Societies have 'red lined' an area (i.e. identified it as unsuitable for lending). (Boddy 1980). Insurance companies and banks have, until recently, financed the upper end of the market, but the banks have increasingly moved down-market, and are now leading in inner-city areas where Building Society finance is hard to come by.

Table 2.3 The Availability of Mortgage Finance

	Loans Outstanding 1975 (£M)	Number of Loans Granted 1976
Building Societies	18,882 (77%)	713,310 (93%)
Local Authorities	2,738 (11%)	38,310 (5%)
Insurance Companies	1,520 (6%)	15,340 (2%)
Banks	1,292 (5%)	- -

(Source : The Housing Monitoring Team, 1980)

The recent decline in Building Society loans is associated with prevailing economic circumstances. The high level of interest rates, in particular, have forced the societies to raise their charges to borrowers in order to maintain their competitiveness in attracting savers. The significance of Building Society policy to the level of house prices was illustrated in the first half of the 1970's. At this time, an expansion in mortgage lending, coupled with high local authority rents, a large increase in real and money income, expanding demographic characteristics in the form of high levels of household formation, and an unresponsive supply industry, caused considerable house and land price inflation, (Mayes, 1979). The low levels of lending, since the slump of 1974, have been one of the major contributory factors in the subsequent low level of house construction. Under prevailing and expected future government policy it is likely that house production will not rise above 150,000 units per annum by 1984, due to the low level of mortgage finance available. (The Environment Committee 1980, Wilkinson and Archer 1976).

Lastly, it must be pointed out, that local and central government exert a highly significant influence upon the level of demand, which will be discussed more fully in Chapter Four.

2. 2.2. Demand in the Public Sector - The demand for council housing is not determined by the market pressure exerted by rents, but, as the result of an administrative decision made by the local housing authority. As in the private sector, effective demand is the product of a reconciliation of the kind and number of housing units the authority wishes to supply, and what it is able to afford given its income from central government, rents and rates, the cost and availability of loan finance, and the land acquisition costs it will

have to pay. It is in this way that demand is exerted upon the housing land market, and the construction industry.

In the long-run, the demand for local authority housing is derived from the local population, in a similar way to the private housing market. Demographic characteristics, (especially household formation), transfers from other tenures, and the relative costs of other tenures, interact to exert a demand which is transmitted to the local authority through its council house waiting list. The extent to which the local authority wishes, or feels able, to satisfy that demand, is set out in its Housing Plan (Scotland), or Housing Strategies and Investment Programmes (H.I.P. - England and Wales), which forms the basis for its application for finance from central government.

To pay their contractors, local authorities must raise loans through the private market. These are repayed by a combination of council rents, and state subsidies. Each local authority has a Consolidated Loan Fund (C.L.F.), which borrows the money needed by all council departments. The housing department will then borrow the money it needs from the C.L.F., and will be charged a 'pool rate' of interest, which represents the rate on all the council's outstanding debts. Each year, the housing department will pay a sum of money, representing the principal of the loan plus payment of the accrued interest, to the C.L.F. Ministerial loan sanction, is attached to any capital project, and will specify a maximum period over which the debt is to be redeemed. In the case of housing and land, this is sixty years. The debt charges, as the payments to the C.L.F. are known, appear in the Housing Revenue Account (H.R.A.), of each authority. (Merrett, 1979).

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A further imposition is placed upon local authorities by central government, through housing cost yardsticks. These were originally used to make sure that new local authority housing met a minimum standard of Parker-Morris Accommodation, (Parker-Morris, 1962). But, yardsticks have failed to keep pace with inflation, and have increasingly been used as a ceiling on local authority expenditure, in the pursuance of macro-economic policy. (Merrett, 1979).

2. 3. SUPPLY.

Unlike most commodities, the supply of housing is dominated by existing stock. In 1968, when completions were at their highest, new housing only made up 2.3% of the stock, (Mayes 1979), and in 1971, only 21% of total house purchases, (Lansley 1979). The rest of the supply of housing in any one tenure type, comes from second-hand homes, transfers from other tenures, and the rehabilitation of derelict stock, in addition to new build. Second-hand housing will become available when households dissolve, or move. These are represented in the owner-occupied sector, as sales, and in the rented sector, as re-lets. This picture of the supply process, can be simplified by a number of reasonable assumptions in the short-run. Since Britain is not experiencing volatile demographic shifts, it is reasonable to assume that household dissolution, and household formation, are roughly balanced. Similarly, those households vacating houses will, except in the cases of dissolution, move into other houses, thus, leaving the overall supply characteristics roughly similar. Given these assumptions, the crucial element in the supply process, in the short-run, is the rate of completions. The implication of this, is that since completions make up such a small part of the overall stock, small changes in demand, will have very large implications

for the supply of new houses, and in particular, upon the house-building industry, (Mayes 1979, Gough 1975, Whitehead 1974, Wilkinson and Archer 1976).

It is worth noting at this point, that to talk about the supply of housing as homogenous, is somewhat misleading. Housing is a complex commodity, which varies in size and quality, and which is inseparable from economically significant externalities, such as location, access and environment. Thus, at any given time, the housing stock will be highly heterogeneous, while the demand for housing may well be concentrated around certain types of property which possess what are considered desirable characteristics at that period of time. For example, if the mean family size was to fall significantly, then, all other things being equal, the demand for smaller houses would rise. Thus, the balance of supply and demand, is the product of a nexus of social and economic factors at a given point in time. Theoretically, this can be characterised by dividing the housing market into a system of sub-markets, both economic and geographic, which can be differentiated from one another. A discussion of sub-markets would, however, be long and complex, and the issue has yet to be fully resolved, (Schnore and Struyk, 1976). Consequently, it is felt sufficient to note these complexities, and continue the discussion at the aggregate level.

As in discussions of demand, those concerning supply are probably best conducted by differentiating between the major tenure types.

2. 3.1. The Supply of New Housing in the Owner-Occupied Sector.

The vast majority of owner-occupied houses are built by speculative builders, (see section 1. 3.1.). Increasingly, local authorities

have built houses for sale, generally to encourage the tenure in areas where it has, traditionally, been absent, but they still account for a very small number of units. As was pointed out in Chapter One, the main suppliers are the large national and multi-national volume builders and, to a lesser extent, the medium sized, regional builders.

The supply of new housing has a cyclical character, (see Figure 2. 1.), which, in the long-run, appears to be related to Gross Domestic Product (G.D.P.), and wages, (Mayes 1979). In the short-run, the supply of new housing is determined by the rate of completions, (Lansley 1979). If the demand for owner-occupied houses increases significantly, the first thing builders will do, is increase the speed at which houses, at that time under construction, achieve completion. In the longer-run, it is the number of starts, which determines the supply of new housing, (Wilkinson and Archer, 1976).

Starts are much more volatile than completions, and reflect the builder's perception of a sustained increase in demand. Due to the precarious nature of the building industry, builders are very cautious, and will hold back their response until they feel sure that the higher level of demand will be sustained. When this caution is added to the complex and time-consuming nature of the industry, it is most unlikely that a house will be completed in under a year, and most take a considerably longer length of time. Consequently, there is an appreciable lag, between a rise in demand and the housing completions, it induces, which consists of a period of risk assessment and construction, (Drewett 1973). It is this relationship, which results in the 'roller coaster' effect in the level of completions, which contributes considerably, to the high risks in the industry and to house price inflation, (Community Development Project, 1977).

When the demand for new, owner-occupied housing increases, for example, through an increase in mortgages, leading to more latent demand being made effective, then the supply of housing will respond in the sluggish manner described above. Since supply does not react immediately to rising demand, an upward pressure will be exerted on prices of both new, and second-hand houses. Builders may well engage in frenzied activity, in the hope of being first onto the market, and so be able to realise super-normal profits. In order to maintain future levels of production, builders will enter the land market, to replace the land being built upon and, concomitant with this, will be a rise in the number of planning applications, for the same reasons. Thus, a rapid rate of production will exert an upward pressure upon land prices, and cause congestion in the planning system.

If demand then falls again, for example, because mortgages become tighter, the demand will suddenly drop off. But, because of the lag in the supply response, completions will continue at a higher rate, although starts will probably fall. If the slump is severe, the supply of new housing will, initially, far exceed demand, house prices will fall and builders may well make a loss, and even go bankrupt. Builders will respond by severely cutting back the level of starts.

Thus , a cyclical pattern seems to be inevitable in the house construction industry, given fluctuating levels of demand, dependent in the short-term on the availability of mortgage finance, and on a supply industry, which is only capable of responding to demand highly imperfectly. This situation prevailed at the beginning of the 1970's, and was fuelled by the expansionary monetary policy of the government. The effect was severe housing and land price inflation,

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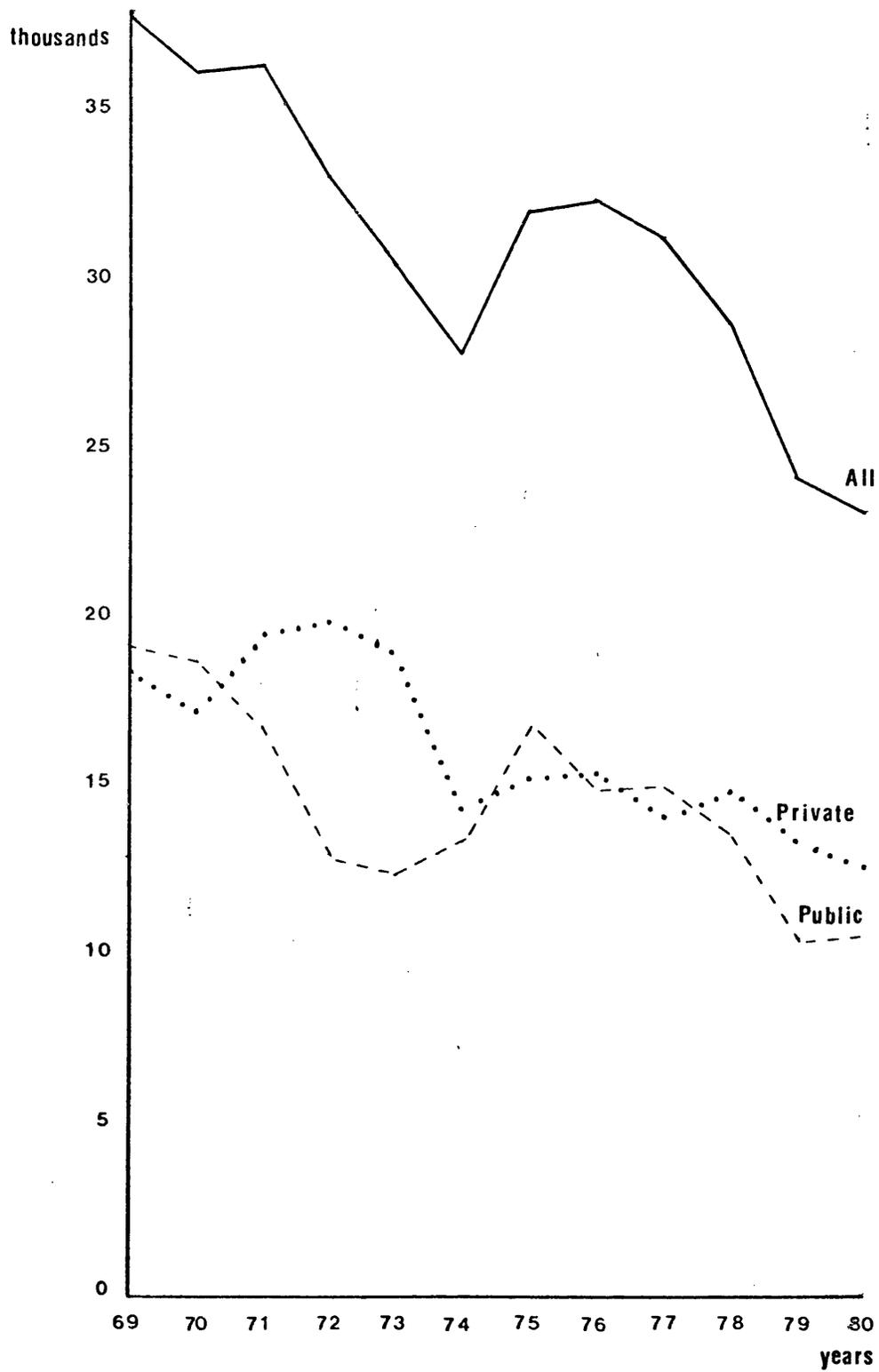
as the result of a slow supply response, followed by a collapse in both house prices and production. (See Figures 2. 1, 2. 2, 2. 3, and 2. 4). This was an exceptional period, and most building cycles do not have such severe consequences.

There are four main requirements in the production process, which have highly significant repercussions on the industry's ability to satisfy demand. These four, land, development finance, materials, and manpower, were discussed in section 1. 4. Here, their importance to the housing market is discussed, and some points concerning their influence over policy are sketched.

2. 3.2. Land and the Land Market - Both the cost and the availability of land have been the subject of major debate among those concerned with the development process, (DoE 1978, JURUE 1977, The Housebuilders Federation, undated). All the major actors in the process, tend to blame the other actors involved for the high cost and relative scarcity of development land. Landowners and builders have been accused of hoarding land for speculative gain, at the expense of housing consumers, while planning policies have been blamed for scarcity and delays in availability.

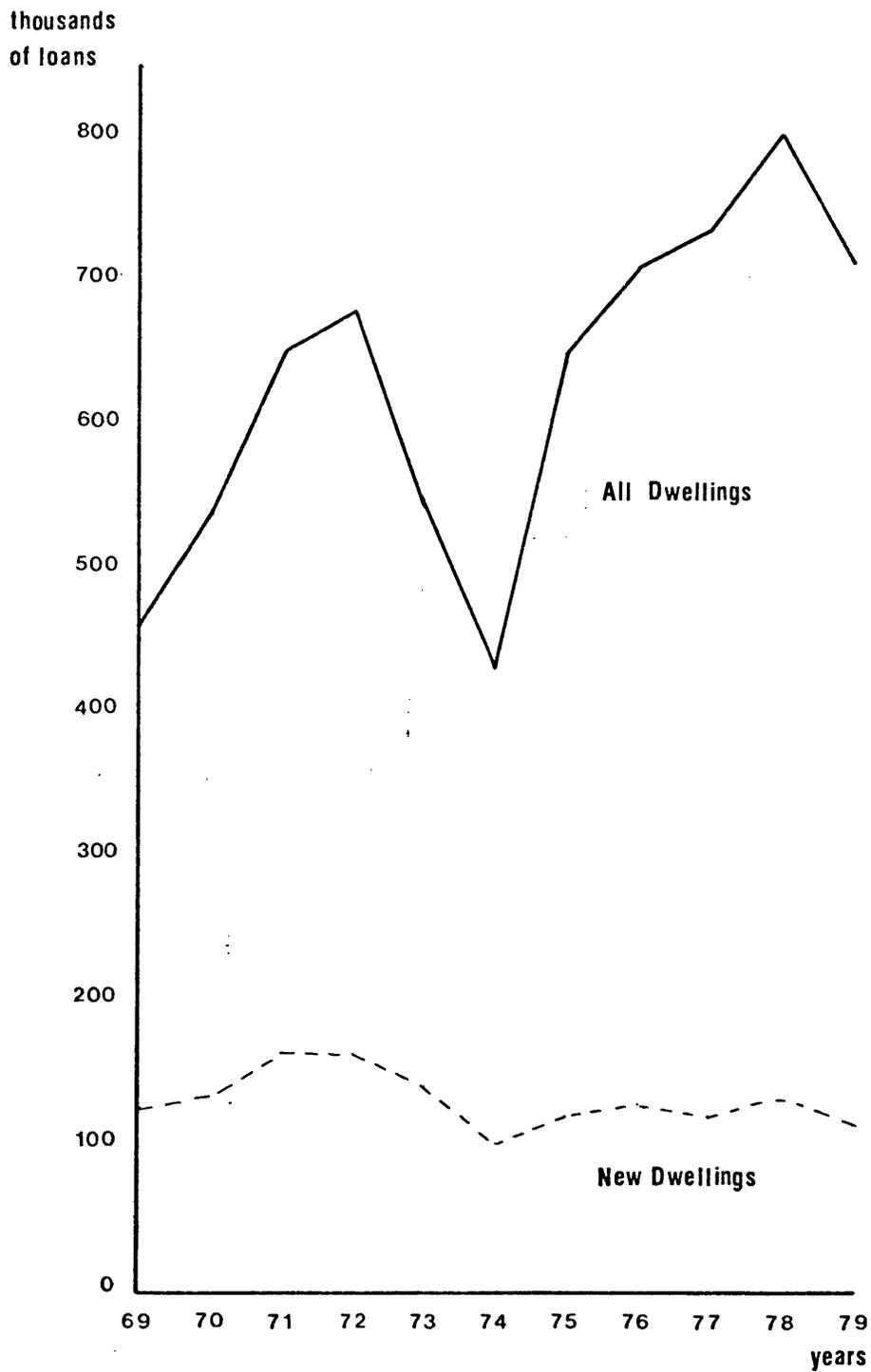
There appears to be widespread agreement as to how the cost of land is determined, (Drewett 1973, Charles 1977, Balchin and Kieve 1972). The price of housing land, it is argued, is derived from the demand for housing. The housebuilder, when determining what he can afford to pay for land, will estimate what selling price the local housing market can stand. From this he deducts a normal profit and construction costs, and the resultant residual represents the maximum he is prepared to pay. Obviously, if he can obtain suitable land more cheaply, or his other costs are cheaper, (or the selling

Fig.1 House Completions in the U.K. 1969-80



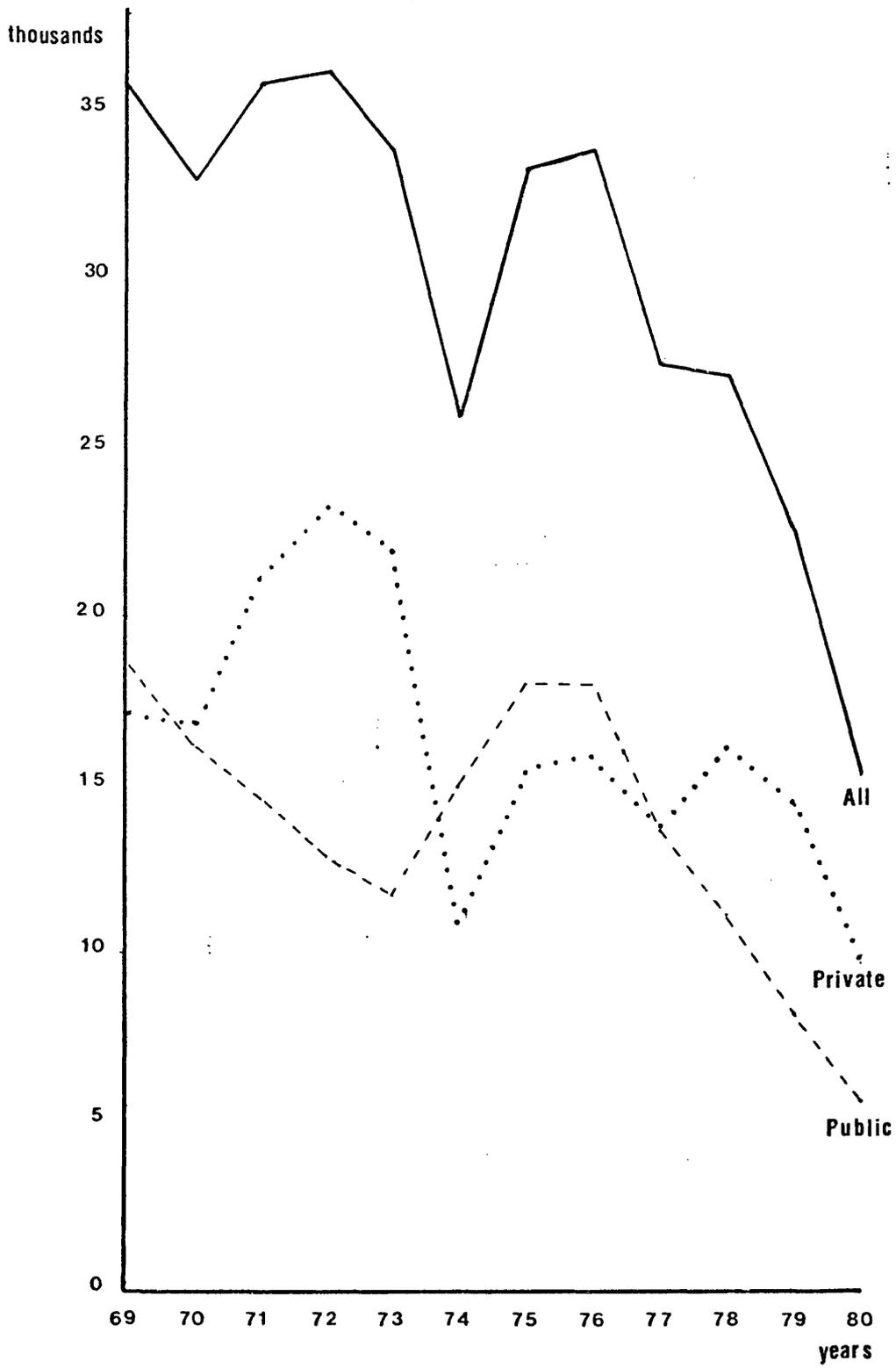
(source : Housing & Construction Statistics)

Fig.2 The Number of Mortgage Advances from Building Societies in the U.K. 1969-79



(source:Housing & Construction Statistics)

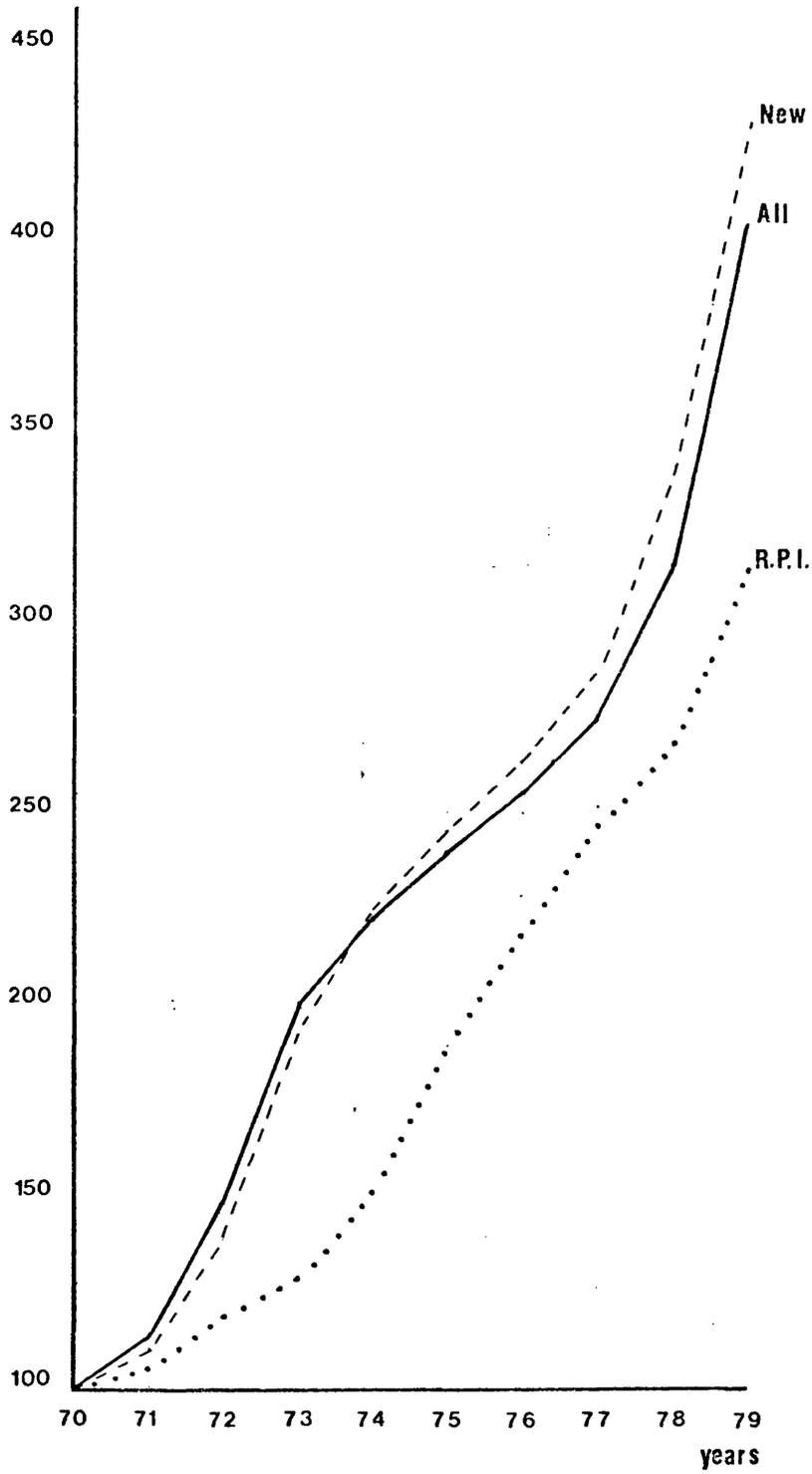
Fig.3 House Starts in the U.K. 1969-80



(source:Housing & Construction Statistics)

Fig.4 Indexes of Average House Prices and Retail Prices
in the U.K. 1970-79

1970=100



(Housing & Construction Statistics; Nationwide Building Society)

price higher), than anticipated, he will make super-normal profits. And, conversely, if costs are higher, or selling price lower, he will make a loss, or inadequate profits. According to this theory, the housebuilder will pay the residual price in most cases, since there will be competition for the land from a number of builders, who will bid the price up to this ceiling. As for landowners, they cannot speculate on land, since the price will not rise above that residually determined by the market. The same applies to restriction to supply, imposed through the planning process, (Cameron 1981).

The problem with the theory of residually determined land prices, is that while it may apply in a relatively stable, or declining market, speculation does appear to be possible in cases of rising demand, a fairly regular occurrence given the cyclical nature of the market. When demand increased rapidly during the early 1970's, not only the number, but also, the size of mortgages increased. In the short-term, this higher demand was met by an inelastic supply, prices soared and land prices rose as a percentage of total costs, (Charles, 1977). Thus, landowners are able to speculate by holding their land off the market, in anticipation of higher prices, and the incentive to increase supply will be dampened, as the extra profits will be shifted from the builder to the landowner. This process will be accelerated, if planning delays hold land off the market for a longer period, while demand is rising rapidly, (Hyman 1980).

It must not be forgotten, that housing is a highly heterogeneous commodity. This leaves the builder in a position to change the type of housing he will build, if land prices rise. For example, he may, assuming planning permission is granted and market conditions are favourable, reduce the size of housing, and so build a greater

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number of housing units on the site. Alternatively, he may build high quality, and consequently, more expensive housing on the site, which will carry a higher, residual land price. Thus, in rapidly changing market conditions, speculation appears to be possible by both landowners and builders.

The availability of land has been central to the land debate, (JURUE 1977, The Housebuilders Federation - undated, DoE 1972 and 1978), and availability is, of course, linked to price. Apart from the willingness of owners to sell, (which is determined by their individual aspirations regarding the use and minimum selling price of the land - Cameron 1981), the main determinant of availability is the granting of planning permission. The land programming policies contained in the Structure Plans of the English counties and Scottish Regions, have been severely criticised by the housebuilding industry. The Housebuilders Federation, for example, has claimed that land made available through the English Structure Plans for the period 1980-85, would only permit a building rate 20% below that of the five year period up to 1980, (The Environment Committee, 1980). While the Manchester Survey of land availability, conducted by local housebuilders, local authorities and the DoE, found that there was a shortfall in developable land, of 25% (DoE 1978).

One of the main obstacles to development lies in the different concept of 'availability' used by planning authorities and developers. In their consideration of development land, planning authorities will take into account, in general, all land with outstanding planning permission. Much of this land, however, may well be held in large land banks by medium sized local builders, who use the banks at a very slow rate, and often obtain considerable profits through

speculation. In Strathclyde Region, for example, it was discovered that 17% of land defined as available, was held in banks owned by just two local builders, (Strathclyde Regional Council, 1981). Thus, considerable tracts of land zoned for housing, are not available for development in the short-term.

Another problem is that local authorities, often in pursuance of policies specifically designed to further a specific planning objective, such as the regeneration of the inner-cities, will zone land which developers may feel is not viable. Such sites, so far as the developer is concerned, are not available, since they feel people will not buy houses in those areas, at high enough prices, (House-builders Federation - undated). Lastly, the H.B.F. complain that many sites zoned for development are incapable of being adequately serviced, by sewers for example, and thus, supply is further reduced.

There are further difficulties in other operations of the planning system. The H.B.F. (undated) has complained that local authority plans are not effective plans at all, since so many of permissions granted are outside areas zoned for housing, while applications within those zonings are refused. This assertion has been backed up by research undertaken by the Joint Unit for Research into Urban Environment (JURUE 1977). Research in the West Midlands, showed that only 24% of all applications for housing development were successful. Only 53.3% were successful in areas zoned for housing, while 38.3% of land released was non-conforming. The overall low level of permissions can be attributed to important planning criteria, such as green belt policy. But, the high number of permissions on non-conforming land, and the low number in areas zoned for housing, appears to indicate an implementation problem. The large number of

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permissions granted after appeal is also a basis for concern.

The last constraint to supply, imposed by the planning system, is the length of time taken to process planning applications. JURUE, (1977), found that even after outline permission had been obtained, most applications took 15 to 20 months before building started. One of the main problems noted by JURUE was that the system appeared to operate counter-cyclically. Thus, when the demand for housing land rose, the planning system was flooded and applications processed more slowly. Consequently, under conditions of fairly stable demand, it is probable that developers will be able to maintain a fairly stable supply of land through the development pipeline. But, if demand rises significantly, the increased number of applications this will induce, will slow down the planning process and so further exacerbate supply problems. JURUE felt that it was difficult to envisage a system that would not produce this effect, in a situation of fluctuating demand.

2. 3.3. Development Finance - Finance has already been discussed at length in section 1. 4.1., but it is necessary to note here that if developers are to respond to rising demand, it is essential that funds are available to finance that response. If policy were used to increase demand, then, if sufficient development finance was not available, the industry's response would be sticky, and the consequences might be inflationary. The two main elements in finance are, its availability, and cost, and these are to a large extent, dependent on prevailing macro-economic policy, and the condition of the economy, in general. Under prevailing conditions, The Environment Committee felt that it was unlikely that output p.a. would rise above 160,000, due to finance constraints, (The Environment Committee, 1980).

2. 3.4. Manpower and Materials - Both manpower and materials have been discussed in Chapter One, (sections 1. 4.3. and 1. 4.4.), so it is sufficient to note the significance of different levels of demand. In times of rising demand, as in the early 1970's, the supplies of materials and labour may not be sufficient, and shortages may occur, placing upward pressure on costs. This is particularly so in the case of materials production, where the industry is highly concentrated, and monopoly pricing is possible, (Table 1. 5.).

Where there is a slump, however, as at present, then excess capacity exists in the supply of both materials and labour. Unemployment in the building trade will be high, and many skilled operatives will leave the industry for more secure employment. This poses a problem when demand expands again, since supply will be sticky. Similarly, in the materials industry a fall in demand may cause factory and quarry closures, and these may prove difficult to bring back into production. Even if factories do not close, they may have to operate at below capacity, which means that economies of scale may not be realised, and unit costs will rise.

Thus, the level of demand exerts a highly significant influence over both the price, and availability of materials and labour, which could prove constraining to the industry. This situation is further complicated by the fact that, at any one time, only certain materials and skills may be in short supply, but they may be crucial to the overall supply process. Once again the significance of policy in its manipulation of supply is crucial.

2. 3.5. Supply in the Public Sector - Supply in the public sector, like demand, is an administrative rather than a market response. Supply consists of re-lets, conversions

from other sectors, and new build. The supply from new build is determined by the effective demand described in section 2. 2.2.

The public sector must enter the market not only to find projects, but also to hire contractors and obtain land. Consequently, it is subject to the same constraints of land purchase and cost, as the owner-occupied sector. Local authorities do have an advantage, however, in that they contain the planning authority within them, and are thus, unlikely to have problems with planning refusals. Another advantage is that they possess Compulsory Purchase powers, given approval by the Secretary of State. Similarly, the contractors they hire, and D.L.O.'s will have the same problems of material and labour supplies. The supply of finance to the local authority has been discussed in section 2. 2.2.

The public sector has acted in a roughly counter-cyclical manner, largely because contractors are keen to do public work when demand is low, (Community Development Project, 1977). It has been suggested that this characteristic could be accentuated to iron out the cyclical nature of the industry.

Local authorities have been criticised by private developers for holding on to large urban land banks, from more prosperous times, for public projects which they can now no longer afford. It is claimed that this has exacerbated land supply problems in certain cities, such as Glasgow, (Cameron 1981). For the local authorities, however, a land bank will be advantageous if it wishes to increase supply.

2. 4. CONCLUSION AND SUMMARY.

While demand for housing in the long-run, is determined by demographic change and the level of real incomes, in the short-run,

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it is determined by the transfer of latent demand into effective demand, through the availability of house purchase finance, either in the form of mortgages, or local authority investment. The availability and cost of mortgages compared to the level of council rents, is the major economic factor determining tenure choice. Demand from both the public and private sectors will determine the cost and supply of land, material, and manpower, although rapid changes in the level of demand may exert a significant influence over both costs and availability. The role of planning in land availability appears to be problematic only where there is a sharp rise in demand, creating a bottleneck in the development pipeline.

If public policy is to be effective, it must be aware of the relationships inherent in the housing market. There is no point in policy being used to increase the supply of housing, by raising the level of demand, if that demand is only converted into increased profits for landowners, builders and material producers, without a rise in the number of completions. Policy makers must make the appropriate response of the building industry, a prime objective.

So far, policy initiatives have been discussed largely in passing, as a necessity in describing the structure of the housebuilding industry, and the nature of the housing market. Chapter Four will describe present policy initiatives more fully, but first, the necessity for public intervention in the housebuilding industry will be discussed in Chapter Three.

CHAPTER THREE

RATIONALES FOR POLICY INTERVENTION IN THE HOUSING MARKET.

3. 1.

Before discussing the major governmental influences over the operations of the British housing market and the housebuilding industry in the next chapter, it is necessary to ask why intervention is necessary at all. In an advanced capitalist society, such as Britain, most goods are distributed through the market mechanism, so why should housing be any different from other commodities? The answer to this question is not a simple one largely because governments tend to have more than one aim in mind when intervening. As Cullingworth has written :

'In no field more than housing is there such a multiplicity of possible objectives and such a wide range of techniques to meet them. One important implication of this is that the potential for conflict between different housing policies is large.' (1973, p.39)

In this chapter, four bases for intervention in the housing market are outlined, the first two representing the two main opposing theories for housing policy in advanced capitalist societies.

3. 2. HOUSING POLICY AS SOCIAL POLICY.

'The distinguishing feature of social policy is that the distribution of goods and services to which it relates is determined on the basis of an assessment of social need rather than as a result of market forces.'

(Cullingworth 1973, p.38)

With respect to housing this implies that the housing market is either incapable or its participants unwilling to provide the housing stock deemed to be socially desirable or necessary. Galbraith favours the former explanation :

'... the housebuilding industry functions well only in combination with a large, complex and costly array of public services.'

(1958, p.212, my emphasis)

Thus, the state must intervene in the market if the socially desirable objectives it has defined are to obtain. It is this philosophy which has dominated housing policy in Britain for most of the twentieth century, and has been especially influential since the Attlee government.

There are two basic concepts which underlie the interventionist philosophy : those of supply and equity, (Lansley 1979). A concern for supply is based upon the fear that the level of investment in the construction industry would be such, that the number of housing units required by society would not be forthcoming. This is generally, attributed to the special characteristics of the housing market, which hinder the smooth operation of its mechanism. But, even if policies could be used to promote market effectiveness, it would produce a distribution of housing resources so inequitable, as to be socially unacceptable as defined by the state. The distribution of income in society is such, that low income groups would only be able to command housing of very poor quality. Even if a more equitable distribution of incomes was achieved, the importance of housing to the individual's standard of living is such, that the concept of consumer sovereignty would still produce undesirable consequences, (Lansley, 1979).

There are a number of characteristics which make the housing market both unusual and imperfect. Firstly, housing is highly heterogeneous, varying in age, size, repair, quality, amenity, location

and tenure. Thus, as pointed out in section 2. 2., the housing market is, in fact, a set of linked sub-markets, and thus, unlike other commodity markets,

Secondly, housing is very durable, lasting 40 - 100 years or more, and thus constitutes both a service and an investment, a peculiar characteristic. Thirdly, since the cost of housing is very high in relation to income, the consumer must rely upon intermediary institutions or individuals. Thus, owner-occupied housing is largely purchased through Building Societies and consequently, the supply and availability of finance will determine demand. In other tenures, housing must be rented and the demand exerted on the construction industry is, therefore, dependent upon investment by the landlord, public or private. Fourthly, owner-occupied housing has very high transaction costs, due to its complex legal status, thus, the employment of exchange professionals is necessary. Fifthly, as stated in section 2. 3., supply is inelastic and consequently, a rise in demand may be translated into higher prices, rather than increased supply, (Lansley 1979).

Thus, the housing market is distinct from other markets and the consequences of this for the supply and quality of housing has been deemed to require government intervention. The possibilities for intervention are vast :

'... these include land purchase and clearance for re-development, good neighbourhood and city planning, and effective and well enforced zoning; a variety of financing and other aids to the housebuilder and the owner; publicly supported research and architectural services for an industry which, by its nature, is equipped to do little on its own, and a considerable amount of direct or assisted public construction...' (Galbraith 1958, p.212).

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This multifarious array can be split into four main groups :

3. 2.1. Subsidies to Demand - These may be to rents, or to interest rates in the case of purchase, and they may be general, or specific to certain groups. The prime examples of this in Britain are tax relief on mortgage repayments, and subsidies to local authority rents.

3. 2.2. Subsidies to Supply - The principle in this case is that the house, rather than the household, is subsidised by payments to the builder, thus reducing costs to the consumer. In Britain this is largely pursued by the provision of public housing.

3. 2.3. Government Controls - This was the first method used in Britain to influence the building industry, by establishing minimum building standards, in an attempt to combat jerry-building and overcrowding. Rent control was added later, and landuse planning could also be included, (especially where the housing environment is improved by the separation of residential and anti-social - especially industrial - landuses, and through the establishment of maximum residential densities). The consequence of such policies may well be to raise costs, and therefore, might have to be used in association with subsidies. If prices do not rise, as in the case of rent control, then the tenant is, in effect, being subsidised by the landlord, through the reduction of his profit margin.

3. 2.4. Direct Government Provision of Housing - This has largely been pursued through local authority housing, and a little has, in effect, been provided by the provision of funds to housing associations. This gives the state, control over the supply, quality and cost of housing.

3. 3. HOUSING POLICY AS A LUBRICANT TO THE MARKET MECHANISM.

The main opposition to far-reaching intervention by the state in housing provision, has been articulated by the Institute of Economic Affairs. To the Institute, the market represents the most efficient means of distributing housing resources, and '... by far the most serious impediments and distortions in the market are the result of legislative, fiscal and direct intervention in the market. To cure the effect of these would require an essentially simple but unified programme of reform based on income redistribution, undistorted choice and competitive supply that would call for fiscal integrity, sympathetic guidance and sustained stimulation.' (Pennance 1969, p.58).

According to this analysis, indiscriminate subsidies have led to the over-consumption of housing and land, which has contributed to urban sprawl, and resulted in cities of uneconomic size. Slum clearance has deprived the poor of cheap housing close to their employment, to the benefit of 'big business', who wish to expand the central business district, and the middle-class, who can move back to the now 'cleansed' central areas, (this is, perhaps, more applicable to the U.S. than the U.K.). Rent controls are a disincentive to investment and have led to a shortage of cheap, rented accomodation, (Hayek, 1960). Local authority housing is also attacked :

'... cheaper housing provided by government will have to be strictly limited to the class it is intended to help ...'
(Hayek 1969, p.345),

otherwise, those in the income group immediately above the aided class will also demand better and subsidised housing, since the differential between these classes would be small, or non-existent. Thus '... any far-reaching change in housing conditions by public housing will be

achieved only if practically the whole of the housing of a city is regarded as a public service and paid for out of public funds.' (Hayek 1960, p.345). This leads to the main criticism of social policy by the free-marketeers, that housing subsidies and public housing constitute an infringement of personal liberties. Hayek continues his argument :

'This means, however, not only that people in general will be forced to spend more on housing than they are willing to do, but that their personal liberty will be gravely threatened.' (1960, p.p.345 - 6).

Harris and Seldon sum the argument up more bluntly :

'The difference between unrepresentative democracy and the representative market is graphically demonstrated by British Housing Policy.' (1977, p.43).

The alternative strategy of the free-marketeers centres on the argument that, 'the bogey of so-called market imperfections is the nursery man-on-the-stairs of housing analysis.' (Pennance 1969,p.59). Thus, '... there are only two main ways of securing improvement of housing standards in general; to increase the disposable income of households in need of improvement and to increase the stock of housing ...indiscriminate housing subsidies should be replaced by income supplementation closely related to personal means and needs, local authorities should aim to increase flexibility in production, pricing and disposal of housing, owner-occupiers should cease to recieve discriminatory tax relief.' (Pennance 1969, p.p.50 - 51).

How the disposable income of the poor is to be raised, is a moot point. There appears to be two main arguments. The first is that such a redistribution should be totally unrelated to housing, since to specify expenditure on housing would be an infringement of

liberty. So, a general redistribution, perhaps a negative income tax, could be used, and if the poor desired better quality housing they could purchase it. The second is based upon means-tested housing vouchers, which could be exchanged for housing services, (Rasmussen 1973).

This type of strategy is often coupled to the theory of 'filtering'. This holds that the greatest incentive to housebuilders lies in the construction of houses for upper income groups, where the profit margins are greater. As the better-off move into higher quality housing, their old housing 'filters' down to lower income groups, price falling with its desirability. Thus, a filtering chain is created, which will eventually lead to the improvement of housing conditions for those at the bottom of the pile. The problem with this theory is that even if housing does in fact, move down-market, (and there is some doubt about that), since lower income groups are much more numerous than the well-off, the latter will have to have a phenomenal turnover in houses to raise the former's housing conditions appreciably, (Boddy and Grey, 1979).

Hayek does concede that some form of town planning does have a place :

"... 'town planning' which operates largely through the establishment of general conditions to which all development of a district or neighbourhood must conform but which within these conditions leaves the decisions to the individual owner, is part of the effort to make the market mechanism more effective." (1960, p.350).

Hayek sees planning of this type overcoming the sticky problem of undesirable externalities, one of the central problems of the free-

market argument. Because housing units are immobile, unlike other commodities, a desirable house located next to (for example) a sewerage works, will not command the same price as an identical house next to a park. The use of zoning, by separating these uses, will ensure that such anomalies do not occur. A similar argument is used to justify area-based rehabilitation policies.

Some of the problems of the free-market approach have already been expounded in section 3. 2. The main problem is that market imperfections are not a 'bogey', they exist and their repercussions are highly significant. It is also very difficult, in Britain, to know how the housing market would react to such a drastic restructuring. Even if the disposable income of the poor were to be raised, would the building industry react favourably? The removal of subsidies to owner-occupiers might have the effect of depressing the supply industry and lead to a fall in housing standards. In the U.S.A., which has adopted similar, although not pure free-market policies, urban blight exists at an appalling level, while their public welfare housing is little more than institutionalised ghetto formation. An attempt to describe the counter-factual situation that would obtain in the U.K. if such policies were adopted, is difficult, but the evidence is not promising. The present Conservative government have moved in the direction of a free-market position, however. New public housebuilding is now almost totally confined to those with 'special needs', thanks to severe cuts in public expenditure and the imposition of a public housing moratorium in 1980. Similarly, council house rents have been raised and council housing sold-off. It is unlikely, however, that any government will remove general housing subsidies in the near future, as this might well prove to be electorally suicidal.

3. 4. HOUSING POLICY AS PART OF MACRO-ECONOMIC POLICY.

Unlike the first two rationales for public intervention, which are mutually exclusive, intervention as a means of regulating economic activity as a whole, is compatible with both. Housing policy possesses this dual character because of the importance of output in the industry to the economy in general. In 1975, the construction industry was £11,600 M, which was 12.5% of G.D.P., while employing 7.5% of the working population, (Balchin and Kieve, 1977).

The way in which the industry is used as part of macro-economic strategy is dependent upon the economic philosophy of the government in power. Since the adoption of monetarist policies in the late 1970's in Britain, there has been a fall in the public expenditure devoted to local authority housebuilding and subsidies to local authority tenants, in order to reduce the Public Sector Borrowing Requirement, (PSBR). This can be seen as a movement towards the free-market view. The problem with using the construction industry is that it will probably react sluggishly, since existing starts will have to be completed. There is also a problem in that, unless housing standards are allowed to fall, a reduction in construction activity will only have a short-term effect, since work will only have to be done at a later date.

Alternative economic strategies hold that the construction industry, in conjunction with certain expansionary fiscal policies, can be used to increase economic activity. This view is receiving a great deal of attention at the moment, as an easy means of reducing unemployment, (The Guardian 5/2/1982, Shelter 1981). This argument runs that as construction is such a large industry and is so labour intensive, a relatively small amount of investment will have a large

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impact on employment, without an inflationary effect, (Hilditch, 1981). Some would even argue that it could be used to lead the economy out of the recession. This is closely compatible with a policy of strong public intervention in the housing market.

3. 5. HOUSING POLICY AS AN ELEMENT OF CLASS STRUGGLE.

This view of housing policy is more of an implicit ideological construct, than an explicit policy objective. It has largely been propounded by Marxist analysts, and notably the Political Economy of Housing Workshop, (PEHW 1976) and the Community Development Project (1976). Neo-Weberian academics, notably Rex and Moore (1967) and Pahl (1964), have also examined the housing field from a class perspective. But, largely due to the nature of Weberian sociology, their analysis has concentrated upon the consumption, rather than the production of housing. As a consequence of Marxism's central concept, the mode of production, Marxists have concentrated more on the impact of policy on the construction industry.

Briefly, Marxist analysis views the intervention of the state through housing policy, as an attempt to overcome contradictions inherent in the capitalist mode of production. This contradiction arises because certain elements of capital, notably landed capital and the construction industry, appropriate surplus value through housing. Thus, they have a vested interest in keeping housing costs high, so that the maximum amount of surplus value can be appropriated. This will be reflected by higher wage demands from the proletariat. Loan capital and industrial capital, on the other hand, appropriate capital through the production of commodities, and thus, have a vested interest in keeping wages low, so as to reduce production costs. This contradiction is further complicated, because the working class

is not considered as passive. If housing costs are high, or housing conditions poor, the working class will become restive and may threaten the dominant position of the ruling class. In order to defuse proletarian militancy, and to attempt to resolve the contradictions within capital, the state will channel discontent into the formation of housing policies through participation in a form of liberal, representative democracy. Thus, housing policies will improve housing conditions and reduce costs, while maintaining the ideological conditions necessary for capital, as a whole, to continue to extract surplus value. Some factions of capital may suffer in the process, notably the building industry, but these set-backs will be accepted in the interests of perpetuating the system. Housing policies will always be in a state of flux, as the positions of the antagonistic classes change over time. (Ball 1975, Merrett 1979, Ginsburg 1979).

Thus, housing policies are viewed primarily as a means of perpetuating the capitalist mode of production, and only improve housing conditions incidentally, as a way of assuaging the wrath of the working class. The persistence of housing problems is seen as illustrative of the unsatisfactory nature of the solution, which can only be solved by the overthrow of the capitalist system, and if housing is provided on the basis of need, rather than for profit. Housing policies are essentially concessions won from capital through the process of class struggle, but they can be regarded as defeats, in the long-run, since working class militancy is dampened and the revolution is placed further into the future.

These theories pose some difficulty for social scientists, as they are almost impossible to test, (Saunders 1979). Since the real meaning of policy is supposedly covert, since it lies at an ideological

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level, data to test these theories is difficult, if not impossible, to collect. A second problem lies in the fact that housing has improved appreciably for the working class, and it is highly probable that this can be attributed to housing policies. How, then, can these real gains for the working class be considered as defeats? They can only be envisaged as such, if it is first accepted that a revolution is ultimately in their interests, and if the concessions obtained put that revolution off. Thus, the Marxist argument only holds an internal logic dependent upon an a priori belief in a particular solution.

What does seem indisputable, however, is that housing is a scarce resource, and that economically determined classes compete with one another to obtain their share of it. Housing policy plays a crucial role in distributing housing resources, and consequently, is inseparable from class struggles. This does not mean, however, that lower income groups have been fobbed off with inconsequential housing reforms, nor that their interests are better pursued by revolution than by participation in representative democracy.

3. 6. CONCLUSIONS.

There are two main rationales for public intervention in the housing markets of advanced capitalist societies. The first, prevalent in Britain, is that the market cannot, or will not, provide housing at a high enough standard, and in sufficient quantities, on its own. Consequently, policy must be used to distort the market mechanism to produce the desired housing stock. The second, holds that the market is the most efficient and reliable way of distributing housing resources, and that housing policy distorts this mechanism, so reducing its efficiency, and curtailing personal freedoms. The

evidence seems to suggest, however, that the market is unable to satisfy the needs of lower income groups, and for this reason, as well as for the political difficulties posed by free-market policies, interventionist policies are likely to prevail in Britain.

The two other rationales outlined, view housing as secondary and subservient to the more important macro-economic policies, and the more potent force of class struggle. Both may be envisaged as consistent with the first two rationales, although both are also dependent upon other events within government and society as a whole.

The next chapter will discuss present British housing policy and its implications for the housebuilding industry and the housing market.

CHAPTER FOUR

NATIONAL AND LOCAL HOUSING POLICY.

4. 1.

In Britain the state intervenes in the operations of the housing field at both the national and the local level. This chapter attempts to describe that policy framework, and attempts to assess the significance of the influence exerted by policy-makers on the house construction industry and the housing market. At the national level, this influence is exerted largely through macro-economic policy and the housing finance system. National and local initiatives converge in the formulation of local authority Housing Plans and H.I.P.s, which together with the planning system, constitute the mechanisms of local policy influence over both the private and the public sectors. It is hoped that the inter-dependence of national - and local - policy making, will be highlighted, while policy as a whole is examined critically.

4. 2. MACRO-ECONOMIC POLICY AND HOUSING POLICY.

'... I am pursuing... within the constraints of an economy in decline, the housing policies most fitted to a situation where we have the largest crude surplus ever and where the essential challenge is to make better use of the existing housing stock.'

(Michael Hesaltine, Secretary of State for the Environment, speaking to the Environment Committee, 7/6/81 -
The Environment Committee, 1981 p.15)

Michael Hesaltine's statement neatly encapsulates a number of themes which are central to the present government's housing policy. The first, and most important strand is the close relationship between housing policy and macro-economic policy. To use the typology of the previous chapter, the dominant rationale for intervention in the housing market at present, is that of 'housing policy as part of macro-economic

policy.' The present administration is not unique in this, the previous Labour government also adopted the current strategy of cutting public expenditure in order to reduce the P.S.B.R., but the Conservatives have carried this policy to its furthest extreme to date.

The government's plans for its term of office were outlined in the Public Expenditure White Paper 1981/82, 1983/4, (Cmnd. 8175). Referring to these plans, the Chancellor of the Exchequer stated :

'In today's circumstances, any government would have to check the size and growth of public spending. This does not mean, and has not meant, that public expenditure should be cut indiscriminately.'

(Planning 4/4/1980).

Indeed, the cuts have not been indiscriminate, they have discriminated to a very large extent against public expenditure on housing. The plans provide for a reduction in expenditure on housing of 47.6% between 1981/2 and 1983/4. This accounts for 75% of the reduction in total programme plus contingency reserve. But, according to paragraph 10 of the White Paper, (Cmnd. 8175), 92% of the reduction in public expenditure is to be found by reducing the financial provisions for housing. To describe the cuts in housing as essential to the government's macro-economic strategy would be an understatement, they are virtually coterminous. Estimates of expenditure are given in Table 4.1.

In macro-economic terms this policy is claimed to be part of a strong monetary policy, with strict monetary controls and high interest rates, in order to combat inflation. As part of this strategy, the public expenditure cuts are designed to reduce the P.S.B.R. In fact, monetary supply targets have not been adhered to, and public expenditure has increased by 2% in the past two years, (MacLennan 1982b).

The implications of this economic policy for housing are vast. Not only has the public housebuilding programme been brought almost to a halt, (in the first half of 1981 housing starts were 17,400, whereas in 1978 they were over 50,000), but also, the costs of private housebuilding have been increased through higher interest rates, and demand has fallen for private housing, as there has been a concomitant fall in real income and job security, and a rise in unemployment.

Table 4. 1. Public Expenditure on Housing 1979/80 - 1983/84 (Projected).

<u>Financial Year</u>	<u>Expenditure (£M) at 1980 Survey Prices</u>	<u>Housing Expenditure as % of Total Government Expenditure</u>
1974/75	-	10.0%
1979/80	5,372	5.4%
1980/81	4,700	-
1981/82	3,840	-
1982/83	3,250	-
1983/84	2,790	2.9%

(Source : The Environment Committee 1980 and 1981).

The government argues that the cuts are necessary because '... as a nation we cannot afford to devote as many of our resources to public sector housebuilding... (consequently) private housebuilders will have an even more important contribution to make over the next few years than in the past,' (Hesaltine 1981, p.1). The government's policy, then, is two-edged. Public housing is to be cut back, and the private sector is to step in to fill the breach. This analysis, however, is on an ideological level, assumptions have been made about the nature of the housing market and the housebuilding industry, which cannot be verified, and are deeply misguided. These misconceptions centre on three related aspects : the housing needs of the population

and the ability of people to satisfy those needs in the owner-occupied sector; the cost of housing to the government through the housing finance system; and the ability of private sector housebuilders to expand their production to fill the gap left by the public sector.

4. 2.1. Housing Needs and the Costs of Owner-Occupation.-

'... it appears to the Committee that the government has as a matter of policy, deprived itself of information which is necessary for sound decisions to be taken.'

(The Environment Committee 1981).

So, in their Third Report, the Environment Committee chastised the DoE for formulating policy without attempting to estimate what housing needs were likely to be in the future, and what level of construction was likely to obtain to meet these needs, given the policies being pursued. This reflects the government's perception of housing need as being subservient to the P.S.B.R. But, even given this priority, which is obviously the subject of some controversy, by choosing not to evaluate the consequences of its actions, the government is stifling public debate. The Secretary of State attempted to justify this 'nanny knows best' attitude by claiming that forecasts of both need and supply were always inaccurate, and therefore, not worth making. Consequently, the DoE has made no forecasts since the Housing Policy Green Paper (DoE 1977), and these are now considered by the Secretary of State to be of dubious use and accuracy.

The Environment Committee rejected the Secretary of State's objections to both the Green Paper and to the usefulness of forecasting (The Environment Committee 1980 and 1981). The Green Paper estimated that in 1981, 125,000 houses would have to be completed in the public sector, and between 170,000 and 190,000 in the private sector (DoE 1977).

But, the actual building rates have fallen well below this, since in 1980 the figures were 59,000 and 101,000 respectively, and the trend for 1981 is downward, (Housing and Construction Statistics 1982). The Environment Committee went so far as to make their own projections of public sector starts, and placed the level for 1983/4 between 26,500 and 47,000, depending upon the rate of rent increases and council house sales. This means that the number of completions estimated to be needed in the public sector in 1986 of between 115,000 and 125,000, would be virtually impossible to meet. It must be acknowledged that the concept of 'need' is a highly subjective one, but the Green Paper's estimates are considered to be, to a large extent, valid by many, (Shelter 1982, The Environment Committee 1980), and underestimates by others, (Lansley 1979, Merrett 1979).

One of the main reasons given by the Secretary of State for his reticence to forecast is that so many of the agencies providing housing are outside his control. The level of public sector house-building could be higher, he argues, if local authorities raise money by the sale of assets to the private sector, and in particular, by the sale of council housing and council land to housebuilders. While the level of activity in the private sector is dependent upon private initiative which, he claims, he can help only by reducing the P.S.B.R. and thus, the level of interest rates. Forecasting, he argues, is the job of local authorities through the Housing Plan and H.I.P. systems, although he has not attempted to aggregate these estimates. This is plainly the duplicitous argument of a politician attempting to avoid public criticism. Other government departments feel able to make predictions about factors which are more complex and less subject to government control, and indeed, form the basis for justifying the cuts in public expenditure in the first place. The Chancellor of the

Exchequer feels able to forecast the performance of the whole economy, yet the Secretary of State for the Environment cannot forecast the performance of one part of it, which he can affect fundamentally, through the provision of capital to local authorities.

The real reason for this reluctance to forecast needs and production levels, must surely be that the government would be seen to be deepening the real human miseries of an inadequate supply of decent housing. To talk of a 'crude housing surplus' is a red herring designed to deflect attention from housing stress. In 1976 there were 500,000 more dwellings than households, but many are unfit to live in, or are waiting to be sold or repaired. 200,000 of those houses are second homes, and therefore, unavailable to those in housing need, while many are quite simply, in locations where housing stress is not great, (Shelter 1982). Yet the need for housing is rising, by 1986 there will be 300,000 more households than in 1981, (Social Trends 1982), while there are a vast number of 'concealed' households, (i.e. those wishing to have their own household, but forced to share), who never appear in official statistics, except the ever-lengthening council house waiting lists, (Table 4. 2.). To these could be added the 700,000 households living in unfit houses, the 950,000 with sub-standard homes, the 150,000 in overcrowded conditions, and the 1,000,000 sharing accommodation. After overlaps are accounted for, this leaves 2.7 million households in England and Wales alone.¹ (Shelter 1982, The Environment Committee 1981).

¹ All figures apply to 1976.

Table 4. 2. Council House Waiting List Totals in England and Wales.

Region	(1) 1981	(2) 1982	(3) Average 1977-79	% of change in(1) compared to (3)
North	90,400	101,327	90,960	- 1
Yorkshire and Humberside	146,539	146,558	132,431	+11
North West	145,660	144,545	135,938	+ 7
West Midlands	104,089	100,974	87,147	+19
East Midlands	104,077	94,708	90,109	+16
East Anglia	37,915	36,616	30,421	+25
South East	195,787	197,381	184,453	+ 6
Greater London	234,001	241,775	209,128	+12
South West	<u>81,519</u>	<u>80,356</u>	<u>75,274</u>	<u>+ 8</u>
England	1,140,037	1,144,240	1,032,679	+10
Wales	<u>56,932</u>	<u>56,454</u>	<u>48,579</u>	<u>+17</u>
England and Wales	1,197,019	1,200,694	1,081,258	+11

(Source : Shelter Local Authority Annual Survey - Shelter 1982).

The government's solution to the fall in the supply of council housing is to call for a movement into the owner-occupied sector. This policy has fundamental drawbacks, which raise doubts as to its capacity to contribute significantly to the relief of housing need. The most fundamental inconsistency in this argument is that many people simply cannot afford to buy their housing, (Table 4. 3.). About 66.2% of households in the U.K. who are at present non owner-occupiers, fall into this category, and are thus, immediately excluded from the sector unless something can be done to significantly reduce their housing costs. What is more, the government's economic policy makes owner-occupation more expensive by pushing up mortgage interest rates, (although these have fallen following the March 1982 Budget, they are still high), and by lowering real incomes and lessening job security.

Table 4. 3. The Limits of Owner-Occupation : Regional Figures.

Region	Average Mortgage Advance 1979 (£)	Adjusted 'Mortgage Limit' Income (£) 1978/79	Proportion of all Households Beneath Mortgage Limit (%)	Proportion of Non Owner-Occupiers Beneath Mortgage Limit (%)
North	9,814	88.03	46.9	62.1
Yorkshire and Humberside	8,879	80.00	42.4	61.9
East Midlands	9,120	81.52	37.1	51.4
East Anglia	10,614	95.56	50.3	77.1
Greater London	14,371	142.17	63.1	66.9
South East	13,114	121.10	54.1	64.8
South West	11,637	106.46	57.6	82.8
West Midlands	10,456	95.10	42.6	56.9
North West	9,978	88.66	44.8	68.3
Wales	10,167	91.39	48.9	79.7
Scotland	11,843	113.19	55.5	62.6
Northern Ireland	12,184	111.75	67.5	88.3
U.K.	11,286	103.37	50.6	66.2

(Source : Shelter 1982).

Another major drawback is that those low-income households who do buy their own homes, may be financially incapable of keeping them in good repair, and consequently, the stock may deteriorate, (Karn 1979).

Thus, the government is pursuing a policy which is incapable of ensuring that the population has an adequate supply of decent housing at a price they can afford, which was the central tenet of that 1977 Green Paper, (DoE 1977). The promotion of the owner-occupied sector is being advocated, yet about half of the population does not have an income which can support a mortgage. The main alternative sector is being starved of funds for capital expenditure, and rents are being forced higher. The results of such a policy, seem inevitably, to be the lowering of housing standards, and the raising of housing costs.

4. 2.2. The Housing Finance System and its Impact on Public Expenditure -

The main justification for the pursuance of this policy is that a reduction in living standards, in the short-term, will have long-term benefits, since P.S.B.R. will be reduced as part of a policy of restructuring the national economy. So, if we accept the government's own definition of the situation, the important question to ask is whether this policy will reduce P.S.B.R. In answering this it is necessary to examine the housing finance system, and in particular, the nature of government subsidies. The housing finance system is also important to our discussion, since it embodies subsidies to both supply and demand, and is thus, the central instrument of national governmental influence over the house construction industry.

In the public sector, subsidies are made by central government through the Housing Support Grant (H.S.G.), and by local government through the Rate Fund Contribution (R.F.C.). The rest of

the income to the local authority Housing Revenue Account (H.R.A.), the financial system used by local housing authorities, comes from unrebated rents. The main areas of expenditure on the H.R.A. are loan charges, (discussed in section 2. 2.2.), supervision and management, and repairs and maintenance. The H.R.A. must balance, that is, expenditure must equal or be less than income, and the H.S.G. is designed to make up the deficit in the notional H.R.A., so that this occurs. In practice this is one of the main methods of central government control, since the Secretary of State defines in advance a local authority's subsidy entitlement, and assesses the extent to which costs can be met through rents and the R.F.C. Until 1981/2, the balance between rents and the R.F.C. was the responsibility of individual authorities. Housing Expenditure Limits (H.E.L.) have now been introduced, however, which establishes an R.F.C. guideline for each authority. If an authority exceeds its guideline figure, it has an equivalent amount taken off its H.R.A. capital allocation (i.e. the amount that can be borrowed in any one year for the purposes of capital expenditure). (Shelter (Scotland) 1981, Shelter 1981, Merrett 1979).

The implicit strategy of the H.E.L. is to reduce public expenditure by trying to reduce costs to the ratepayer, and increase council rents. But, the nature of the guidelines is such that they are barely related to previous expenditure and, consequently, many councils were faced with the prospect of enormous rent increases. In Scotland alone, 17 councils would have had to raise rents by over 50% (Shelter (Scotland) 1981). In the event, about half of all authorities failed to meet their guidelines, raised their rents by a lower level and suffered an additional cut in their capital allocation. Thus, the proportion of local authority housing costs met by central government

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through the H.S.G. has fallen, and this extra burden has had to be met by local rent payers.

Much of these apparent savings to public expenditure are illusory, and the overall strategy is short-sighted. That extra burden now carried by rent payers might be expected to be a saving to the government, but many low income families have fallen victim to rent rises, and so, public expenditure has simply been transferred to rent rebates and Supplementary Benefit. The rest of the savings to central government have been made up of increased R.F.C. and thus, the burden has passed to the local tax payers. H.E.L. has had the additional undesirable effect of moving public expenditure away from capital spending and into current spending, thus, the ability of councils to build more housing has been additionally cut.

The DoE had made it clear that local authorities are to finance their capital expenditure through the sale of assets to the private sector. Council house sales, in particular, have been singled out as applicable to raising money for new council housing, yet it has been estimated that twelve council houses have to be sold to build one new council house, (The Environment Committee, 1980). Thus, for any substantial public building programme to take place, a phenomenal number of council houses would have to be sold. For example, if the Green Paper's estimated need for council housing in 1981 was to be attained, then approximately 300,000 council houses would have to be sold to attain 125,000 new build.¹ The actual number

¹ This assumes that there were 100,000 completions in 1981 on the basis of figures for the first half of that year. Therefore :
 $125,000 - 100,000 \times 12 = 300,000.$
If the number of starts rather than completions is used, the figures become more improbable :
 $125,000 - 20,000 \times 12 = 1,260,000$
(Housing and Construction Statistics, 1982).

of council house sales has come nowhere near this, (Table 4. 4.), consequently, this figure will either not be obtained or substantial amounts of money will have to be raised through council house rents and the sale of other assets. The indiscriminate sale of council houses is, in any case, an act of mole-like myopia, so far as the level of local authority assets is concerned. The council housing which will be bought will inevitably be that of the highest physical quality and amenity. Consequently, councils will be left with the least desirable housing, and the most expensive to maintain. Thus, not only will the quality of council housing fall, but costs will also rise, and so will rents, as the system of rent pooling is undermined. Despite the government's claim that most homes will be sold to sitting tenants, and will therefore not affect council house allocations, it has been estimated that for every 100,000 council houses sold, there will be 2,600 fewer re-lets each year, (Select Committee on the Environment, 1981). Thus, the public sector is caught in a 'Catch 22' situation : if a credible building programme is to be maintained, rents must rise and assets must be sold; yet, if attempts are made to hold down rents, more assets will have to be sold, and the more council housing that is sold the higher rents will be.

Subsidies for the owner-occupied sector come from a number of sources, but the nature of the finance system is such that the subsidy of overwhelming importance, is mortgage interest tax relief. The Green Papers on Housing Policy, (DoE 1977, Scottish Office, 1977) treat mortgage interest tax relief as the main housing subsidy, and not, as some would argue, exemption from tax on imputed rent. Both cannot be considered as a subsidy at the same time, since they are

essentially two sides of the same coin. Indeed, tax was charged on imputed rent up to 1963, when it was repealed before an impending election, (Shelter (Scotland) 1981, Fowley 1979). Tax foregone on the interest element of mortgage payments only applies to mortgages up to £25,000, and on condition that the house in question is the sole or main residence of the mortgagor. The subsidy is highly regressive, since the larger the mortgage (and presumably the more expensive the house), and the higher the rate of tax the mortgagor pays, then the greater the subsidy will be. Those paying little or no tax, do not benefit from the scheme. Consequently, since 1968 they have been able to claim the option mortgage subsidy. This enables mortgagors to make repayments at a reduced rate of interest, which amounts to the subsidy received through tax relief at the standard rate of income tax.

Table 4. 4. The Sale of Local Authority Dwellings.

	Number of Dwellings	Capital Value (£ thousands)	Initial Payments Received (£ thousands)	Average Discount (%)
1978	30,045	248,350	80,400	
1979	41,660	396,500	105,800	26
1980	81,465	768,900	208,900	39
1981				
1st Quarter	14,120	141,100	51,400	39
2nd Quarter	17,995	180,500	64,500	39

(Source : Housing and Construction Statistics, June Quarter 1981, Part 2, Number 6).

There are a number of serious drawbacks with this kind of general subsidy. The first is that it is regressive, yet it is lower income groups who find most difficulty in exerting an effective

demand in the owner-occupier sector. Secondly, so far as the stimulation of the house construction industry is concerned, it is likely to be ineffective. If, as postulated in section 2.3.1., builders will charge what the market will stand, then by raising what consumers can pay will simply raise land and house prices, (Lansley 1979, Karn 1979). Thirdly, and most important to the government's overall strategy, this type of subsidy is extremely difficult to control. If interest rates, or house prices (in real terms), or the number of purchasers or the rate of taxation rise, then the level of the subsidy will rise. What is more, the government's policy is pulling in opposite directions at the same time. Its monetarist economic policy has raised the level of interest rates, and its overt housing policy is to increase the levels of owner-occupation, both of which will raise the amount of subsidy paid, and so public expenditure. What is more, unlike the subsidy to the public sector, the tax relief subsidy is not treated as public expenditure, but as tax revenue foregone by the Inland Revenue. Consequently, despite the fact that it represents the largest subsidy to the housing sector, it does not appear in the calculations of the Public Expenditure White Paper (although the Option Mortgage subsidy does, since it constitutes a payment from the Exchequer to lending institutions). The subsidy to local authority tenants fell from £1,749 M in 1980/81 to £1,011 M in 1981/82, while direct tax allowances on mortgages have risen from £1,450 to £1,960 M (all at 1979 prices), this constitutes a substantial increase of between 20% and 25%. Shelter claim that the mean subsidy now paid to local authority tenants is £153, while that paid to owner-occupiers is £306. The DoE was unable to confirm or deny Shelter's figures (The Environment Committee 1981). What is more, better-off owner-occupiers receive additional subsidies because housing is exempt from

Capital Gains Tax. So, not only is the government's policy inequitably weighted in favour of owner-occupiers, but also, by encouraging the movement of people into the more heavily subsidised tenures, the government is acting counter to its objective of reducing P.S.B.R.

4. 2.3. The Ability of the Private Sector to Respond - The government has explicitly stated that it expects public expenditure on housing to drop, and that the private sector will 'take up the slack', by producing more houses for owner-occupation. Leaving aside questions of possible conflict with macro-economic policy, the main question is whether private housebuilders are capable of responding when it is presently at its lowest production level since the Second World War.

The major difficulties for the house construction industry centre on the supply of finance and land. The only recent study of the capacity of private housebuilders under prevailing central government policy has been carried out by Stevenson for the Environment Committee, (1930). By pushing up interest rates, the government has squeezed the construction industry by increasing the cost of borrowing for production and land banking. Meanwhile, the slump in the industry has made the shares of many companies less attractive than other forms of investment, and this affects the amount a company is able to borrow through its gearing ratio. The gearing ratio is the amount banks will lend against a company's share capital, and for the building industry that ratio is usually 1 : 1. Stevenson has estimated that the gearing ratio for the construction industry as a whole, would have to rise to 1 : $1\frac{1}{4}$ to fulfil the estimated need for private housing identified in the Housing Green Paper. But, he believes that the availability of house purchase finance is the crucial constraint upon the private sector. The Building Societies have suffered

competition from other financial institutions, such as insurance companies and pension funds. Consequently, it seems unlikely that an output of over 150,000 units can be achieved p.a. by 1984. Stevenson perceives that the availability of suitable developable land would only be a problem if production managed to exceed 150,000, although local markets have distinctive characteristics about which it is difficult to generalise. Localised shortages of development land cannot, therefore, be discounted as a possible constraint to the industry's response. Stevenson has perceptively pointed out that the decline in the industry is affecting firms differently. The volume builders appear to be still expanding, (for example, the leading company, Barratts, announced record profits this year - Financial Times 16/3/1982, Guardian 16/3/1982), while the medium sized, local builders have fallen into a steep decline. The decline of the industry in general, also raises questions about the extent to which it will be possible for the industry to recover from this slump if bankruptcies have removed part of its productive capacity, (see Chapter One).

4. 3. THE LOCAL HOUSING POLICY CONTEXT.

So far, this chapter has illustrated how a great deal of housing policy, at the local level, is in effect dictated by central government policy, and especially through the reduction of funds for capital expenditure on council housing. What discretion is left to local authorities is largely exercised through the H.I.P. and Housing Plan systems, and through the planning system.

The Housing Plan (in Scotland) and H.I.P. (in England and Wales) systems were established following the Green Papers on Housing policy in 1977, (Scottish Office 1977, DoE 1977). Both systems were designed to ensure that local authorities devised comprehensive

housing strategies for their areas, which would secure the best use of available housing resources, in both the public and the private sectors. This is to be achieved within the constraints of national public expenditure policy. The main difference between the two systems is the way in which the block grants from central government are calculated, and this is unimportant for the purposes of our discussion. Since each plan is unique to the area, it covers, only general comments can be made about the systems, a more detailed discussion of the Glasgow area and its local housing policy follows in the next chapter.

These new systems were introduced against the background of the tightening of public expenditure as a central tenet of macro-economic policy. It was hoped that housing expenditure could be controlled by central government, but that the resources that were made available would be utilised more effectively through the comprehensive assessment of local housing needs. At one and the same time, local authorities' expenditure was restricted, but they were given greater responsibility and autonomy over the resources they did receive. The plans cover a five year period, and are rolled forward ^{every year,} each plan covering three main policy areas. The first is an analysis of the provision of housing, and assesses all present and future local needs in both the public and the private sectors. The second describes the local authority's housing policies and programmes and explains what is expected of other agencies, such as private builders and housing associations. The third is a costed capital programme outlining the local authority's proposed spending on housing over the next five years. (Haywood 1981, The Housing Monitoring Team 1980, Bramley et al 1980, Leather 1979).

It has been argued (in section 4. 2.) that central government's grip on local authority housing expenditure has become extremely tight,

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especially since the introduction of H.E.L. This has '... left a general view that the H.I.P. system does not represent a completely new system which is designed to alter the style of policy making, but is simply a refinement to financial control, which significantly reduces local autonomy.' (Bramley et al, 1980 p.29). This has led the Environment Committee (1981) and others (for example, Morris 1980) to conclude that the increased level of local autonomy has been more than outweighed by the stringent constraints of central government. Indeed, the cuts have also constrained the private sector, since local authorities provide a large number of mortgages (11% in 1975 - see Table 2. 3.), a large number of grants for the rehabilitation of privately owned property, engage in environmental improvement in private residential areas, and provide owner-occupied houses themselves through build-for-sale projects.

In many ways the joint influence of housing departments and planning departments of local authorities are best illustrated in the private sector. Planning policies, (both local and structure), relate directly to land availability, the location and density of new development, the provision of infrastructure, and a range of other services. Obviously, it should be the case that the H.I.P. and Housing Plan policies are compatible with local and structure plans, but conflict is frequent, (Bramley et al, 1980), which is hardly surprising since local plans often fail to conform to structure plans. Local authorities will estimate the need for private housing as part of its general assessment of needs in the locality, and this will form the basis for land release policies for the private sector. As was stated in section 2. 3.2., the amount, quality, location, servicing and commercial viability of the land, may not be to the liking of private developers. According to the H.B.F. (undated) land release policies have restricted

the supply of housing and forced up house prices. There are frequent complaints from private housebuilders that planners, and other local authority employees, do not understand the nature of the private housing market. Consequently, policy statements may indicate a preference for a density of housing, or house sizes, or location, which either individually or in combination, the private sector feel they cannot produce houses at an adequate profit. This lack of understanding is not aided by the nature of the relationship between private builders and planners, which tends to be antagonistic, since it revolves around bureaucratic restrictions imposed upon the private sector. Consequently, co-operation is rare and is often centred on certain specific issues, such as land availability surveys, (JURUE 1977).

Private developers will engage in market research to establish the existence of a viable market in an area, but builders also rely on governmental forecasting at both the national and the local level. This reliance is born out of the precarious nature of the industry, and forecasting is used as another tool in reducing commercial uncertainties, (The Environment Committee, 1980). Nonetheless, local forecasts are often criticized as underestimating demand, although this may represent a ploy by builders to pressurize local authorities into releasing more land so that they can build up larger land banks. The importance of forecasting to the private sector is also indicative of the folly of central government in ceasing to produce national forecasts.

4. 4. CONCLUSIONS.

The current central government housing strategy is inseparable from the professed macro-economic strategy to reduce public expenditure, and so the P.S.B.R., in order to combat inflation. It has failed in

two crucial respects. Firstly, much of the apparent savings to the Exchequer are illusory, since increased council house rents are often passed on to other state expenditures through Supplementary Benefit and rent rebates. What is more, the policy of promoting the owner-occupied sector is encouraging people to move into a sector where the government can exercise little control over the level of subsidy it pays, and which carries, in any case, a higher subsidy per household. Secondly, this policy is being pursued with a callous disregard for housing needs. As housing problems worsen, production levels drop in both sectors, and government policy squeezes the industry through H.E.L. and the maintenance of high interest rates. As for local initiative, this is largely dictated by central government policy. With public initiative effectively made impotent by H.E.L., the best local government can do is attempt to stimulate the depressed private building industry.

Chapter Five is set against this background of local and national housing policy. It is concerned with the pursuance of one policy, the promotion of owner-occupation within the City of Glasgow, in the hope that this will prove illustrative of the interactions between policy makers and the building industry, in a way that general discussion cannot.

CHAPTER FIVE

THE PROMOTION OF PRIVATE HOUSEBUILDING IN GLASGOW.

5. 1.

The promotion of private housebuilding in the City of Glasgow affords a good opportunity to study the influence of policy makers on housebuilders. This policy is particularly relevant in the contemporary context, since the encouragement of new-build owner-occupied housing, as opposed to the building of public housing, is a dominant theme at both the national and the local level. The previous chapter illustrated that new housebuilding in the private sector, is economically and ideologically central to the present Conservative administration's policies, almost to the exclusion, and certainly the diminution, of public initiative. At the local level, the promotion of owner-occupation as a major objective of local authority strategies is being pursued in many cities for the first time, (Harrison 1982, Nicholls et al 1980), and it marks a particular departure in the policies of Glasgow District Council. An examination of local policy making is particularly relevant at this juncture of the discussion, since the previous chapter allowed only a cursory examination of local policy making. The unique nature of local housing policies makes the in-depth study of a particular example especially appropriate.

5. 2. THE POLICY AND PLANNING CONTEXT.

The policy to encourage private housebuilding in Glasgow has long and tenacious roots in both national and local policy. At both levels there are essentially three 'root systems', which provide the theoretical basis and political impetus necessary for its adoption.

The first of these policy strands was drawn out of a general dissatisfaction with post-war housing policies, and the changing nature of urban problems which emerged during the 1960's. The quantitative shortage of decent housing following the war, pushed policy

makers into a 'numbers game', in which important qualitative considerations were overlooked in the general atmosphere of a 'housing crisis'. The most undesirable consequence of this obsession with the number of houses built over other considerations, was the indiscriminate destruction of large swathes of older urban areas, and the erection of tower blocks and vast peripheral council estates, many of which soon developed new social and environmental problems and suffered concomitant stigmatisation. At the same time, the old traditional industries fell into a steep decline, the effects of which, in terms of employment, social problems and dereliction, fell disproportionately onto the old central areas of Britain's major cities, due to the nature of the urban morphology.

In the housing field the state responded by moving away from comprehensive redevelopment, and into the rehabilitation of the existing stock, while the problems of economic decline were being expressed in spatial terms :

'The government believe that the time has now come to give the inner areas an explicit priority in social and economic policy...'

('Policy for the Inner Cities', Cmnd. 6845, 1977, p.1)

The consequence of this was a rash of area-based programmes in housing (General Improvement Areas, Housing Action Areas), the community (Community Development Project, Comprehensive Community Programme), the economy (Enterprise Zones, the Docklands Development Agencies) and all three (Inner-City Partnerships, Glasgow East Area Renewal).

Coincidental to this re-think of urban policy, was the growing dominance of two other trends : the increasing popularity of owner-occupation, and the reduction in public spending Owner-occupation has

grown rapidly since the 1920's, and is now the most popular tenure, (55.2% of all households - Nationwide Building Society, 1981). Its popularity is undoubtedly related to its generally higher amenity, greater freedoms and financial advantages over local authority housing. Set against the stigmatisation of much of the council stock, this popularity is hardly surprising, yet the Housing Green Paper described owner-occupation as 'a basic and natural desire', (DoE 1977 p.50). This is clearly clap-trap, tenure choice has much more to do with economics than nature, but it illustrates the deep commitment of all political parties to support for this tenure form, since to oppose the preferred tenure would be to court political disaster. Thus it is, that the present government has pushed for the extension of owner-occupation and the creation of a 'property owning democracy', both by calling for land and planning permissions to be more forthcoming, and by the establishment of the 'Right to Buy' council housing, (Tenants Rights - etc. (Scotland) Act 1980, The Housing Act 1980). If the tenure is to be extended it must, necessarily, be pushed down-market, since higher income groups are almost 100% owner-occupiers. This income/tenure relationship may prove to be a crucial limitation to the extension of the tenure, (see Table 4. 3.).

The objective of extending owner-occupation ties neatly into policies to reduce public spending and to regenerate the inner-cities. The encouragement of private housebuilding, as Chapter Four illustrated, is seen (erroneously) as the main instrument of reducing P.S.B.R. Indeed, this was also seen as a major economic justification for the movement to rehabilitation as opposed to comprehensive redevelopment. Quite obviously, rehabilitation can only take place where viable structures still exist, but many urban areas still have large areas of vacant land, which could be utilised for housebuilding. What is

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more, the municipalisation of much of the inner-city housing stock, and the retention of much of the rest of it in the declining and unpopular private renting tenure, has meant that a 'gap' exists in the housing market. Good quality owner-occupied housing is a fairly rare commodity in the inner-cities, and if the population lost by overspill and economic decline is to be attracted back, or at any rate those remaining persuaded to stay, then this type of housing must be provided.

Of all the cities of the U.K., none have had housing problems as severe, none have pursued comprehensive redevelopment with such vigour, and none have built as much municipal housing as the City of Glasgow. Glasgow attempted to solve its appalling housing conditions through the provision of local authority housing, since the passage of the 1919 Housing Act, and especially since the Labour Party took control of the council in 1933. Until the reorganisation of Scottish Local Government in 1975, the council was run by a traditionalist Labour Group, who saw housing as an essential social service to be provided by the local authority. In such a climate the development of housing by the private sector was almost unthinkable, and most of the available building land was taken into municipal ownership. Council housing was provided in two main forms : in Comprehensive Development Areas, largely in the form of high-rise flats ; and in the vast peripheral estates, such as Castlemilk, Easterhouse, Drum-chapel, Priesthill and Pollock, which largely consisted of three storey, walk-up flats. It was the latter that were to provide the seedbeds of Glasgow's modern housing problems, and many other social deprivations.

Of all Glasgow's problems, it was the loss of population from the city, which was the main impetus to changing the District Council's

attitude towards private housebuilding. Reorganisation created a new atmosphere in the District, which made the council more receptive to innovative ideas. The leader of the Labour Group following re-organisation, Bailie Dick Dynes, pushed through this major change of policy (Hamilton 1978), although it has been perpetuated as much through financial necessity following reduced public expenditure, as through love for the policy itself. Dynes was following the lead set, firstly, by the West Central Scotland Plan (1972), and later by Strathclyde Regional Council's Regional Report (1976). With the loss of population from the city running at approximately 25,000 p.a., the lack of choice in housing was highlighted as a major cause of out-migration. The restriction of owner-occupation had produced a percentage for the city well below the Scottish mean, and further below that for the U.K. (see Table 5. 1.). As a consequence, those wishing to buy their own homes had moved to areas beyond the city boundary, such as Bishopriggs, Bearsden, Milngavie, and Whitecraigs.

Table 5. 1. Current Tenure Structure - 1980

<u>Area</u>	<u>Owner-Occupation</u>	<u>Public Rental</u>	<u>Private Rental</u>
U.K.	55.2	31.8	13.0
Scotland	34.0	54.2 ⁺	12.7 ⁺
Strathclyde Region	30.9	63.2	5.9
Glasgow District	25.6	65.8	8.6

⁺ Figures apply to 1976
 All other figures apply to 1980

(Sources ; Strathclyde Regional Council 1981 b, Nationwide Building Society 1981, Glasgow District Council 1980, Scottish Office 1977).

The promotion of owner-occupation within Glasgow, it was hoped, would stem the flow of migrants, if not attract people back in. It was also hoped, that if new private development could be directed into areas of high deprivation, such as G.E.A.R., the Maryhill Corridor Project, and the peripheral estates, it would add to their attractiveness, improve their social mix, and so, further the objectives of deprivation policy, (Strathclyde Regional Council, 1979).

Before describing the nature of this policy more fully, and the response of private housebuilders to it, it is necessary to describe the peculiarities of the housing market on Clydeside.

5. 3. THE PRIVATE HOUSING MARKET ON CLYDESIDE.

Two administrative impositions have proved to be the dominant forces shaping the development of the private housebuilding market in Glasgow and its surroundings, and this, in turn, has significantly affected the urban morphology. Firstly, the fundamentalist Socialist policies of the City of Glasgow led to the municipalisation of the vast majority of housing land, a colossal council housebuilding programme, and the virtual exclusion of private housebuilders from the city, (see Tables 5. 1. and 5. 2.). Secondly, the imposition of a Green Belt around the city, following the Second World War, restricted private housing development to certain specific sites beyond the city boundary. Thus, the area had, and still has, a very much lower percentage of owner-occupied housing than average. In addition to this, the private housing which did take place was spatially segregated on the periphery of the conurbation. The nature of tenure choice dictated that this spatial segregation was reinforced socially, and thus, areas such as Bearsden, Milngavie, Bishopriggs, Thornliebank, and Newton Mearns, become the leafy havens of the Glaswegian middle-class.

Table 5. 2. Private Sector Housing Starts and Completions in
Glasgow, Strathclyde and Scotland.

Years	Glasgow District		Strathclyde Region		Scotland	
	Starts	Completions	Starts	Completions	Starts	Completions
1964		197				
1965		164				
1966		57				
1967		93				
1968		77				
1969		203				
1970		182				
1971		57				
1972		291				
1973		91				
1974		119				
1975		107				
1976		426				
1977	387	530	4,169	4,372	12,631	12,132
1978	586	347	4,975	5,149	16,566	14,443
1979	928	817	-	4,808	15,342	14,960
1980	988	897	3,647	4,250	9,674	12,187
1981 (1st ½)	(586)	(667)	(2,106)	(1,918)	5,390	4,808

(Source : S.D.D. 1972 - 80, Scottish Housing Statistics 1978 - 82)

This pattern of development forms a contrast to the development of other cities in the U.K. While municipal housing development on a large scale was common, the extreme spatial and social polarisation of housing tenures and classes did not take place to anything approaching the same extent. The local, private builders adapted themselves to this situation, and became well-practised in the

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development process. These firms were not concerned with developing a high growth rate, but with maintaining a stable flow of housing, which could be sold lucratively given the high level of demand, and the low level of supply prevalent on Clydeside. The companies built up large land banks, much of it with planning permission, on which considerable gains were made through the land conversion process. Two companies in particular, John Lawrence and MacTaggart and Mickel, developed local monopolies. Lawrence bought over 40% of the private housing land in Dumbarton between 1959 - 72, and the two companies together accounted for 35% of housing land in Renfrew. By 1981, they still accounted for 17% of all land committed to, or with consents for, private housebuilding in the whole of Strathclyde Region, (Strathclyde Regional Council 1981 a, Cameron 1981).

These medium sized local builders, by satisfying themselves with supplying the upper end of the market with a reasonably steady flow of housing, had effectively left a gap in the market. In a city where the percentage of households in the owner-occupied sector is only half that of the U.K. as a whole, (Table 5. 1.), and with an income distribution not appreciably different from that of other major cities, the scope for expanding the most popular (U.K.) tenure was appreciable. It was the volume builders who, having grown from strength to strength in England during the Sixties, perceived the potential, and began to push into the region, (see Table 5. 3.).

This increase in activity was met by the three constraints of, an unsympathetic council, a strict Green Belt policy, and large land banks concentrated in the hands of well established local builders. Consequently, the volume builders were forced to either buy-out local builders, or move ever further from the centre of the conurbation. This brought them into conflict with the local builders as their cosy

monopoly was disrupted, and with local planners to release more land for private housebuilding. The latter conflict proved to be particularly effective for the volume builders when they secured a re-assessment of Strathclyde Regional Council's land supply strategy, as a result of pressure exerted on the Secretary of State by the Strathclyde Housebuilders Committee, (Strathclyde Regional Council, 1981 a, Cameron 1981).

Table 5. 3. The Entry of Volume Builders into West Central Scotland.

<u>Builder</u>	<u>Year of Entry</u>
Bellway	1967
Leech Homes (Scotland)	1968
Salvesen (now Welmar Scotland (West) Ltd.)	1969
Bovis Homes	1973
Barratt (Falkirk) Ltd.	1976
Tarmac (MacLeans Homes Ltd.)	1977
Barratt (Glasgow) Ltd.	1979

(Source : Cameron 1981).

5. 4. THE EVOLUTION AND OPERATION OF THE POLICY.

Following the floating of the proposal to increase the level of private sector housebuilding in the West Central Scotland Plan (1977), the idea was adopted by Strathclyde Regional Council. The provision of a wider choice of housing was seen as a desirable end in itself, but more importantly, the strategy was '... designed to reduce the flow of population and employment from the established urban centres.' (Strathclyde Regional Council 1979, p.5). So far as the Regional strategy to promote employment was concerned, it was felt that the '... lack of housing choice might discourage industrial

interests.' (Strathclyde Regional Council 1979, p.16). While 'The reasons for the decline in the conurbation's population have included the lack of adequate housing, particularly a shortage of the right type of tenure... there is a distinct lack of certain types of owner-occupied housing development within the established urban areas, particularly Glasgow.' (Strathclyde Regional Council 1979, p.21).

In accordance with other Regional Strategies, the Council expressed a preference for development to take place on 'brownfield' (or inner-city) sites, although it was recognised that private development might also contribute to improving the condition of the stigmatised peripheral estates :

'The reduction of population density likely to arise in certain peripheral housing areas from a positive programme of renewal, or as the result of their rejection by tenants, will produce spare capacity in infrastructure which could be utilised by building on selected adjoining greenfield sites.'

(Strathclyde Regional Council 1979, p.22).

The development of housing in traditional peripheral sites was to be discouraged :

'Continued housebuilding in traditional suburban locations ... would undermine efforts to reduce loss of population... Giving further planning permission for housing in suburban locations would divert attention from sites within the established built-up areas.'

(Strathclyde Regional Council 1979, p.22).

Thus, the Regional strategy is essentially two-pronged, development being restricted in the traditional suburban areas, and land released in the inner-city and on greenfield sites next to the peripheral council estates.

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Glasgow District Council were initially less amenable to the ideas mooted in the West Central Scotland Plan and the Strathclyde Structure Plan. Their first Housing Plan, (Glasgow District Council 1978), saw housing progress being made overwhelmingly by the public sector. The Plan did state in paragraph 3.18 :

'The Council has agreed that the building of private housing should be encouraged in the city.'

(1978 p.20),

but qualified this in paragraph 3.21 :

'Much work needs to be done, however, before the best and most equitable means of increasing owner-occupation is found.'

The Second Housing Plan (1979) saw the District adopting a more positive approach to the extension of owner-occupation, and expressed a desire to increase the percentage of that tenure from 23.6% to the Scottish average of 34%. The document went on to state that this could only be achieved by the release of more land to the private building industry and through the sale of council housing. In paragraph 2. 5. 6.17., however, this policy statement is contradicted :

'The Council's decision against the sale, or part-sale, of council houses has effectively negated the policy objective of raising the level of owner-occupation in the city to the Scottish average.'

(Glasgow District Council 1979, p.70).

The Plan indicated that land formerly intended for local authority housing had been released with a capacity for 1,400 private houses, 900 built by private agencies, and 400 built by the Scottish Special Housing Association (S.S.H.A.). The S.S.H.A. (1979) in compliance with the policy, gave over a third of its new-build programme to build-for-sale

schemes. The S.S.H.A. saw its role as essentially one of 'pump priming' in areas where owner-occupation was alien, on the basis that if they were successful in selling houses at a commercial price, private developers would be encouraged and move into such areas. In fact, the S.S.H.A. never started building on some of these sites as the District were able to find private builders willing to take on their development.

By the time of writing Housing Plan Three (Glasgow District Council, 1980), the District had realised the consequences of the severe cut-backs made by the new Conservative government, and their approach to the private sector became, in consequence, more conciliatory. Chapter 8 of the Plan began :

'The Council wishes to co-operate with the private sector and to harness its resources to meet the Council's housing policy objectives.'

(Glasgow District Council 1980, p.35).

The District's policies were, by Housing Plan Four (Glasgow District Council, 1981), largely aligned with those of the Region and the prime areas for private development were identified as infill sites in the inner-city, and greenfield sites adjacent to the peripheral estates. Additionally, the District wished to encourage building on sites that were not owned by the Council, and offered to use Compulsory Purchase powers for land assembly. Housing Plan Three estimated that the level of private house construction would not drop below the 1979 level, up to 1985, giving a total of 4,400 new private houses between 1980 - 85 (Glasgow District Council, 1980).

The main mechanism used by Glasgow District Council to provide land for private builders has been through the preparation of marketing

briefs. The Planning Department, in conjunction with the Housing Department, identifies sites and arranges for them to be cleared and serviced. The briefs are then compiled, and describe the nature of the site, its size, its relation to other areas and the type of development envisaged. They are then distributed to developers in the area and interested parties enter into negotiation with the Estates Department to purchase the sites. Where the Estates Department is faced with schemes of a similar price from more than one developer, the offers are referred back to the Planning Department, which will make a choice on the basis of design criteria. Generally, about 20 developers are sent briefs, but most sites only generate one or two replies, the most popular might stimulate a half-dozen. Before this system became fully developed the District compiled four 'Yellow Books'. These consisted of lists of possible sites, and developers were informed that the listing of the sites implied planning permission for private builders. Some difficulties were experienced with the Yellow Books, not least because some of the information was inaccurate and developers objected paying the price of £50 per book. The marketing procedure is now the dominant method of encouraging the private sector. By January 1982, 35 sites had been marketed successfully, covering an area of about 80.69 hectares, 5 sites covering 7.2 hectares had been marketed and failed to achieve a satisfactory response. A further 21 sites covering 46.1 hectares were in the process of being marketed at that time. Table 5.4. gives a breakdown of these sites by the developers who purchased them, and by whether they were located in the inner-city or not. It is hoped that this will afford some insight into the behaviour of different developers and the degree of the success of the policy.

Table 5. 4. Sites Successfully Marketed To The Private Sector By Glasgow District Council, Jan. 1977 - Jan. 1982.

Developer	No. of Sites	Hectares	Total Hectarage %	Mean Hectarage	Mean No. of Dwellings Per Site %	Mean Density Per Site	No of Inner-City Sites	No. of Sites Completed
1. Abbey Housing Association	1	1.17	1.15	1.17	4.2	106.0	1	0
2. Ambion	1	4.24	5.5	4.24	4.7	32.0	0	0
3. Barratt Homes (Glasgow)	11	29.72	36.8	2.70	40.3	44.9	5	5
4. Bovis Homes	2	1.53	1.9	0.79	N/K	28.5	1	1
5. L.A.W. Estates	1	1.34	1.7	1.34	1.2	26.0	0	0
6. Lawrence	3	1.84	2.3	0.61	3.9	73.4	2	0
7. Leech Homes (Falkirk)	3	7.39	9.2	2.46	7.7	29.7	0	2
8. London & Caledonian Estates	1	2.13	2.6	2.13	2.4	35.0	1	0
9. Telexo	1	2.04	2.5	2.04	2.0	29.0	0	0
10. Thain Homes	1	0.21	0.3	0.21	0.3	38.0	0	1
11. Unit Construction	1	1.93	2.4	1.93	4.6	69.0	1	0
12. Wimpey Homes (Scotland)	2	9.18	11.4	4.59	11.0	46.0	1	0
13. Welmar-Scotland (West)	5	14.72	18.2	2.94	16.8	33.2	2	2
TOTAL	35	80.69	100.2	(\bar{x} =2.30)	98.0	(\bar{x} =33.5)	14	11
Inner-City Sites ¹	14	20.79	25.8	1.30	33.6	56.1	14	2
Non Inner-City Sites	22	59.9	74.2	3.35	66.4	32.5	0	9
Volume Builders ²	23	62.59	77.6	2.72	74.8	39.2	9	10

¹ As defined by Glasgow District Council.

² Defined as Barratt, Bovis, Leech, Wimpey, Welmar

(Source : Glasgow District Council Planning Department).

So far thirteen developers have purchased sites from Glasgow District Council, and will produce almost 3,000 houses for owner-occupation. On the face of it, this would suggest a modicum of success for the policy. If the figures are examined more closely, however, (Table 5. 4.), it will be noted that only a third of the sites have been built in the inner-city. What is more, the figures in Table 5. 4. do not include sites adjacent to the peripheral estates which are, for the most part, among the 21 sites presently being marketed. This would suggest that the hoped-for concentration of building on brownfield sites has not been entirely successful, and this is backed up by the fact that the five sites which were unsuccessful in the marketing process were located in the inner-city.

Part of the reason for this lies with the developers perception of such sites.¹ While most developers believe that there is a market for inner-city owner-occupied housing in Glasgow, it is felt that sites must be chosen carefully for reasons of commercial viability. Developers are at pains to create the impression in their housing estates that sites are spatially and socially separated from surrounding non owner-occupied housing. The builders feel that people entering the private sector are looking for a style of housing which is distinct from public housing, and that this distinction must, therefore, be obvious, especially in stigmatised areas, such as G.E.A.R. As brownfield sites are generally smaller than greenfield sites, (by

¹ Information concerning the perception of developers and their relationships with the local councils are largely drawn from interviews conducted with representatives of 5 developers : Barratt (Glasgow), Leech (Falkirk), Welmar (Scotland West), Wimpey Homes (Scotland) and MacTaggart and Mickel, and with officers of Glasgow District Council and Strathclyde Regional Council.

about 60% according to Table 5. 4.), this 'atmosphere' is more difficult to create.

The limited size of such sites will also make construction more expensive, since economies of scale can be achieved with both labour and capital on large sites. Site size difficulties are further exacerbated by the stipulation of $1\frac{1}{2}$ parking spaces per housing unit, imposed by the Regional Roads Department. Developers feel that this is excessive given the greater likelihood of using public transport in the inner-cities. The inclusion of landscaping as a condition of planning permission on all kinds of sites, also diminished the amount of land on which builders can actually construct houses. Both provisions, by lowering the density of the development, may increase the final cost of the house to the consumer. Many inner-city sites are unsuitable in Glasgow, because old mineral workings have made the ground unstable. Some developers have complained that they have wasted resources drawing up plans for sites, only to discover their unsuitability. The marketing of sites before establishing the suitability of ground conditions is an undesirable, and counter-productive practice, since the stature of the District is lessened in the eyes of the developers. The cost of many inner-city sites has been low, and in some cases zero. This does not constitute a subsidy to the developers, however, since inner-city housing commands a lower price, while costs of clearance and land preparation are higher than on greenfield sites. This is also reflected in the generally higher density (Table 5. 4.), and smaller size of inner-city housing units.

The partial success of the policy in directing development to brownfield sites, reflects a general lack of understanding by planners and other policy makers of the economics of private housebuilding.

Developers will not build on inner-city sites (or any other sites), unless they are confident that houses can be sold at a reasonable profit. This means that policies designed to attract developers into particular areas must aim to create the conditions for this to occur. Planning powers are essentially negative, land can be released in certain areas to enable development to take place, but private companies cannot be forced to invest. The importance of the carrot over that of the stick seems to have been, to a certain extent, lost on the District and Regional Councils. This was illustrated in the general attitude of both Councils towards the attempt by the Strathclyde Housebuilders Committee to press the Secretary of State for the release of more land than that initially proposed in the Written Statement of the Strathclyde Structure Plan, (Strathclyde Regional Council, 1979). Thus, in Housing Plan Four the District states :

'... any premature release of large greenfield sites in the Region could seriously jeopardise the future success of the Council's urban renewal policy, by diverting the interest of private housing developers elsewhere.'

(Glasgow District Council 1981, paragraph 7.18).

Indeed, this view has led officers of Strathclyde Regional Council to speculate that the policy would have already been undermined, had it not been for the large land banks held by the local builders.

There is some truth in this assertion, as the more successful performance of the greenfield sites marketed by the District illustrates, but developers do believe that there is a distinct market for inner-city development, which means that they would develop in brownfield areas whether greenfield sites were released or not. It is difficult to tell how far this claim is a ploy to reassure planners to release

more suburban sites, but the characteristics of the inner-city housing market do appear to be somewhat different from the suburban market, houses here tending to be smaller and cheaper (Scottish Economic Planning Department, 1978). What is more, the demand for housing is presently growing at the bottom end of the market, since the prevailing economic conditions have made the second-hand market very sluggish. Consequently, first-time buyers provide the only buoyant section of the market, and can easily acquire Building Society finance, (assuming they can afford to pay the interest charges) since funds are not being used in the second-hand market. There is also a slight, but perceptible, trend back to the cities associated with rising commuting costs. Despite these current trends, the risks are still higher in the inner-city, because the market is not so familiar, and the profit margins are probably lower. Given these qualifications, the greatest scope for pushing builders into the inner-cities must be among those builders who lack any large suburban land banks, and who must maintain a high rate of growth. Thus it is, that the volume builders have come to dominate the marketed sites (Table 5. 4.) and that the company with the highest growth rate, Barratt (Glasgow), has come to account for 46% of houses built on the marketed inner-city sites.

The strategy might be more successful if larger sites in inner-city areas could be made available to private housebuilders. Barratts certainly believe this, and have been pushing the District to sell them vast areas of land in the East End of Glasgow and at the peripheral estates. These sites are so large that the District has so far, proved somewhat wary of the idea, but the advantage of larger sites in creating distinct neighbourhoods is great, and this concern is central

to the developers' concept of marketability. This is not to say that planners have not attempted to understand and accommodate the economic imperatives of private housebuilding. Strathclyde Region have initiated an exercise similar to that of the Manchester Study of Residential Land Availability, (DoE 1979), in its 'Schedule of Residential Infill Sites' (Strathclyde Regional Council 1981 d). Nonetheless it is likely that there is a limit beyond which developers cannot be pushed into the inner-city, which neither the District nor the Region may fully comprehend.

Other aspects of the interactions between private housebuilders and the local bureaucracies make for strained relations. The most celebrated and long-running dispute is that over the rate of land release. In Strathclyde Region this has led to the Secretary of State under pressure from the Strathclyde Housebuilders Committee, to force an amendment of the Structure Plan, to include greater provision for the release of greenfield sites in the event of demand outstripping that predicted by the Region, (Strathclyde Regional Council 1981 a). This places the Structure Plan in the contradictory position of stating that further greenfield release is undesirable, and then, proceeding to list those areas where it might be considered. This reluctance is not only borne out of a concern for brownfield development, it is also felt that if more land is released, beyond the prevailing activities of the building industry, that those companies which do not have land banks will begin to build them up. The builders also complain that by restricting the supply of land, its price is forced up. This seems unlikely since firstly, as the developers themselves claim, the price of land is derived from the price of housing determined by demand, and secondly, the supply of land already outstrips

demand, (Strathclyde Regional Council, 1981 b). The price of land might be forced up, however, on particularly desirable sites.

Another bone of contention is to be found in the delays created by the planning process. Many firms claim that they need a three year land bank in order to ensure enough land is in the 'development pipeline' for building to be maintained. This has proved to be an exaggerated claim in other areas, (JURUE 1977). So far as the marketed sites in Glasgow are concerned, the average time lapse between the appointment of a developer by the Planning Committee, to the start of building is $16\frac{1}{4}$ months, (the range being from 4 to 28 months). Additional delays are experienced after building has started, however, if the builder feels that the market has changed and he wishes to build a different style, or size, of house from that originally envisaged. Even so, only two of the marketed sites took longer than three years to reach completion (of the eleven that have), and most were completed in around two years from their appointment.

Nonetheless, long delays are often caused by planners attempting to insist on a certain style, or density, which the developer believes is not viable, or in his best interest. In Glasgow, for example, planners have attempted to persuade developers to continue the lines of existing tenement facades. But this conflicts directly with the developer's commercial necessity of differentiating his development from its adjacent areas. On at least two occasions, this has led developers to withdraw from the development of inner-city sites, and in others it has led to delays. This situation reflects the planner's dual role, as the promoter of owner-occupation, and as a protector of the environment through density and design criteria. A central problem with questions of design is that such considerations are inevitably

subjective. Developers will argue that the consumer dictates questions of design through the market mechanism. While planners can point to the highly imperfect nature of the housing market, to argue that consumer sovereignty does not exist, since there is only a limited supply of alternative dwellings to the consumer at any one time - the best of the bunch does not constitute an ideal style. What is more, the appearance of a building will exert significant externalities on those who do not occupy it, and the planner has a responsibility to them. This is not the place to assess the extent to which it is acceptable for planners to adopt the role of 'guardian of public taste,' suffice it to say that such considerations can delay development, and so increase the cost of the final product, as developers are forced to incur additional interest charges on money borrowed to purchase the site.

The type of housing built in Glasgow in the creation of these 'separate' neighbourhoods, has varied with the developers. Generally, in the inner-city sites the housing units are in the form of flats, not in the Scottish tenement style, but in small two or three storey blocks, resembling large detached houses. The inner-city sites are built at a consistently higher density (Table 5. 4.), but the green-field sites are now also being built at higher densities, and often in flat form, whereas formerly detached and semi-detached houses would have been built. This reflects a movement by the builders down-market, often because of the lower purchasing power of first-time buyers, as compared to a few years ago. Green-field sites do still have a fair amount of this low density housing, estates tend to be a mixture of house sizes, which is not found on brownfield sites. Many builders have attempted to stimulate the lower end of the market by

offering inducements, such as 95% (or even 100%) mortgages, free legal fees, and various discounts. Barratt have undoubtedly been the most ruthless in their marketing, and most productive in their activities, having developed 11 of the 35 marketed sites. Each company is distinguished by different characteristics. For example, among the volume builders, Leech and Wimpey have stayed largely on greenfield sites, while Barratt and Welmar have built in both the inner-city and at the periphery, and Bovis only in the inner-city. Welmar's inner-city development stands out in that they are not building flats, but very small houses with gardens. The volume builders will develop 2,204 houses (74.8%) of the 2,945 to be built on the marketed sites. This compares with an average for Glasgow in 1978/9 of 81.7% of all houses, and 60.6% of houses in Strathclyde. The turnover of the volume builders is appreciably faster than that of other builders. Of the eleven completed sites, 10 have been built by the volume builders, half of them by Barratt. This reflects their economic necessity to constantly expand the number of houses they sell. Of the more established local builders, Lawrence has developed three of the marketed sites, two in inner-city areas. Their activities are generally more low-key, and their marketing techniques less sensational. Not surprisingly, most of the traditional builders' activities still take place in the traditional suburban areas.

5. 5. CONCLUSIONS.

It is somewhat difficult to draw definite conclusions about the success, or otherwise, of the policy of promoting new private housebuilding in the City of Glasgow. Certainly, the release of sites by the District Council has led to the development of 35 of them, and the possibility of another 20. How far this is contributing to the

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regeneration of the inner-city, is open to more doubt. Two-thirds of the sites marketed by the District are outside the inner-city, many on desirable greenfield sites. If the policy is to be more successful in this respect, it seems that larger inner-city sites, and sites adjacent to the peripheral estates, must be made available, and developers must be persuaded to develop them if the polarised residential pattern is to be broken down. So far as increasing the tenure choice is concerned, the policy is likely to have only a minimal effect. The projected new-build rate for owner-occupation in the District up to 1987 is 1091 p.a., yet it is estimated that the percentage of the housing stock in owner-occupation will only increase from 25.6% in 1980 to 27.4% in 1987, and this figure presumably includes an estimate of the level of council house sales, (Strathclyde Regional Council 1981 c). If the level of owner-occupied housing is to approach the Scottish average, much more drastic policies would have to be adopted, which could have far-reaching effects on the level of vacancies in the public sector. The possible policy alternatives at both the national and the local level form the basis for the final chapter.

CHAPTER SIX

SOME CONCLUSIONS AND POSSIBLE FUTURE DIRECTIONS.

6. 1.

This concluding chapter attempts to draw together the important elements of the relationship between policy and the house construction industry highlighted in those preceding. In so doing, some comment will be made with regard to the rationale behind, and the performance of, prevailing policies. Both national and local housing policies will be discussed and particular emphasis will be placed on the promotion of owner-occupation in the City of Glasgow. Tentative suggestions will be forwarded as to how these policies might be improved, or abandoned in favour of new policies, to obtain a more desirable response from housebuilders. These suggestions are essentially reformist and gradualist, since the radical programmes of the political left and right would require far-reaching changes throughout the national economy, the description of which is beyond the scope of this dissertation.

6. 2. NATIONAL HOUSING POLICY.

At the present time, national housing policy is essentially contradictory. The overwhelming concern of the present government is to use the level of public expenditure on housing as a major tool of macro-economic policy. As such, by reducing the H.S.G., and controlling local expenditure through H.E.L., it is hoped that the P.S.B.R. will be reduced, and so inflation will fall. This has led to the bulk of money spent on housing by local authorities to be devoted to current, rather than capital expenditure. The effect on the house construction industry has been highly depressive, and monetarist policies have created difficulties in the private sector as well, by pushing up interest rates. Consequently, the number of houses started has plummeted, and the amount of unemployment and under-utilised capacity in

the industry has grown. This movement away from capital expenditure in the public sector has been accentuated by H.E.L., which has penalised local authorities, who do not raise council rents by the level advised by the Secretary of State, by the imposition of an equivalent reduction in their capital allocation.

This policy is contradictory for two reasons. Firstly, much of the apparant savings made by increasing council house rents are illusory, since the cost is passed on to other government accounts, such as rent allowances and Supplementary Benefit payments. Secondly, the government has stated that in the absence of local authority investment, the new housing required by society will be built by the private sector. Yet, the owner-occupied sector carries overall, and per household, a larger subsidy bill in the form of tax relief on mortgage repayments. Thus, inducements to owner-occupation in the form of additional land release to speculative housebuilders, and through the sale of council housing will undoubtedly increase public expenditure, yet this subsidy is not recognised as such a subsidy in the Public Expenditure White Paper (Cmd. 8175). Local authorities are allowed to use the money gained from the sale of council housing to finance new-build. But, since twelve council houses have to be sold to construct one new one, the rate of sales would have to be phenomenal for the new-build programme deemed necessary by the Green Paper of 1977 (DoE) to be achieved.

The housing finance system is further biased against capital expenditure by the nature of the subsidy to owner-occupiers. Mortgage interest tax relief is such that any mortgagor is entitled to relief, whether or not the house is a new one. In 1980, only 14% of houses subsidised in this way were new, (Shelter (Scotland), 1981).

Furthermore, the mortgage tax relief subsidy is regressive and has encouraged over-consumption, since the higher the rate of taxation paid by the mortgagor, and the more expensive the house, (up to the mortgage limit of £25,000), then the larger the subsidy. Over-consumption is further encouraged in the better-off, since housing is exempt from Capital Gains Tax and Capital Transfer Tax. Thus, in both the public and the private sectors consumption is being subsidised at the expense of investment, and consequently, the primary task of replacing the existing housing stock has become subservient to improving the housing conditions of those already well housed. Indeed, it is theoretically possible for the whole of the subsidy to the owner-occupied sector to be totally unrelated to new investment. This must be set against a current rate of replacement of the housing stock of 0.3%, which effectively means that each house is expected to last 350 years, (Shelter (Scotland), 1981). Thus, while subsidies increased throughout the 1970s, investment did not increase at all, (McIntosh, 1982).

There would appear to be little that can be done to avoid these problems without reforming the housing finance system and increasing public expenditure. The public sector appears to offer fewer obstacles to reform than the private sector. The basic thinking behind the H.I.P. and Housing Plan systems, that resources should be directed towards those areas of greatest need, is basically sound. But, that overall amount of public expenditure devoted to housebuilding is too small, if an adequate rate of replacing the housing stock is to be achieved, given that the private housebuilder is heavily constrained by the availability of mortgage finance. Furthermore, if the rate of capital expenditure could be held reasonably constant, this

would go some way towards ironing out the damaging cyclical character of the construction industry, increasing the security of both employers and employees, and creating conditions more conducive to innovation in improving productivity. Additionally, loans to local authorities could be index-linked to avoid the 'front loading' phenomenon. Thus, the long-term advantage of borrowing rates, which are negative in real terms, would be sacrificed in return for accepting short-term costs. Such a scheme has been introduced in the Netherlands where it was also extended to private landlords. The 'trade off' of capital and current expenditure could be overcome by separating the capital and revenue budgets, so that central government could allocate directly to each. So that the subsidy to council tenants could be made more just, rents everywhere should rise with inflation and the vast disparity in rent levels between different authorities could be brought gradually into line. Those authorities with greater housing stress could be safeguarded by a system of national rent pooling, (Kilroy 1978, McIntosh 1982).

The essential elements in reforming the subsidisation of owner-occupied housing are that : the level of public expenditure should be of a type that the government can control; its distributional effect should be progressive, rather than regressive; it should not give a greater subsidy to households because they are in a particular tenure; and it should not subsidise consumption over production. The implications of this are that owner-occupiers as a whole, and especially better-off owner-occupiers would have to receive lower subsidies, since that sector receives preferential treatment. This would release resources either to finance higher expenditure in the public sector, or to give extra subsidies to low income owner-occupiers. Indeed, the devotion of more resources to the public sector might be regarded as

progressively redistributive per se, since there is a concentration of lower income groups in that sector.

One method to reduce expenditure and limit the benefit to higher income groups would be to introduce a universal Option Mortgage Subsidy. This would limit the tax relief subsidy to those paying the standard rate of income tax, while payment direct from the Exchequer to lending institutions would bring the Subsidy into the Public Expenditure White Paper, and save the Inland Revenue administrative costs. The tax relief ceiling of £25,000 could be reduced in addition to this. In real terms this is already happening, since the ceiling has not been raised for a number of years, and so the subsidy has been eroded by inflation. So far, this has had a minimal effect, since in 1980 only 9% of mortgages were over £20,000, but by 1983/4 as many as 25% of mortgages may be over £25,000. If the ceiling was to be reduced to £20,000 in that year, 35% of mortgages would be above it leading to a saving of £15 M p.a. This would have the additional desirable effect of depressing house prices at the top end of the market, and would encourage the purchase of smaller houses, so lessening the prevalent over-consumption by higher income groups. A disadvantage is that such a ceiling is insensitive to regional variations in house prices, (Shelter (Scotland), 1981). Alternatively, the rate at which tax relief is given may be reduced, either to below the standard rate, or by making it applicable to only a proportion of the mortgage, perhaps 50%. This would give the government greater control over expenditure, since the percentage could be altered.

Another possible reform would be the introduction of a Single Annuity Relief System. This would counter the advantage which people enjoy by 'trading up', enabling them to revert to the most favourable

levels of assistance on new mortgages. It could be achieved by allowing tax relief on a second or subsequent mortgage, only on the notional interest which would be due if a twenty-five year mortgage for the new amount had been taken out at the date of the original mortgage. The entitlement to relief would end after twenty-five years. This 'one household, one mortgage' principle would reduce the incentive to 'trade up', and so would reduce house price inflation.

A final option in the owner-occupied sector is to reintroduce a tax on the imputed rental income accruing to owner-occupiers, (Schedule A Tax), and the introduction of Capital Gains Tax for housing. The reintroduction of Schedule A Tax is theoretically easy to justify since mortgage interest tax relief was introduced as a compensation for this tax, and indeed, its maintenance is somewhat difficult to justify since the abolition of Schedule A Tax in 1963. Politically, however, its introduction would be more difficult to achieve. It does have the great attraction of being able to raise exceptionally large sums of money. It has been estimated that £8,600M could be collected in this way - enough to abolish the domestic rate and be left with money to protect low income home owners, (McIntosh, 1982). This high tax would have to be offset by tax relief of some kind to make it acceptable. The non-payment of Capital Gains Tax on housing constitutes a subsidy to the better-off, and encourages over-consumption and house price inflation, and as such it should be collected.

A more comprehensive reform which could be applied to both the public and private sectors would be the introduction of a housing allowance, on a similar basis to that of the family allowance. Such an allowance could be universal or means-tested, although means-tested benefits generally have a low take-up rate, high administrative costs

and might create a 'poverty trap'. For this reason the Supplementary Benefits Commission favoured the introduction of such a universal allowance to replace the existing housing subsidy system. It could be paid at a flat rate, with additions for every dependent child, elderly and disabled person. The allowance might replace all existing aid, and would have a variable element to take account of areas where housing costs are higher. The allowance would be progressive if it was subject to taxation, and therefore, open to 'claw-back'. The general effect would be to make better-off owner-occupiers worse off, and low income owner-occupiers better-off. Tenants would have to pay higher rents, but would receive an allowance corresponding to their needs, (Lansley, 1976).

Obviously, such reforms could be introduced in a number of possible permutations. For example, the housing allowance scheme could be financed through a combination of revenue from tax on imputed rent on owner-occupiers, and the introduction of Capital Gains Tax. There seems little doubt that such reforms are necessary, if there is to be greater equality between the subsidies given to households in different tenure types. It is also essential that the preferential taxation treatment of owner-occupation above other forms of investment is ended, as this has drawn increasing amounts of capital into non-productive housing and land investments, and away from production in all sectors of the economy, including house production. By removing financial incentives to 'trade-up', and the over-consumption of housing, better use will be made of existing resources as smaller units will be built. While the depression of house prices at the upper end of the market will encourage builders to build for the lower end. Such changes must be introduced gradually, however, since a radical disruption of the pattern of demand may 'catch out' many speculative builders and

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lead to financial difficulties. While a quick reduction in the subsidy given to owner-occupiers may depress house prices, and so put the industry into a slump deeper than that currently being experienced, while undermining the investments made by many households. If no reforms are forthcoming, however, the system will become increasingly unequal, irrational and wasteful.

Furthermore, such policy changes cannot be initiated without a full consideration of the housebuilding industry's ability to respond to them. If, for example, policies such as those described did result in a depression of the upper end of the market, and led to smaller housing units becoming more popular, the initial reaction in the market would probably be an increase in the price of smaller houses. The building industry takes some time to respond to changes in the pattern of demand, due to its cautious nature and lengthy production process, and it might be doubly cautious in the uncertainty surrounding new policy initiatives. The raising of smaller house prices could in no way be seen as desirable, since it is those with low incomes and first time buyers who, due to their poor competitive position, are concentrated in this section of the market. Consequently, changes in demand precipitated by those, or other policies, must be initiated carefully and the building process lubricated if possible. In anticipation of such changes, it might be possible to give priority to planning application from builders wishing to construct for the growing sector of the market. Or, central government could set up a system of housing certificates, similar to those issued following the Second World War, which would limit the resources that could be devoted to the upper end of the market. A gradual change would give the industry more time to respond, while the provision of detailed

information to the industry about the anticipated market behaviour, might increase developers' confidence. If it appears that the private sector would not be able to respond, and shortages are anticipated, the public sector could step in with 'build-for-sale' projects. Such careful management of the housing market has not yet been attempted in this country, but if it could be achieved, the benefits might prove to be substantial.

Such reforms as these would enable scarce resources to be used more efficiently, but even the most efficient use of resources will not solve Britain's current housing problems. If the existing housing stock is to be replaced at a realistic rate, substantial investment is required, and if that investment is not forthcoming soon, the degeneration of the housing stock will be catastrophic. The current rate of new build is exceptionally low, and at the same time the housing stock is falling into disrepair at an ever-increasing rate. Meanwhile, the number of people living in over-crowded conditions and lacking basic amenities is showing signs of stabilising, while household formation is increasing. To put off necessary investment now will simply lead to greater pressure on our resources in the future.

6. 3. LOCAL HOUSING POLICY.

Given the nature of central government policy, local policy-makers have necessarily lost autonomy to the national administration. The tight grip central government has taken of public expenditure in housing, has meant that public sector initiatives have been severely curtailed. Yet, the same systems which introduced these tighter financial controls, the H.I.P. and Housing Plan systems, also imposed a responsibility on local government to consider local needs in all tenures.

The inability to achieve much through public capital expenditure, has led to an increasing reliance on the private sector to fulfil local housing needs. This may make the achievement of policy objectives more difficult since, by its very nature, the private sector is not subject to comprehensive governmental control. Thus, local authorities must offer carrots, and wave sticks in an attempt to move that intransigent donkey, the private housebuilder. The one resource essential to developers, over which local authorities can exercise control, is land. The planning system is such that the release of land by the granting of planning permission can be used to restrict development in certain locations, and encourage it in others. Thus, in Glasgow, and indeed in other cities (Nicholls et al, 1980), this instrument has been used in order to restrict housing development on desirable greenfield sites, and so push developers into less desirable inner-city sites and adjacent to problematic peripheral council estates.

In Glasgow District the three main objectives being pursued in this way are the reduction, if not reversal, of outmigration, the regeneration of socially and environmentally deprived areas, and the widening of tenure choice per se. These problems, while extreme in Glasgow, are familiar to many other British cities. Some measure of success seems likely to be achieved in the first two objectives in Glasgow, but the latter would seem to depend more on the sale of council housing in the short-to medium-term, than on new build.

Apart from land release, other forms of inducement can be used. The simple provision of information about the availability, ownership and characteristics of available sites is important, as it lets developers know what the possibilities for development are. Both

Glasgow District and Strathclyde Region have utilised this form of incentive. Where the District owns land, the process of development is made easier, since the developer is likely to gain planning permission where the land is sold to him for that express purpose. The provision of land and information are essentially 'enabling' methods.

Such local policies will be more successful the deeper is the local policy-makers' understanding of the exigencies of private housing development. To be marketable, sites in areas not traditionally known for owner-occupation must be made distinct from their surroundings. The larger the site, the easier this will be to accomplish. So far, Glasgow District have been somewhat reticent to release very large inner-city sites, but if they were to do so, their policy objectives might be achieved more quickly. One fear is that if a large amount of land is released, developers may build up land banks. It is those firms which do not have large land banks that are most likely to respond to attempts to obtain development on less desirable sites. Consequently, the build up of land banks must be discouraged, and therefore, the restricted release of greenfield sites should continue.

So far, the methods used by Glasgow District have been fairly straight-forward, consisting of the sale of sites to developers on the basis of marketing briefs. On some sites the incorporation of 'special needs' housing has been 'bartered' as part of the price of the site. This practice offers a good basis for future initiatives, and the development of other types of council housing, and social facilities might accompany future developments. Indeed, it might be possible to engage in full, 'joint venture' schemes with developers containing both council and private housing as part of a general regeneration package for an area, assuming the local authority can

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raise the capital. Additionally, in exchange for land, (possibly at a subsidy), the developer might agree to sell to buyers nominated from the council house waiting list. A variation on the theme of marketing sites, the local authority could offer sites at a fixed price, and then hold a design competition so as to achieve higher quality developments. To maintain greater control over the eventual purchasers of housing, the council could retain the freehold of sites and commission developers to develop the sites. The retention of the freehold enables the authority to choose the eventual purchaser, since they can pass it onto certain people, for example, those on the council house waiting list, or first time buyers, while the developer will receive the sale price. Finally, the local authority could use Compulsory Purchase powers to consolidate land, and so provide suitably sized sites to developers, possibly at a subsidy in order to keep house prices low.

6. 4.

At both the national and local policy-making levels, there needs to be a more coherent and rational response to housing problems. Policies must be formulated with regard to the capacity and economic necessities of the house construction industry, and the characteristics of the housing market, if policy objectives are to be achieved. There are many ways in which all kinds of housing policies might be improved and it is to be hoped that the foresight and political will exists to see such policies implemented.

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