영국의 주택, 복지 및 경제정책: IMF 경제위기 전후의 비교연구

Housing, Welfare and Economic Policies in Post War Britain

1) John Doling*

영국의 주택정책은 70년대 이전에는 정부의 공공부문에 대한 지출과 주택구매가와 자방 자치단체의 주택구입이나 건설시 보조금의 혜택으로 인하여 소득에 상관없이 모든 사람들
의 주거환경을 향상시키는데 중점을 두었다. 70년대 이후에는 Keynesian 경제학적 비밥으
로 한 이전의 주택정책이 공공부문의 부담 증가로 이어지자 저소득층에 대한 혜택을 대폭
삭감하였다. 90년대에 들어와서는 주택수요를 능가하기 위하여 이자율을 낮추고 주택구매시
혜택을 주는 정책을 추진하였다.

현재 영국은 경제성장이 높고 실업률이 낮은 지역에서는 주택이 부족한 반면에, 경제성장
이 낮고 실업률이 높은 지역은 주택공급이 여유가 있어 지역적 불균형 현상이 심화되고 있
다. 또한 실업으로 인하여 대출금을 갖을 능력이 없는 계층에 대해 주택소유권을 제한하고
있다. 이와 같이 주택정책은 복지시스템과 경제전반에 걸쳐서 큰 영향을 주기 때문에 복지
시스템 및 경제여건과 조화가 필요하다.

이 논문은 2차 세계대전 이후 영국의 전반적인 주택정책상황을 간단히 살펴보고, 70년대
IMF 이전과 이후에 있어서 영국의 주택정책을 복지시스템 및 경제상황과 연관시키기에서 변천
과정을 고찰하여 IMF 이후의 영국의 복지체계와 주택정책의 개발과정에 대해서 설명하고
있다. 마지막으로는 현재 영국이 얻고 있는 주택문제에 대해서 주택부족현상과 주택소유권
문제로 나누어서 설명하고 있다.

* Professor of Housing Studies
The University of Birmingham
In retrospect, Britain’s IMF crisis in the second half of the 1970s constituted a watershed for its housing policy. In the previous three decades, housing had been widely viewed as an element of the more general welfare system through which those with lower incomes could receive greater material benefits than their incomes from paid employment would otherwise allow as well as an insurance against personal misfortune. The social and political goals were supported by an approach to the economy that saw it as providing full employment and its growth as providing the national wealth to increase welfare benefits. In the years since the IMF crisis, however, housing and other welfare policies have come to be viewed not just as a burden on the economy - as expenses that the productive parts of the economy were being forced to bear - but as real barriers to economic growth. The policy response has been a transfer of responsibility from the state to the market which might be described as a shift from the primacy of the social to the primacy of the economic.

This paper discusses the development of housing policy in post war Britain indicating the changing nature of the relationship with the welfare system and the economy.

I. THE POST WAR SETTLEMENT

Even before the end of the Second World War consideration was being given to the physical, economic and social rebuilding of Britain, the last of these dimensions being the subject of deliberations by William Beveridge (1942). He was determined that there should be an attack on what he saw as five great social evils: want, ignorance, sickness, idleness and squalor. The election of a left wing government at the end of the war provided the political framework in which they could be overcome and the period up to 1948 saw the building of the foundations as well as much of the structure of the British welfare state. From this time health care and education were to be free to users irrespective of the incomes of the households in which they lived. Further, there were
a range of transfer payments that provided financial support to people, for example, during periods when they did not have an income from paid employment such as retirement or unemployment. Underlying these social policies, in the sense of both minimising the numbers of people claiming financial support and providing the economic resources that the elements of the welfare state required, was an approach to economic management based on Keynesianism; an approach which not simply stressed the importance of national economic growth, but also placed the achievement of full employment as the central objective. These elements together amounted to a package of protection for individuals against any disadvantages (low income, unemployment) of their position in the labour market and against other events (e.g. ill health), but it seemed to set the arrangements for more equal, society.

The position of housing policy in the Keynesian welfare state was important in several ways: the construction industry was a significant user of labour, whilst historical experience indicated that poor housing (in terms of size and quality) was related to social ills such as poor health. But, the need to incorporate housing was especially urgent because of the political demands being placed by the electorate in the context of a huge shortage brought about by a combination of the lack of new construction and the effectiveness of enemy action. The shortages were particularly great in the large industrial cities, and resulted in many families being forced to share accommodation.

Town and country planning legislation laid down regulations enabling local authorities to control the location and nature of housing and other physical development. In part the intention was to prevent the unplanned spatial expansion of cities, particularly in the more densely populated parts of the country, and so to avoid vast suburban sprawl. The creation of green belts around the major cities and the establishing of new towns were to be formative influences on post war rebuilding. The agents of the new building were largely determined by a system of licensing put into place by central government. Based on the command structure developed during the war, the Ministry not only attempted to ensure that the raw materials for construction would be assigned to each housing project but would determine which organisations were to be allowed to build. In practice, the
licensing arrangements operated in favour of local authorities to the extent that housing construction was, for a few years at least, virtually a public sector monopoly (see table 1). Even though, with the election in 1951 of a Conservative (right wing) government private sector builders came to play a larger role, the public sector was responsible for building about half of all new homes during the decades of the 50s and 60s (and, indeed through to the 1970s).

(Table 1-1) Private Sector Share of New House Production.

<table>
<thead>
<tr>
<th>YEAR</th>
<th>TOTAL PRODUCTION (000s)</th>
<th>PRIVATE SECTOR SHARE (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1950</td>
<td>204</td>
<td>9.8</td>
</tr>
<tr>
<td>1955</td>
<td>313</td>
<td>40.9</td>
</tr>
<tr>
<td>1960</td>
<td>309</td>
<td>59.2</td>
</tr>
<tr>
<td>1965</td>
<td>392</td>
<td>53.8</td>
</tr>
<tr>
<td>1970</td>
<td>319</td>
<td>52.7</td>
</tr>
<tr>
<td>1975</td>
<td>323</td>
<td>46.1</td>
</tr>
<tr>
<td>1980</td>
<td>155</td>
<td>63.9</td>
</tr>
<tr>
<td>1985</td>
<td>197</td>
<td>82.7</td>
</tr>
<tr>
<td>1990</td>
<td>163</td>
<td>82.8</td>
</tr>
</tbody>
</table>

Source: Department of Environment statistics.

Although there was during the early post war decades some increase in national population, in part the result of migration from other countries, this was relatively small. Moreover, reflecting Britain’s early industrialisation, rural-urban migration had been largely completed some years previously. So (unlike the situation in many newly industrialised countries such as South Korea) at least in numerical terms the target was relatively fixed and the large construction programmes enabled that target rapidly to be approached (table 2). It is significant, however, that the level of public sector involvement continued past the point in time - the end of the 1950s - when the problem of housing shortage, at least in its most severe form, had been overcome. By the 1960s
the emphasis had shifted to solving the problems of quality rather than quantity. Much of the housing stock, particularly in the inner parts of the large cities, had been built in the nineteenth century when standards in terms of materials, size and facilities were much lower. Local authorities now saw part of their goal in the housing sphere to demolish much of this housing, using their rights of compulsory purchase to acquire ownership - often from private landlords - and then re-developing the areas with local authority housing.

(Table 1–2) Dwellings and Households, England and Wales. (thousands)

<table>
<thead>
<tr>
<th>YEAR</th>
<th>DWELLINGS</th>
<th>HOUSEHOLDS</th>
<th>BALANCE</th>
</tr>
</thead>
<tbody>
<tr>
<td>1951</td>
<td>12,530</td>
<td>13,259</td>
<td>-729</td>
</tr>
<tr>
<td>1961</td>
<td>14,646</td>
<td>14,724</td>
<td>-78</td>
</tr>
<tr>
<td>1971</td>
<td>17,024</td>
<td>16,779</td>
<td>245</td>
</tr>
<tr>
<td>1980*</td>
<td>21,426</td>
<td>20,400</td>
<td>1,026</td>
</tr>
<tr>
<td>1991*</td>
<td>23,622</td>
<td>22,800</td>
<td>822</td>
</tr>
</tbody>
</table>

Source: Department of Environment statistics

* Figures include Scotland

An important principle underlying this re-orientation, as well as during the earlier concern with quantity, was that households with low incomes should not be denied access to high quality. In other words, much of the housing built by the public sector was not, relative to the private sector, inferior in terms of size or facilities. Indeed, the standards, for example in terms of size, were often higher than for new housing intended for home owners (Malpass and Murie 1994). Low income households were enabled to consume these higher standards because, through a series of accounting and subsidy arrangements, rents were set at levels far below market prices (see Merrett 1979). The first element was a production subsidy paid by central government to local authorities with respect to each house they built. The second was that each local authority operated a single housing account covering all the dwellings it owned. Since local authorities had
been building housing since at least 1919, their stocks included some older houses (the production costs of which were in nominal price terms low and the outstanding loans partly if not entirely paid off) and some newer houses (with higher production costs and loan charges). Pooling the costs in this way enabled the older house to subsidise the newer houses so that the average rent was below current market rents and current production costs. Embedded in this arrangement was thus an objective of covering the historic costs of production and not the current costs of the factors of production consumed in the houses. This can also be interpreted as meaning that any increase in the value of housing was collectivised through the state rather than accruing to individual owners. The third element was that some local authorities instituted arrangements whereby those with the very lowest incomes could pay a reduced amount in rent.

One of the consequences of these devices came to be that the allocation of housing to individual households was not constrained by their level of income. Local authorities considered the need for housing of a household, principally the numbers, ages and sexes of the members of the household, in determining how large a house would be appropriate for them. A contrast with the housing systems in the newly industrialised countries such as South Korea where housing consumption is determined more by the ability to pay, is that local authority housing had a redistributive objective and outcome (see Doling 1999 for an elaboration of the contrasts). It could be said that in at this time there was an objective, relative to need, of equality of outcome.

Alongside the development of an expanding local authority sector was an expanding home ownership sector. The latter, as the former, was also subsidised but with entirely different outcomes. Central government gave home buyers a subsidy, through the income tax system, that had the effect of reducing the amount of interest they paid on loans taken out to purchase, or refurbish, a home. The amount of subsidy was positively correlated with the marginal rate of income tax paid by the individual and the size of the loan. In practice, this meant that those with the highest incomes received the most subsidy.

One of the tenure consequences of the subsidy arrangements was that both the local
authority and home owning sectors increased greatly in numbers - absolute as well as relative - so that the private rental sector declined in size to create a two tenure system one public with almost a third of the stock by 1970, the other private with almost a half (see table 3). The average quality of housing in both sectors increased but in many other respects there were marked distinctions. Thus in architecture, a large proportion of local authority housing was in the form of apartments in high rise blocks, with almost all the home ownership sector being single family housing, the majority of two-storeys. There was also an important distinction concerning income. The structure of the subsidies in each tenure made it advantageous to middle and higher income groups to become home owners and low income groups to become local authority tenants. This can be seen in data that indicates the recipients by income of the respective subsidies and compares both with the recipients of other aspects of welfare (table 4). In that sense housing policy reinforced a differential around class that was a pre-existing feature of British society.

<table>
<thead>
<tr>
<th>Year</th>
<th>Owner Occupied</th>
<th>Housing Association</th>
<th>Local Authority</th>
<th>Private Rented</th>
</tr>
</thead>
<tbody>
<tr>
<td>1900</td>
<td>10</td>
<td>-</td>
<td>-</td>
<td>90</td>
</tr>
<tr>
<td>1950</td>
<td>29</td>
<td>-</td>
<td>18</td>
<td>53</td>
</tr>
<tr>
<td>1961</td>
<td>42</td>
<td>-</td>
<td>26</td>
<td>32</td>
</tr>
<tr>
<td>1971</td>
<td>51</td>
<td>-</td>
<td>31</td>
<td>18</td>
</tr>
<tr>
<td>1981</td>
<td>57</td>
<td>2</td>
<td>30</td>
<td>11</td>
</tr>
<tr>
<td>1991</td>
<td>66</td>
<td>3</td>
<td>21</td>
<td>10</td>
</tr>
<tr>
<td>1998</td>
<td>69</td>
<td>4</td>
<td>18</td>
<td>9</td>
</tr>
</tbody>
</table>

Source: Department of Environment statistics
Table 1-4  Average Expenditure on Top and Bottom Income Quintiles, by Welfare Service

<table>
<thead>
<tr>
<th>Service Ratio of Expenditure on Top Fifth to That on Bottom Fifth</th>
<th>Council Housing</th>
</tr>
</thead>
<tbody>
<tr>
<td>Primary education</td>
<td>0.9</td>
</tr>
<tr>
<td>Secondary education</td>
<td>0.9</td>
</tr>
<tr>
<td>National health service</td>
<td>1.4</td>
</tr>
<tr>
<td>Tax subsidy to home owners</td>
<td>6.8</td>
</tr>
</tbody>
</table>

Source: Goodin and Le Grand (1987: 92)

II. THE 1970s’ WATERSHED AND THE IMF CRISIS

By the outset of the 1970s the Keynesian welfare state, as a way of organising the economic-social system, had delivered considerable achievements. Over the preceding quarter of a century GDP had steadily increased as had living standards expressed, for example, in the ownership of material possessions, whilst there had appeared to be some progressive redistribution. There can be no doubt that the achievements were not unqualified. The economy had expanded less quickly than in many of the other industrialised countries so that Britain slipped down GDP per capita league table. In addition, it was later to be shown (Goodin and Le Grand 1987) that higher income groups had benefited at least as much from many welfare measures as had lower income groups. Nevertheless, for the majority of the population, Beveridge’s five great evils had been conquered and were confined to collective memories deriving from the first half of the century, and before.

But whatever the achievement the system was breaking down. The size of the public sector had greatly expanded as the state has taken on more responsibilities so that public expenditure was accounting for over half of GDP and taxation had been increased to
finance the increased responsibilities (see Gough 1979). More fundamentally, the national economy was beginning to falter. As elsewhere among the industrialised countries, Keynesian approaches to macro economic management, previously so successful, were now failing to prevent a combination of economic problems: rising unemployment, high interest rates, increasing inflation, low profitability and stagnant growth. The large hike in oil prices in 1973 that led to an immediate increase in costs facing manufacturing companies greatly exacerbated the existing difficulties.

The response in Britain, following a general election victory in 1974 by the Labour party, was a decision, once more, to use the Keynesian device of increasing aggregate demand in the economy (by increasing social expenditures) in order to fuel growth. Local authority housing production was especially favoured by this policy shift to the extent that in 1975 the housing programme accounted for around 10 per cent of the entire public expenditure programme. The intended outcome did not materialise and as the country’s financial resources became depleted, in 1976 the government approached the IMF. The intention was that a loan would be able to sustain the increased demand for a period, sufficiently long, for the economy to respond by expanding. In the event the IMF, steered by principles different to those of the Keynesian school, agreed to a loan, but on condition that the government greatly reduced its public spending. After a brief deliberation, new plans appeared indicating that a large part of the reductions were to be met by cutting back on local authority housing production, a cut from which the sector has never subsequently recovered. The IMF episode was therefore the first of a series of attempts to curb social spending in which housing has been the most fundamentally reformed.

Why was the housing programme particularly meted out for cuts? There are, as Doling (1983) suggests, characteristics of public expenditure that made housing vulnerable. Firstly, expenditure on most social programmes consists largely of revenue expenditure in terms of salaries (e.g. teachers, doctors) or transfer payments (e.g. pensions) so that any cut in these areas will have an immediate impact (services withdrawn, benefits reduced). In contrast, the housing programme largely consisted of subsidies to new
production; any cuts would lead to a reduction of new construction but, given the long
lag in new construction coming into the system and the small annual contribution that
new production makes to the total stock of dwellings, the effect would take some years
to be widely noticed. In a political system in which rests on success at the ballot box
the temptation to take a decision that would have no great impact until after the election
was clearly hard to resist.

III. RESTRUCTURING WELFARE AND HOUSING POLICY

Unfortunately for Labour, it did not work out as planned. Following a general election
in 1979 and the return of a Conservative government headed by prime minister Margaret
Thatcher, further attempts were made, some successful, to dismantle the Keynesian
welfare state and within it the earlier housing policy system. The drive to do so can be
described in ideological terms. Throughout the 1970s there had been growing credence
given to a number of criticisms of the Keynesian welfare state that later and in
combination came to be given the label of neo-liberalism. Social; spending was viewed
as a burden that eroded the profit base of the productive parts (principally
manufacturing) of the economy, while also, in attracting investment and other resources,
crowded out activity in the private sector. Worse than that, benefits given to people to
compensate them for low or lack of earnings were viewed as establishing a dependency
culture in which benefits eroded the need and desire to work. In general, following the
arguments of Friedman and Hayek, state intervention was seen as undesirable since
individuals knew best where their own interests lay; the invisible hand’ of the free
market would best ensure that both individual and collective interests would be met. On
these views, then, the welfare state was interpreted as being dysfunctional to the needs
of economic growth, thus contributing to an explanation for the level of growth in the
post war era. being lower than that of many similarly industrialised countries, as well as
for the then current economic difficulties.

Whatever the ideological developments, the wider economic framework in which Britain found itself in the 1970s and 1980s had moved on since the 1950s and 1960s. Whether or not and to what extent the neo liberal promoted reforms were the most appropriate policy response, the status quo, constituted in the form of the Keynesian welfare state, was arguably no longer an option. Some of the changes can be summarised by the label globalisation’, referring to a number of processes that have had the consequence of opening up national systems that previously were to a greater or lesser extent closed. In the previous world - the Golden Age of the western, welfare state - national governments had considerable autonomy over such things as interest rates, taxation and public spending. But, as financial markets and institutions became increasingly international and national economies increasingly open, national governments had less power to influence their country’s affairs.

Of particular significance were changes in manufacturing. On the one hand, technological developments have lead to world-wide surplus of productive capacity in many manufactured goods contributing to high levels of unemployment. On the other hand, manufacturing capital has also become increasingly mobile so that large companies in particular are able to switch geographical location, and thereby to influence the location of employment and unemployment. For western industrialised countries, the new international division of labour’ (Frobel et al 1980) meant levels of unemployment that relative to the post war period up to the start of the 1970s was high, with the geographical locus of many manufacturing sectors shifting to the newly industrialised economies of the countries of south and east Asia. This new scenario seemed, to many to mean not only that Keynesianism was inadequate as a basis for managing national economies, but that the welfare systems of western countries was contributing to their lack of success in attracting employment away from the newly industrialised countries. Indeed, simple comparisons of social expenditure as a proportion of GDP seemed to indicate that part of the problem was that they were heavy spenders and thus heavy taxers of people and companies, driving the latter to locate where their overheads were lower.
In Britain the political debate around these issues was dominated by Prime Minister Thatcher who saw a solution in the creation of a low wage, low social overheads, low tax economy modelled, albeit loosely, on elements of the USA and Hong Kong. It also meant a more flexible labour market in which many of the old rigidities, for example those deriving from union power, had to be removed. This was translated in the economic sphere to the adoption of Monetarism, in which control of interest rates and the money supply were, as goals, was elevated above the Keynesian concern with the minimisation of unemployment. It also meant reducing the rights of workers to make it easier for firms to hire and fire. In the social sphere, it meant attempts to reduce public spending on social services and benefits by, for example, shifting from universal (available to all) to income-tested principles, and by reducing the real value of benefits. Attempts to reform the housing system can usefully be classified as those directed at reducing the significance of local authority housing and those directed at controlling some of the negative dimensions of home ownership.

1. Local Authority Housing

From the very outset, the new Conservative government implemented plans having the intention of reducing the role of local authorities in the housing system. (Doling 1984). In its first year in office, the government revised the national public expenditure plans such that the largest cut was in the housing programme: of a planned net reduction by 1983 of 2,800 million, housing was to account for 2,582 million (92 per cent). The immediate as well as continuing effect has been that new housing production by local authorities has been considerably reduced. Although, housing associations - part of the non profit sector - have received subsidy enabling them to build some social housing, the overall contribution of the social sector to new housing production has been greatly reduced. As table 1 indicates, in this respect the story of the post ware era has been one in which the private sector has moved from a short period of a residual role, through an extended period of being on an equal footing with the social sector, finally, to the
predominant position.

Whereas these changes in new production have contributed to local authorities having a decreasing share of the housing stock, other reforms have been aimed at, and achieved a decrease in the absolute size of their stock. From 1979 on, subsidy changes have meant that the rents paid by richer tenants have increased making the sector, for them less attractive. Further, legislation in 1980 established that local authority tenants who met specified conditions could buy their local authority home. The local authorities did not have the right to refuse to sell and, moreover, were required to provide a discount on the market price, the size of which (up to 50 per cent) depended on the number of years of tenancy. This right to buy was exercised by large numbers, a million home being sold by 1988. However, legislation in that year further reduced the role of local authorities. Provisions were established enabling housing associations and other organisations to take ownership of whole sections of local authority stock. The act also made it clear that the local authorities were no longer to be responsible for developing and owning housing, but rather to be responsible only for establishing the levels of need in each area and enabling other organisations and sectors to take their former role. Ten years on, and even with a Labour government having been elected, large scale transfers are particularly in evidence, with the result of a considerable and continuing fall in the size of the local authority sector (table 3).

2. Home Ownership

Whereas the Conservative governments sought to reduce the local authority role in the housing system, this was for them more than a negative goal, having a strong belief in the superiority of home ownership. Indeed, in some respects the notion of the home owning democracy was one of the central planks of a vision of Britain in which the individual, rather than the state, would, in having a personal stake in the fortunes of the country, take responsibility for the individual’s well-being. Although never formally stated in official government documents, it appears that the expectation that perhaps as
many as 90 per cent of the country would soon become home owners (Doling 1994). In fact, it soon became increasingly clear that, on several levels, home ownership was becoming problematic.

At one level, the very economic circumstances that had seemed to require a change in government policy toward reducing public expenditure, particularly in the social sphere, was creating further difficulties. As some programmes were cut back they contributed to the rise in unemployment which soon exceeded 3 million, one result being that public expenditure savings achieved were frequently matched by the spending incurred in additional financial support for the unemployed. But, unemployment was also being experienced by home owners and potential home owners (Doling 1994). It came to be realised, therefore, that unemployment would act as brake on the expansion of home owning. Further, many already in the sector were, because of their loss of income facing difficulties in maintaining loan repayments and, for the first time, building societies were evicting large numbers of owners in order to recover outstanding debts (table III-1). Many of those so evicted turned to the local authorities for housing, but as their housing role was reduced they were less and less able to provide assistance. Overall, then, these developments indicated the interrelationships between the economic, social and housing spheres which in their contradictions were resulting in widespread personal difficulties.

<table>
<thead>
<tr>
<th>Table III-1</th>
<th>Mortgage Arrears and Possessions</th>
</tr>
</thead>
<tbody>
<tr>
<td>TOTAL MORTGAGES (000s)</td>
<td>6 210</td>
</tr>
<tr>
<td>POSSESSIONS</td>
<td>3 480</td>
</tr>
<tr>
<td>12+ MONTHS</td>
<td>*</td>
</tr>
<tr>
<td>6-12 MONTHS</td>
<td>15 530</td>
</tr>
<tr>
<td>3-6 MONTHS</td>
<td>*</td>
</tr>
<tr>
<td>2 MONTHS</td>
<td>*</td>
</tr>
</tbody>
</table>

Source: Council of Mortgage Lenders statistics
* data not available
Although the problem was widely recognised, the government was not prepared to reduce the personal difficulties, apparently seeing them as the price that had to be paid in order to achieve the fundamental restructuring of the country as a whole. But, there was another contradiction between the economic and housing spheres that was addressed. This was the impact of volatility of house prices on the wider economy (see Maclellan 1997). Since the beginning of the 1970s home ownership in Britain had experienced a number of boom-bust cycles in house prices; short periods of two to three years when prices doubled or even tripled, followed by periods when in real terms they fell. Whereas the long run gains in prices fuelled the demand for home ownership, the short term effect was typically that those already in the sector, seeing their assets rapidly increase in value, would view themselves as being wealthier. The response of many was by taking a further loan, to release some of the capital tied up in their home and to purchase consumer goods. In contrast, when prices were static or falling, owners would become very cautious, often preferring to save rather than spend. In these reactions, the housing market tended to reinforce or exaggerate the economic cycle, prolonging the downturns and during the booms encouraging large increases in the import of consumer goods sometimes creating balance of payments and inflation difficulties.

It was this lesson that led the Conservative governments in the 1980s to began the process of trying to make the market less volatile. Arguing that the loan interest subsidy given to buyers contributed to the volatility, they, slowly, began to remove it. This was in any case, supported by the neo-liberal ideology since it could be seen to result in lower levels of taxation and remove an unwarranted state intervention in this market. But, these policy developments did not come into operation sufficiently quickly or fully to prevent damaging consequences for the economy at the very end of the 1980s.

The background to this was that by the mid years of the decade the economy was coming out of an extended period of slow economic growth, unemployment rates were falling, inflation and interest rates were low and there was an expectation that greater prosperity lay ahead. These conditions encouraged housing market activity as people had the confidence to purchase larger and higher quality houses. House prices increased
rapidly, but by 1988 it was becoming apparent that the consumer spending boom, fuelled by home owners releasing housing capital, was pushing up inflation. Moreover, because Britain’s manufacturing sector had been so eroded over the previous decade it was no longer able to provide people with the quantity, range and quality of consumer goods they wanted; increasingly, therefore, they were buying imported goods. In an effort to slow the economy, the Government raised interest rates, from about 7 per cent in a series of steps to around 15 per cent. Since most housing loans in Britain have variable interest rates, the government’s action was soon passed on to the 9 million home buyers At the same time, many house buyers were also experiencing shocks to their incomes because as the high interest rates began to bite, companies began to reduce their labour forces. The result for many individuals was that they could no longer meet their loan repayments. Table 5 indicates the growth in mortgage arrears with almost 10 per cent of mortgages being at least two monthly payments in arrears by 1991. Building societies began, in larger numbers, to seek evictions so that they could sell houses and recover outstanding debts. House prices fell steadily in nominal terms over the period 1989 to 1992, in many parts of the country by 10 to 20 per cent. Because many people had taken out loans in 1987 and 1988 of 90 or even 100 per cent of the value of their homes, they now found that they owed sums greater than the current value; indeed one estimate was that by 1992 around 14 per cent of households with mortgages were experiencing negative equity (Dorling 1993).

Although after a short period the government began to reduce interest rates in order to boost economic activity, the housing market - and indeed more generally people’s confidence in the future - did not recover so quickly. In these circumstances the government introduced new measures aimed specifically at the housing market (Balchin 1995). Thus in 1991 the government introduced a 1 billion package intended to assist home buyers who had become unemployed and in the following year further schemes were introduced in order to boost the demand for housing.
IV. CURRENT HOUSING PROBLEMS

At the end of the 1990s, almost a quarter of a century after the IMF intervention, the housing system in Britain has been considerably restructured: home ownership has expanded rapidly to meet the housing needs of around 70 per cent of the population, social housing has been correspondingly reduced in significance, and a large slice of the former subsidies have been removed. These developments, in their greater reliance on markets unfettered by state intervention, conform with the prevailing neo liberal ideology that has informed governments over this period. In that sense they have been part of a new constellation of the economic, welfare and housing spheres that replaced that of the earlier post war period based on the welfare state and Keynesianism. Yet, it is clear that the housing problem in Britain has not been solved.

1. Housing Shortages

The early post war expansion of the housing stock, as we indicated earlier, fairly quickly reduced the shortage. Although in a strict numerical sense the country still has a surplus of houses over households, shortage has, for a number of reasons, re-emerged as a problem (Balchin 1995). Firstly, the changing geography of industry, as many of the older manufacturing companies of the Midlands and the North of the country have closed down and some people have migrated towards London and the south, has resulted in a geographical mismatch. In other words there are some parts of the country with housing surpluses (where employment opportunities have been decreasing) and some with housing deficits (where they have been increasing). Secondly, the reduction in the size of the social housing sector has meant that local authorities have had less ability to provide accommodation for the increasing numbers of people who are homeless, with homelessness itself increasing particularly because of the economic difficulties in which people are more likely to become unemployed and welfare provisions are less likely to
support them. Finally, there have been large demographic developments taking place over the last two decades - more people are living on their own and fewer women are having babies - so that the average size of household units is decreasing. It is anticipated that this trend will continue.

In combination, the impact of these developments is that if the present numbers and locations of production are maintained over the next decade or two there are likely to be increasing shortages. In general, these shortages will be more severe in those locations in which economic growth is the highest so that, unless the government changes aspects of present housing policy, the housing system failing to facilitate the corresponding growth of the labour force. In that sense the current housing system may be acting as an economic brake.

2. Home Ownership

Over the post war period as a whole, home ownership in Britain has been founded upon the ability of households to obtain and repay long term loans (typically 20 or 25 years). This worked well in an era when those obtaining loans were assured of long term employment and reliable income flows. It is somewhat paradoxical that the deliberate thrust, from 1980 on, to expand home ownership - a thrust that was supported as a necessary response to economic change - took place precisely when those same economic changes were associated with labour markets that were no longer to provide reliable income flows. Moreover, as Ford and Wilcox (1999) point out, the erosion of welfare safety nets for the unemployed, further weakened the security of housing loans. However, as they also indicate, the labour market changes are particularly significant. These include, of course, the development of an economy in which unemployment, at a historically high level, appears to have become a permanent feature. But not only has unemployment become a risk facing those in all occupations and industrial sectors, other features of their jobs also create additional risk. As more jobs in the British economy have become part-time, fixed term contract, casual or temporary, more and more people
have a precarious position in which the likelihood of periods of no or reduced income have increased. Under present arrangements, lacking the income that enables the meeting of loan repayments is problematic for the individual concerned, but if this happens to large numbers of individuals living in the same region, house prices may fall, negative equity become widespread and people face difficulties selling. Moreover the house price differential between the economically strong and the economically weak parts of the country may widen. In these circumstances the housing market may come to be a barrier to mobility, restricting the ability of the unemployed to move to regions where there are job vacancies.

V. CONCLUDING REMARKS

The objectives and nature of housing policy in Britain during the second half of the period since the ending of the Second World War constituted a considerable change from the first half. Despite there being a structural divide between housing for upper income groups (home ownership) and lower income groups (local authority housing) policy in the former period was directed at improving the housing conditions of all, irrespective of income: in contrast, in the later period, housing policy has been far less concerned with compensating those people whose incomes enable them to acquire only limited housing. The difference in objective can be characterised as tending toward equality of outcome in the former period and equality of opportunity in the later one.

The basis of the shift from one model to the other cannot be understood solely in terms of developments internal to the housing system. It may be that by the 1970s the earlier shortages, at least in broad, numerical terms, had been overcome, but more important was a broader shift in the economy and perceptions about what welfare as well as economic policies were appropriate to the new situation. This could be taken to mean that housing policy has played a supporting rather than a lead role, but it migh
be more accurate to suggest that it indicates the need for governments to ensure, as Pierson (1992) has argued, that housing, welfare and economic policies are mutually supportive. What is crucially at stake here is a systemic harmony that will aid economic growth. One of the big housing issues in Britain, therefore, concerns the extent to which a housing system based on home ownership contributes to such harmony. It may be that on the one hand, it assists the drive toward a low tax, low public expenditure model, but on the other, it appears inconsistent with the apparent needs of the labour market for a mobile labour force. Not only has the home ownership market failed to provide enough housing in those parts of the country in which jobs are most plentiful but the precarious nature of many of the jobs are inconsistent with the present financing arrangements that depend on long term job security.

It is sometimes said of generals that they equip themselves to fight the last war rather than the next: much the same could be said of British housing policy makers who have set out to solve the problems inherent in the British approach at the time of its IMF crisis, but as yet have failed to move on. In the decades ahead therefore policy makers have further work to do.
References