

*THREE  
MILLION  
HOUSES*

*MORGAN-WEBB*



England part I I

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*Three Million Houses*







*Courtesy London County Council*

SLUM AREA IN CAMBERWELL NOW COMPLETELY CLEARED AND DEVELOPED WITH APARTMENT UNITS TOTALLING 325 HOUSEHOLDS AS CAMBER ESTATE.



# *Three Million Houses*

*Sir Charles Morgan-Webb*

COMMITTEE FOR THE NATION  
205 EAST 42<sup>nd</sup> ST. NEW YORK

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PRINTED IN THE UNITED STATES OF AMERICA  
BY J. J. LITTLE AND IVES COMPANY, NEW YORK

## *Contents*

	PAGE
FOREWORD	vii
I AFTER THE WAR	3
II HOUSING FINANCE	10
III THE SUBSIDY PERIOD	23
IV THE TURNING POINT	40
V THE CUNLIFFE SEQUENCE	54
VI HOW LOW INTEREST STIMULATES HOUSE BUILDING	66
VII THE LOW INTEREST STIMULUS IN OPERA- TION	87
VIII BUILDING COSTS	102
IX SECURITY AND AMORTIZATION	128
X SLUMS AND OVERCROWDING	144
XI THE BUILDING CYCLE	165
XII WHAT OF THE FUTURE?	177

## *List of Illustrations*

	<i>Frontispiece</i>
	BETWEEN PAGES
SLUM AREA IN CAMBERWELL	
FIVE ROOM HOUSES, BECONTREE ESTATE	6-7
SLUM AREA—DEPTFORD—COMPLETELY CLEARED	6-7
A BIT OF DISAPPEARING LONDON—WHITMIRE	6-7
TYPICAL SLUM—TARN STREET AREA	6-7
THREE STOREY APARTMENTS—BECONTREE ESTATE	22-23
THE OLD OAK ESTATE—CORNER ADAPTATION	22-23
THE OLD OAK ESTATE—COTTAGES	22-23
TABARD GARDEN ESTATE—BEFORE CLEARANCE	22-23
TABARD GARDEN ESTATE DEVELOPMENT	38-39
WORMHOLT ESTATE HOUSES	38-39
ST. HEBER ESTATE PROJECT	102-103
STANDARD PLANS	102-103
PART OF THE CHINA WALK ESTATE	118-119
APARTMENT HOUSE, OAKLAND SLUM CLEARED AREA	118-119
OAKLANDS SLUM CLEARANCE AREA	118-119
OSSULTON ESTATES, ST. PANCRAS	118-119
ANOTHER TARN STREET SLUM	134-135
APARTMENT HOUSE PLANS	134-135
TABARD GARDEN ESTATE	150-151
ROCKINGHAM SLUM CLEARANCE PROJECT	150-151
ROCKINGHAM ESTATE DEVELOPMENT	166-167
TABARD STREET SLUM—BEFORE	166-167
TABARD GARDEN ESTATE—CLEARANCE PLAN	166-167
CLAPHAM PARK ESTATE APARTMENTS	166-167

## *Foreword*

THIS VOLUME has been inspired by the failure of the author to compress the description of British Housing Activity into the fifty minutes conventionally allowed to the peripatetic lecturer to tell his story. His attempt to cram a record of seventeen years into a period of less than an hour has invariably produced a fusillade of queries demonstrating that he had left untold many of those things which he ought to have told. Frequently his meetings have dissolved into a small crowd of enthusiastic seekers after knowledge, pursuing their queries until a wearied caretaker has pronounced his opinion as to the length of time a meeting should last by putting out the lights. He has found himself groping towards the distant glimmer of the ante-room to the accompaniment of unknown voices, proceeding from somewhere out in the surrounding darkness, and asking such questions as—

How does the sanitary equipment of a three thousand dollar house in England compare with that of the corresponding house in the United States?

The present volume is an impressionist attempt to fill in some of the details that must inevitably be omitted in a lecture, however generously supplemented by the replies to stimulating questions. It has been compiled in the fitful intervals of an arduous lecture tour.

To the handicaps of lack of time, constant interruptions and incessant travelling have been added the lack of opportunity to consult the works of reference that would have been available if it had been written in England. A final re-reading has convinced the author that he has omitted nearly as much in his book as he had omitted in his lectures.

For instance, no book on British housing can possibly claim to be complete without any reference to the remarkable progress made in Town Planning in Britain, or to the Garden City Movement, or to the English system of Local Taxation on House Property, or to many other features and developments which should have been included. But their inclusion would have defeated the author's objective, which is to tell a story, not to write a treatise. After the War the building industry in Britain was afflicted with a paralysis so intense that it amounted to collapse. It is a story worth the telling how that paralytic industry was coaxed and cajoled into activity by injections of the dangerous drug of subsidy, how the doses of that drug were skilfully and gradually lessened as activity revived, and how it was carefully nurtured until it was able to surpass its pre-war achievements with almost effortless ease.

No one is more aware than the author of the many omissions and deficiencies of this story of British Housing Activity since the War. But time is of the essence of the undertaking. He has fallen an unwilling victim to the American injunction to "Do it now."

The epidemic of Promptitude, which rages so virulently in the United States, has overcome his inborn reluctance to do anything today on the plausible pretext that it would be much better done tomorrow. He has strenuously resisted the seductive temptation that his voyage to England next week will afford an excellent opportunity for correction and revision. The suggestion that a careful revision might produce a much better book has been countered by the reflection that the process might be so disheartening as to result in no book at all.

Like many other promising adventures, it is launched on the world for better or for worse. It would never have been commenced, and certainly never would have been finished, but for the advice and encouragement generously given by Dr. Rumely, Executive Secretary of the Committee for the Nation. The thanks and gratitude of the author is also due to two members of Dr. Rumely's staff, Miss Murphy and Miss Sagarin, who have cheerfully complied with his most unreasonable demands upon their energy and their patience, and without whose assistance it could never have been completed in time.

Nor must the author omit to record his deep indebtedness to the members of the staff of the British Library of Information in New York. Not only have they placed at his disposal the official publications of the British Ministry of Health; they also provided him with comfortable and spacious accommodation in

which he was able to reduce that voluminous literature to a more or less connected narrative.

The qualification "more or less" in the previous sentence is necessary. The narrative is interrupted by three Chapters, Numbers V, VI, and XI, devoted to a consideration of the Theory of Finance in its application to house building. They have been included in the volume because the building of houses is peculiarly sensitive to financial influences. If the housing problem had been the simple one of the building industry supplying the public demand for houses, these Chapters would not have been necessary. But the narrative Chapters are impregnated with finance. The influences of such financial factors as subsidies, loans, rates of interest, construction costs, security, amortization and the building cycle, upon the volume and progress of house building could not be appreciated without a certain amount of insight into the manner in which they operate. This is supplied by the three theoretical Chapters. They may be omitted by the less enterprising, with the result that the story will lose half its interest.

Being written for American readers, English money in the passages quoted has been translated into dollars by the simple process of multiplying by five. A more complicated mathematical device has been necessary to translate shillings per week into dollars per month. The sanctity of quotation has been violated in the interests of clarity and simplicity.

In conclusion, the author desires to express his deep



appreciation of the extreme courtesy and kindness extended to him by every member of the American public with whom he has come in contact during his visit to the United States. Whatever may be the fate of this book, to the writer it will be a memento of a happy and memorable visit to a wonderful country.

C. MORGAN-WEBB

*16th April, 1937*

*The value of this volume is enhanced immeasurably by the plans and photographs illustrating a few of the two hundred and one development projects of the London County Council. They are typical of developments proceeding throughout the country. The author is deeply indebted to the Council for permission to reproduce them.*



## CHAPTER I

### *After the War*

Of the 11,264,708 houses (in Britain) now (1935) in existence, over one-third have already passed the age of eighty years. I estimate that there are actually now 4,607,679 houses past the age at which they can be kept sanitary and habitable. It is not 280,000, but 4,607,679 houses that should be demolished forthwith. *The Rebuilding of Britain*, by Mr. Craven-Ellis, M.P.

WHEN Britain had leisure to take stock of her condition at the conclusion of the World War, the most formidable problems with which she was confronted were the extreme deficiency of housing accommodation and the low standard of such accommodation as existed. For over six years scarcely a house had been built. Worse still, little or nothing had been spent on the maintenance and repair of existing houses, which had therefore deteriorated rapidly towards obsolescence and decay. The problem to be faced was far more than the erection of sufficient new houses to fill in the gap of six years complete cessation of construction. To this were added many problems, which were sufficiently acute even before the outbreak of War, and which were expanded during the War into a dangerous menace to the health of the nation by the neglect of the past six years.

The causes of the housing congestion with which Britain was confronted in 1920 were far broader and deeper than the brief interruption to building enterprise during the War. They had their roots in the traditions and the psychology of the British people inherited from past generations. The proverbial reserve in which the Englishman cloaks himself, is manifested in his home life by a strong preference for a separate dwelling house for each family. The tradition that an Englishman's house is his castle is an expression of the strong opinion that family life needs a separate house for its fulfilment. There has been in the past a deep-rooted prejudice in Britain against what are known as "apartment houses" in the United States. Such houses do not permit the atmosphere of detachment from the outside world considered essential for the full development of British home life.

This tradition, formed when Britain was an agricultural country, survived the process of urbanisation. Instead of expanding upwards, British cities expanded outwards. As the forces of expansion created larger and larger towns, the extra population was accommodated in small houses built on their outskirts. As land in the centre of the cities was more and more needed for commercial, administrative and transport purposes, the displaced populations were forced further and further afield to dwell in the outer suburbs where building space in plenty was available.

But there were limits to this outward thrust of population. The poorer classes could not afford either the

time or the expense to make long journeys daily to or from their places of employment. They therefore tended to "double up", two families to a dwelling, in the houses that remained near the centre of the town. As population grew, and as distances from the suburbs to the centre of the towns increased, this tendency for several families to herd together in a dwelling constructed to accommodate one family only was intensified. In many cases, three, four and five families were crowded into houses supplied with cooking and sanitary equipment intended for one family only.

The obstinate British conservatism in clinging to the tradition of one house, one family, had therefore resulted in housing conditions far worse than would have been possible if a rational apartment house system had been adopted where population tended to become congested. The over-crowded houses in the centre of every large British town had every disadvantage of apartment houses in a greatly intensified form, with none of the advantages that properly constructed apartment houses would have provided. They were, in fact, single-family houses transformed into small, crowded, ill-designed and badly ventilated apartment houses. At the worst, they degenerated into slums. But even when they had not deteriorated into slumdom they existed as large aggregations of sordid and insanitary dwelling places, in which healthy and decent family life was impossible.

Not only were the residents of these houses living in almost intolerable conditions of overcrowding, many

of the houses themselves had passed the age of effective utility. In his stimulating volume on "The Rebuilding of Britain," Mr. Craven-Ellis, Member of Parliament for Southampton, has estimated there were (in 1935) 4,607,679 houses in Britain over 80 years old, long past the age when they could be kept sanitary and habitable. Every one of these houses, amounting to over forty per cent of the total number of houses in Britain, was built at a time when conceptions of sanitation were primitive, and when the arts of plumbing and house engineering were in an early stage of development. Even if occupied by one family only, they are unable to conform to modern standards of light, warmth, comfort, ventilation and sanitation. But when required to accommodate two or more families, they fall immeasurably behind any conception of what should be provided to ensure decent family life in conformity with modern civilised standards.

In that department of the business world associated with housing, it is generally assumed that house property depreciates at a rate of 2 per cent per annum. Such a rate of depreciation gives a dwelling house a zero value long before the period of 80 years is reached. But, in addition to this physical deterioration of the structure of a building, there is a deterioration in standards of construction and equipment with the lapse of time, owing to the progress constantly being made in building and engineering methods, and the improved quality of the accommodation provided in newly built houses. There are stringent laws against



*Courtesy London County Council*

FIVE ROOM, PARLOUR TYPE HOUSES ON BECONTREE ESTATE, THE LARGEST SINGLE TOWN-PLANNING ESTATE IN BRITAIN, 1 1/2 MILES FROM CHARING CROSS, 2770 ACRES. 25,574 HOUSES COMPLETED, 161 UNDER CONSTRUCTION, 124 CONTEMPLATED.



*Courtesy London County Council*

TYPICAL SLUM IN TARN STREET AREA.



the supply of contaminated food to the public. But public opinion has not yet insisted on equally stringent legislation against the provision of insanitary and contaminated houses. This apathy of the public conscience in the matter of housing is due partly to the slow and almost imperceptible manner in which the deterioration of house property proceeds, and partly to the fact that the supply of good dwelling accommodation is seldom equal to the demand.

The figure of 280,000 houses mentioned in the quotation selected as the heading for this Chapter, is the number of slum houses in Britain scheduled to be destroyed under the slum clearance scheme now actively proceeding. It is the most comprehensive scheme of slum clearance as yet undertaken by the British housing authorities. But, as Mr. Craven-Ellis states, it is pitifully inadequate as a solution of the slum problem. The standard of dwellings scheduled for clearance is deplorably low. Even if multiplied tenfold, the programme would still be inadequate. It would still leave nearly two millions of houses ripe for destruction as having outlived their period of utility, and being occupied only because of the dearth of properly constructed modern houses.

The magnitude of the housing problem confronting Britain at the conclusion of the War can now be appreciated. There were then 3,578,000 houses of the age of 80 years and over; that is, built at the time or before Queen Victoria came to the throne. They formed approximately 40 per cent of the total number of houses.

Judged by any modern standards their general equipment, and particularly their sanitary equipment, was archaic. Even if occupied by one family per house, they could not provide what are regarded as modern essentials to decent family life. But the great majority of these three and a half million ancient houses, situated near the centre of the large towns, would have the additional drawback that they were being occupied by more families than they were originally designed to accommodate.

Moreover, during the War it had been impossible to make any attempt to rectify their many deficiencies. Already past effective repair or reconditioning when war commenced, they deteriorated with accelerating rapidity during the six years that elapsed before the national attention could be directed to a consideration of this vital problem.

Even then, the appalling state of the existing houses could not be remedied. The universal cry was for more houses. Deplorable as was the condition of forty per cent of the existing houses, they were at least providing shelter and accommodation. What was required was a speedy programme of new building to provide accommodation for the families where the congestion was most intense. All thoughts of slum clearance were abandoned in the urgent necessity to provide the maximum amount of new housing accommodation in the shortest possible time. The replacement of the millions of ancient and obsolete houses must be deferred to a more convenient time. They must degenerate into an

even lower stage of decrepitude before it would be possible to undertake the task of "The Rebuilding of Britain."

The First Report of the newly created Ministry of Health, the Department of the Central Government of Britain dealing with all matters of health, housing and sanitation, published in August, 1920, makes this quite clear in the passage:

The cessation of repair work during the War has led to an immense amount of arrears in this respect, and, until an appreciable number of new houses are ready for occupation, any extensive clearance of unhealthy areas or closing of unfit houses has necessarily to be postponed.

Such, in brief, were the series of housing problems confronting Britain, as soon as it was possible to emerge from the aftermath of the War and concentrate on the task of making the Peace endurable. The equipment with which the task was undertaken, the difficulties encountered, and the persistence with which they were overcome, merit separate consideration.

## CHAPTER II

### *Housing Finance*

During the course of that year (1919-20) it became apparent that the initial difficulties of organisation would inevitably be followed by more serious difficulties of labour, materials and finance as housing schemes were put into execution. . . .

While the year now under review has shown a very considerable increase in the production of houses the results have been less favourable than was hoped on account of the difficulties of labour, materials and finance, and the steady increase in costs which has prevailed during the year (1920-21). *Report of the Ministry of Health 1920-21.*

THE great obstacle encountered in starting building activity after the War was finance. The cost of building materials was high. The wages of the building operatives were high. The rate of interest was high. The resultant of the high costs of these three factors of production was that it was impossible to build houses to sell at a price within the capacity of the majority of those prepared to purchase houses, or to let at a rental within the capacity of the rent-paying classes. There was a complete stalemate. Costs were out of all proportion to selling prices or to letting rentals.

Prior to the War, house property had been one of the most secure and remunerative forms of investment.

Numerous agencies were prepared to finance the building of dwelling houses. Among such agencies were private capitalists, legal firms, some of which specialised in the ownership or mortgage of house property, Mortgage Societies, Insurance Societies, Savings Banks and Building Societies. Commercial Banks did not look with much favour on financing, or advancing loans on house property. They were prepared to follow the customary practice of advancing short term loans to builders to finance the actual construction of houses, such loans to be repaid as the houses were completed and sold, and also to accommodate long established and respected clients by longer term loans on house property, but the proportion of mortgage loans to their total advances was never allowed to pass beyond a prescribed low limit.

Despite this shyness on the part of the Commercial Banks, there was little difficulty, prior to the War, in financing all the house building for which there was a demand. Wages were not unduly high, the cost of building materials was low, and the rents charged on the low costs of housing construction were within the capacity of the occupants of the houses built. Consequently the ownership of house property was widely distributed. Small capitalists in every town and village in the country, who would never have dreamed of investing in securities, found an outlet for their funds in purchasing or holding mortgages on the houses in the neighbourhood in which they lived. They had something tangible for their money; their property was

under their immediate personal control; they could collect their own rents; and they had a sure return on their investment.

These small capitalists, supplemented by legal and commercial societies and associations which were in a position to invest money, provided all the funds necessary for housing finance prior to the War. It was assumed after the War that similar methods of finance would be adopted as soon as conditions should settle down to normal. These anticipations did not materialise. Month after month passed, and private enterprise showed no signs whatever of commencing the housing construction for which there was an urgent and insistent need. The building of houses showed no signs of producing a return equal to the current rate of interest; and naturally, no one would build unless assured of obtaining such a return.

Gradually, it dawned on the Government that some active measures must be taken to stimulate building activity to produce the houses required. Two methods of stimulation were adopted. The Local Authorities entrusted with the local administration of the county (County Councils, Borough Councils, District Councils) were compelled by legislation to supply the deficit of housing accommodation within their jurisdictions, and encouraged by generous subsidies to finance the building of the houses which private enterprise had failed to supply.

This was not altogether a new policy. Before the War, the more progressive Local Authorities, such as'

the London, Birmingham and Leeds Councils, had financed large building schemes, and were among the largest house property owners in the country. But they were exceptions. The great majority of the Councils throughout the country had confined their housing activities to the supervision of housing and the enforcement of the housing by-laws. They had refrained from financing actual housing schemes, which was regarded as an encroachment into the domain of private enterprise.

But when private enterprise withdrew after the War, the Government called upon the County, Borough and District Councils, as the Housing Authorities within their jurisdictions, to undertake the financing of building construction on a large scale. Government made this policy feasible by generous subsidies and by granting loans with lengthy periods of repayment, at comparatively low rates of interest. The position, as stated by the Ministry of Health, was as follows:

During the period, 1909-15, in spite of the marked decline in the erection of houses for the working classes by private enterprise during the four or five years prior to the war, the great bulk of such houses continued to be erected by private enterprise, over 200,000 being erected as compared with 11,000 erected by Local Authorities.

With the passing of the Act of 1919, housing became a statutory duty of the 1802 Local Authorities in England and Wales. The great bulk of these Authorities had not previously contemplated the possibility of undertaking the erection of houses, and the duty was imposed on them at a time when the need, owing to the entire cessation of

building for four years following on a slack period of a previous five years, was abnormally acute, and when the conditions and cost of labor rendered the erection of houses at an economic rent impossible.

Also

The Housing Act of 1919 transformed what had previously been an optional power in Local Authorities to provide houses, into an obligation on them to provide for the whole of the working class need for their district, so far as it was not likely to be met by other agencies.

But the subsidies and loans from the Government were not confined to the Local Authorities. They were extended to builders and to certain classes of Societies and Associations willing to undertake the construction of houses on the terms and conditions prescribed. The policy of the Ministry of Health in this respect is clearly stated in the following extracts from its Report for the year 1919-20:

Side by side with the provision of houses by the Local Authorities, the Ministry have consistently encouraged the erection of houses by Public Utility Societies. The original conditions offered not proving sufficiently attractive, better terms were offered, and the same advice and assistance as regards their schemes are given to these Societies as to the Local Authorities.

In order that encouragement might be given to all possible sources of supply, provision was made for the payment of grants to private builders who would erect houses of the same character as those in the housing schemes of Local Authorities. The amount of subsidy originally fixed was subsequently increased, and it is already certain that



some thousands of houses will be erected under this arrangement within the next twelve months.

The class of Society best able to take advantage of these offers of loans and subsidies and to comply with the somewhat onerous conditions, was the Building Society. The British Building Society is a mutual society of shareholders formed to assist each other in the purchase or building of houses usually for personal occupation. It is somewhat analogous with the American Building Loan Association.

The Building Societies of Britain date from the middle of the Nineteenth Century. They progressed steadily and gradually until the War. But they then had to compete with many other sources and methods of financing house property, and, although they were continually improving their position, they did not attain to an outstanding supremacy until after the War. The adoption of the loan and subsidy policy by Government to private enterprise established their supremacy. Competing systems of financing house construction, such as small private capitalists, Legal Firms, Insurance Societies and Savings Banks, were not in so favourable a position to comply with the technical conditions prescribed by Government. Private builders seldom had the financial resources to take full advantage of the Government assistance offered. The Building Societies, formed with the single objective of financing housing construction and purchase, could devote their whole energies to the task of complying with the Gov-

ernment Regulations and to providing the technical staffs to carry them out.

In these favourable circumstances the Building Societies now provide the finance of nearly all housing activity for small houses within the cost range of \$2000 to \$8000, constructed by private enterprise in Britain. There are over one thousand such Societies. The largest, the Halifax Building Society, has assets amounting to \$571 millions. The total membership of all the Societies exceeds three millions, and their total assets are over three billion dollars. In 1935, they made advances for the building of 240,797 houses, the amount advanced being \$653 millions.

The funds of the Building Societies are raised by the issue of shares to their members. The shares are of small amounts and can be made in small periodic (weekly or monthly) payments. On obtaining a share, and passing the tests for credit-worthiness, a member is entitled to a mortgage loan amounting to 75 per cent of the cost of the house he wishes to purchase or build. Their share funds are supplemented by the receipt of deposits from members and from the outside public, for which deposits the Building Societies are prepared to pay a higher rate of interest than is obtainable from the Commercial Banks.

The organisation of a Building Society is on such a scale that it is possible to keep down extraneous costs, such as legal charges and architects' fees. The Building Societies work in close association on the one hand with the Building Industry and on the other hand with

the Local Authorities. They are also in close touch with the Real Estate Agencies. The close co-operation between the various organisations responsible for building construction and finance results in economy and speed in building operations. This aspect of their activities is further considered in Chapter IX dealing with Security and Amortization.

The best method of bringing home to the readers of this volume the importance of the Building Society movement in Britain is to utilise the Presidential address of Sir Enoch Hill to the members of the Halifax Building Society on March 22nd, 1937. The comprehensive nature of the operations of this Society may be gathered from the following facts for the year 1936:

Number of borrowers .....	226,059
Number of new borrowers during year.	31,794
Total number of accounts (shareholders and depositors) .....	682,615
New accounts opened during year .....	86,751
Total assets .....	\$571,637,880
Receipts during year .....	189,429,465
Advanced on mortgage during year ...	102,443,760
Total sum due on mortgages .....	460,979,940
Reserve Funds .....	23,336,710

The nature of the shares held by the members of the Society is explained in this passage from the Presidential address:

It is advisable to recall from time to time that the chief method originally employed by building societies to raise funds was by means of monthly investing subscription

shares. This department of the Halifax Society has always been popular, but it is not used to the extent which I feel sure its facilities and advantages deserve, and I would urge upon all the society's members and officials that they endeavour to extend this form of regular and systematic saving, in order that the society may be instrumental in helping as large a number as possible—men, women, and children—by the inculcation of the habit of thrift through monthly investing subscription shares.

The funds obtained from shares are supplemented by deposits. During the period of low interest rates, when the Commercial Banks have been giving little or no interest on fixed deposits, there has been a great rush to deposit savings in the Building Societies. The flow of funds was so great that restrictive measures had to be adopted, as described in the following passage from the President's address:

During the year considerable restrictions have been in force upon the receipt of additional investments from members and depositors, but in spite of these restrictions the directors were able to accept and employ, including the interest added, an increase in these funds of \$29,655,705. The total funds of investing shareholders and depositors now stand at \$546,531,290. The excess investments constantly offered to the society are a sign of the great confidence it inspires by its convenient facilities and the strong position disclosed by its balance-sheet.

It was not till 1920 that the Government was able to stimulate the building industry into active house building. Much time was lost in the general unsettlement after the War. Further time was wasted in the hope

that private enterprise would resume its operations in financing building in the same manner as before the War. Even when it was decided that it was necessary to enlist the Local Authorities in the task of financing house building, and that Private Enterprise would have to be subsidised, it took some time before actual building commenced.

At last, however, a start was made on a very modest scale. It is necessary to present the figures according to the British Financial Year, that is, from the 1st April, 1920 to the 31st March, 1921. The number of houses built and the methods by which they were financed, are given, approximately, in the following statement:

Private Enterprise, Not Subsidised ..	6,000 houses
Private Enterprise, Subsidised .....	12,000 houses
Local Authorities, Subsidised .....	16,000 houses
	34,000 houses

It should be made clear that the great majority of these 34,000 houses were constructed by the building industry, in the ordinary way and financed during construction by the Commercial Banks. The cost of the houses, on completion, was provided by the Local Authorities (in all cases subsidised by the Central Government); or by Private Enterprise, in most cases (approximately two-thirds) subsidised, and in a smaller number of cases (about one-third) not subsidised. In 1920-21, there were individuals and other organised bodies, as well as Building Societies, included in the

term "Private Enterprise". But gradually, the other factors fell out, and year by year, the Building Societies increased their proportion of the total permanent finance provided until they have become almost synonymous with "Private Enterprise" in the financing of small domestic house building.

In 1920, when the shortage of labour was most acute, a certain number of Local Authorities obtained permission to construct their houses departmentally, and to engage labour directly for their construction. Such permission was granted as an experiment to test whether this method of construction had any advantages over working by means of contracts through the building industry. The results were not successful and the experiments were abandoned. Departmental control over labour was not so efficient as the control of the master builder.

A general distinction between the houses financed by Local Authorities and those financed by Private Enterprise was gradually established. At first, all subsidised houses were built for renting to tenants, and the sale of such houses was stringently restricted. But gradually it was found that there was a large demand for houses to be owned by their occupiers. Numerous applications for the purchase of the houses in which they dwelt were received, and alternative methods were devised by which such applicants were permitted and assisted to purchase the houses in which they lived. Gradually the distinction arose that houses financed by Local Authorities were generally built for letting

at a low rental to the poorer classes of manual workers, while houses financed by Private Enterprise were usually built for sale by instalments to the prospective occupier. How the Government ultimately eliminated this distinction and assisted Private Enterprise to provide, not only houses for owner-occupation, but also houses to be let at rentals to all classes of tenants, including the low income groups of the working classes, is related in Chapter VII.

The modest beginning of 34,000 houses in 1920-21 was destined to grow into a grand total of 3,146,946 houses by September 1936, probably the biggest house building programme in such a period on record. This growth is not, however, a straightforward record of progress and accomplishment. It contains many mistakes, many disappointments, many set-backs, occurring in the course of what is undoubtedly a great achievement. An account of the mistakes and the disappointments is perhaps quite as useful as the record of its achievements.

The principal error was the excessive use of subsidies in stimulating the building of houses. No doubt it was the only method to adopt in the extremely difficult conditions which ensued after the War. The housing deficiency was intense, housing conditions were deplorable, and private enterprise had failed to take any steps to effect any amelioration. Subsidies, and generous subsidies, were inevitable, at any rate for a start, in order to set the building industry working.

But they were continued far beyond the limits of utility and they brought many evils in their train.

Another error was the attempt to use the standard of housing accommodation of the working classes simultaneously with the attempt to remove housing congestion. The two attempts frustrated each other and most of the better types of subsidised houses were occupied by families for whom they were not intended.

There is undoubtedly a field, and a wide field, for subsidies in a well-conceived housing policy. But it required eight years of groping in the dark, and an enormous expenditure of resources, before the limits of the useful application of subsidies in housing policy were ascertained and applied. Before considering the present housing policy of the British Government, it is necessary to take a brief glance at its subsidy policy extending from 1920 to 1928. That policy has now been abandoned, except in a limited sphere, but it embodies an extremely valuable mass of experience, the lessons of which should not be neglected. Further aspects of Housing Finance are considered in Chapters VIII and IX dealing with Building Costs, Security and Amortization.





*Courtesy London County Council*

THREE STOREY APARTMENT HOUSES ON BECONTREE ESTATE. THREE AND FOUR ROOM UNITS.



*Courtesy London County Council*

TABARD GARDEN ESTATE. TYPICAL TABARD STREET SLUM BEFORE CLEARANCE.

## CHAPTER III

### *The Subsidy Period*

The Housing Act, 1924, provides primarily that houses which are subject to special conditions as to their letting and the amount of rent charged for them, and which are completed before the 1st October, 1939, shall be eligible for Exchequer contributions which, at the present time, are £7 10s. 0d. a year for forty years; or, in the case of houses situated in an agricultural parish, £11 a year for 40 years. *Ministry of Health Circular 520 (revised) dated 14 August 1931.*

MANY tentative experiments were necessary before it was possible to determine the amount of subsidy necessary to stimulate the building industry to build dwelling houses up to its fullest capacity. In the passages quoted in the previous Chapter occur such statements as:

The original conditions offered, not proving sufficiently attractive, better terms were offered;

and

The amount of subsidy originally fixed was subsequently increased.

Other statements to the same effect are:

In consequence of representations made to the Minister by Local Authorities and others, the first Regulations issued

were revised after having been submitted to representatives of the Associations of Local Authorities and of the Institute of Municipal Treasurers and Accountants.

And

Despite the fact that the increased terms of financial assistance granted by the Housing Act 1919 were in operation, the response to the Government offer is smaller than might have been expected.

By 1926, experience was sufficient for the subsidies to be definitely fixed at the rate of a contribution of £7.10.0d (\$37.50) per annum for 40 years for each house complying with the conditions prescribed, built in an urban area; and £11 (\$55) per annum for the same period for each house built in an agricultural area.

It will be noticed that in the passage cited at the head of this Chapter, no distinction is made between houses the construction of which was financed by the Local Authorities, and houses financed by private enterprise. The objective was to get the maximum number of houses of a certain class built within the shortest space of time. The subsidies were intended to stimulate not only Local Authorities, but also the builders, the Building Societies and other public utility organisations, to do their utmost to add to the supply of housing accommodation as rapidly as possible. Provided that the houses built satisfied the conditions prescribed they were entitled to earn the subsidies, what-

ever might be the source from which the funds for their construction came.

Among the conditions which must be satisfied before subsidies would be paid were the following:

1. The houses must be built for renting, not for sale;
2. Subletting by the tenant of the house or any part thereof was severely limited;
3. Sale of a subsidised house was permitted, but under very stringent conditions;
4. A fair wages clause must be inserted in every contract for construction;
5. Rents must be in conformity with rents commonly paid for ordinary working class houses erected before the War;
6. Preference must be given to large families in letting houses.

The Local Authorities of the country responded enthusiastically to the legislation of 1919, transforming their optional power to provide houses into a compulsory obligation. In August 1920 the newly formed Ministry of Health reported:

That 1553 out of 1865 Local Authorities had by the 27th March, 1920, taken practical steps towards the carrying into effect of a housing scheme, is decidedly satisfactory, seeing that out of the 312 which had not taken steps, there were an appreciable number of cases in which no houses were needed. Moreover, not only had this large number of authorities selected sites for their houses, but the figures of tenders approved and of houses in signed contracts, grew in a constantly increasing ratio from month to month. This rate of progress has been fully sustained since the end of the year under review.

The size of the houses entitled to earn subsidy had to fall within the following limits:

Class of Dwelling	RANGE OF FLOOR SPACE	
	<i>from</i>	<i>to</i>
One story .....	550 sq. ft.	880 sq. ft.
Two stories .....	620 sq. ft.	950 sq. ft.
Apartment houses .....	500 sq. ft. per unit	....

Latitude was permitted in the preparation of plans to allow for local conditions and preferences, and an elaborate series of standard plans was made available. The adoption of such plans had the advantage that, having been prepared by the Ministry of Health, they were accepted automatically when schemes were submitted for approval.

In all, thirty-four type plans and elevations, so complete that they could be used without alteration, were issued in a volume entitled "Type Plans and Elevations Designed by the Ministry of Health in Connection With State Aided Housing Schemes." They were designed in pairs and in blocks of four, fully illustrated, with bills of quantities prepared for each plan. The designs were varied to suit different aspects and roofing materials, and to meet divergent local views and requirements. Subsequent plans to illustrate special points, and to demonstrate how to utilise sites of peculiar shapes, were also issued from time to time in the Departmental publication "Housing."

In addition to the subsidies provided by the Central Government as previously described, Local Authorities were permitted to give further subsidies in reduction of rentals up to a penny rate. It is difficult to explain the meaning of the term "a penny rate" to those unfamiliar with the British Local Taxation System. Briefly, local taxation is levied on the annual value of all buildings within the jurisdiction of any Local Authority discounted by deductions, maintenance and depreciation. A valuation of this property is made by specially appointed assessors every five years. The total annual valuation of all the property within the jurisdiction of any Local Authority, so discounted, is termed its "rateable value". Taxation is levied annually at so many pence in the pound on the rateable value. A penny rate means the levy of one two hundred and fortieth part of the rateable value levied every year. This was the limit up to which Local Authorities could subsidise the houses being built under the new schemes, in addition to the subsidies paid by the Central Government, in order that they could bring their rentals down to the paying capacity of the tenants.

The credit of the larger Local Authorities was usually sufficiently high for them to raise at comparatively low rates of interest in the open market, the capital for the construction of the houses to be built. The smaller Authorities were able to finance their building schemes by loans from the Central Government obtained at comparatively low rates of interest. This form of assistance by means of loans at low rates of

interest and long periods of repayment was also extended to a limited extent to Public Utility Societies prepared to build the classes of buildings prescribed by the Central Government and to comply with the conditions laid down.

Several devices were adopted to facilitate the raising of the large amounts of capital needed to finance the various building schemes being undertaken. The normal methods of raising loans, in the open market for the larger Local Authorities, and of obtaining loans from the Central Government's Local Loans Fund for the smaller authorities, were supplemented by—

1. The issue of special Housing Bonds in the area of the Local Authority concerned;
2. the utilisation of the funds raised by the National Savings Board up to a limit of 50 per cent of the savings collected;
3. special Housing Mortgages on the security of the rates of the Local Authorities.

It is difficult to give in detail the numerous provisions regulating the financial assistance extended in respect of the various housing schemes. The literature of Circulars, Memoranda, Orders and Regulations issued by the Ministry of Health is voluminous, and modifications of the regulations and of the financial provisions were frequent. During the year elapsing between the 1st April 1919 and the 31st March 1920, the Ministry issued nineteen Circulars, twenty-six General Housing Memoranda, twenty Statutory Rules



and Orders, three Housing Manuals and four other general publications.

In addition, the Ministry published a fortnightly Journal—Housing—circulated to Local Authorities, the Public Utility Societies, the Building Industry and to all interested in the subject of Housing. Nothing that the art of propaganda could achieve was omitted in the task of raising the deplorably low housing conditions to a higher standard.

As an indication of the thoroughness with which the problem of remedying the intense shortage of housing accommodation was attacked, the appointment of an influential Housing Advisory Council may be cited. So vast and complex were its duties that it was found necessary to allocate them between no less than seven sub-committees, as follows:

1. Standardisation and New Construction
2. Finance
3. Contracts
4. Specifications
5. Agricultural Rents
6. Unhealthy Areas
7. Women's Interests and Participation.

The practical response to this elaborate system of organisation was rapid. The governing Housing Act was passed on the 31st July 1919. By the 31st March, 1920, that is, in a period of eight months, over a thousand Local Authorities had prepared housing schemes for the erection of 17,205 houses, including the acquisition of the necessary land and the drainage, sewerage

and roadways to serve them. These schemes had been considered and approved and loans to the extent of £41,724,000 (\$208,620,000) had been sanctioned to finance them.

The following particulars of the finance of this first eight months' crop of schemes is of interest as showing the respective proportions of finance allocated to land purchase, actual construction, and development respectively:

Number of Local Authorities	LOANS SANCTIONED			
	For Land Purchase	For Building Construction	For Roads, Sewers, Etc.	Total
1038	\$24,495,000	\$171,105,000	\$13,020,000	\$208,620,000

The response of private enterprise (builders, Building Societies and private individuals) to assist in the provision of houses for renting to the working classes was not so comprehensive. In the same period (up to 31st March 1921) 67 schemes with house plans complete, representing 4,756 houses had been submitted. But before long private enterprise outstripped the Local Authorities in the provision of houses. For three years, 1924 to 1927, the output of private enterprise in this respect exceeded that of the Local Authorities throughout the country.

But the provision of houses at low rentals was not the natural sphere of private enterprise during that period of rapid transition and changing conditions. It

involved a heavy lock-up of capital giving but a low return of interest. Building for sale to owner-occupiers was a much more congenial sphere in which private enterprise could operate.

There was a considerable demand for houses of this class. Provision was accordingly made that Local Authorities should advance funds to private enterprise (Building Societies, builders and private individuals) for the building of houses for sale or for owner-occupation. Such houses, though their construction was assisted by loans from Local Authorities, were not regarded as being subsidised. It is interesting, in comparison with the rates of interest for similar loans now prevailing, to note that the rate of interest chargeable on such loans, according to an order of the Ministry of Health issued on the 26th August, 1921, was  $6\frac{1}{2}$  per cent. At that time this was regarded as a most favorable rate.

The demand for occupation-ownership of houses was so strong that the restricting limitations at first imposed were gradually relaxed. The amount that could be advanced on mortgage was gradually extended from 75 to 90 per cent of the total cost of a dwelling house, and the limits on the value of the houses for which such loans could be advanced was gradually extended from £800 (\$4,000) to £1200 (\$6,000).

Another form of co-operation initiated between the Local Authorities and private enterprise was provided by a guarantee by the Local Authority of the repayment of advances made by a Building Society to its

members. The guarantee enabled the Building Societies to extend their advances to their members contemplating building or buying a house, from 75 per cent to 90 per cent, leaving the purchaser to provide an initial payment of 10 per cent only of the total cost of the house.

Many authorities hesitated to use this provision, deeming that their liability under a guarantee to a Building Society might be greater and last longer than their liability under a loan of an equal amount (15 per cent). In order to encourage this form of assistance, the Central Government undertook to bear half the loss that any Local Authority might sustain under its guarantee to a Building Society. Events proved that the fears of the Local Authorities were groundless, and the losses owing to the default of purchasers under the guarantees have been negligible.

The houses built under these elaborate and frequently changing schemes can most easily be classified under three heads, according as they were subsidised or not, and whether financed by Local Authorities or by private enterprise. In the eight years (1920-28) which may be regarded as the Subsidy Period, because during that period subsidies were the primary method utilised to stimulate house building, the figures of houses built in the three classes are:

Local Authorities (Subsidised) .....	411,822
Private Enterprise (Subsidised) .....	310,359
	<hr/>
Total Subsidised .....	722,181
Private Enterprise (Not Subsidised) .....	382,387
	<hr/>
Grand Total .....	1,104,568

It should be noted, however, that considerable assistance was given to private enterprise with respect to many of the 382,387 unsubsidised houses. Loans and guarantees were freely available, and standard plans and expert advice were provided. Every effort was made by the authorities to reduce legal and overhead charges, and to facilitate the operations of private enterprise to the utmost extent possible.

The details of the houses built during the Subsidy Period (1920-28) and for one year following are here-with given, the numbers for the first three years being approximate only :

Year	SUBSIDISED			UNSUBSIDISED
	Local Authorities	Private Enterprise	Total	Private Enterprise
1920-21	16,000	12,000	28,000	6,000
1921-22	80,000	20,000	100,000	15,000
1922-23	58,500	10,000	68,500	34,000
1923-24	14,353	4,311	18,664	67,546
1924-25	20,624	47,045	67,669	69,220
1925-26	44,218	62,769	106,987	66,439
1926-27	74,093	79,676	153,779	63,850
1927-28	104,034	74,548	178,582	60,332
1928-29	55,723	49,069	104,792	64,740
	467,545	359,428	826,973	447,127

The above statement has been expanded to include the year 1928-29, in order to show the effect of the change in the subsidy policy on the number of houses built. It is of interest because it exhibits a steady advance, broken by two retrograde movements in 1923-

24 and 1928-29. The causes of the first of these two retrograde movements are explained in the Report of the Ministry of Health published in June, 1922.

Difficulties due to the shortage of capital, labour and materials, which, in addition to the administrative problems inherent in the inauguration of a comprehensive policy, were the main obstacles to be surmounted in the first two years of the Government scheme, have tended to diminish. On the other hand, the cost of building had, during the previous year risen to such a height as to make it imperative, in view of the general financial position, to limit the amount of building to be undertaken at the expense of the Exchequer.

And:

From the beginning of the financial year, therefore, a policy was adopted of limiting new commitments. Authority for the erection of additional houses was given only after careful consideration of the needs of an area.

Also:

The causes which dictated the financial policy embodied in the Acts of 1919, expressly adopted as an emergency measure for a limited period, are ceasing to operate.

Three reasons are given for this setback in the above extracts:

1. the excessive cost of building;
2. the financial crisis of 1922;
3. the housing emergency had passed.

The true reasons were the first and the second, the financial crisis of 1922 and the high costs of construc-

tion. Directly the crisis passed, it was perceived that the housing congestion was as acute as ever. Subsidies were again freely given and house building proceeded with redoubled energy.

The setback in 1928-29 was much more formidable. There was another financial crisis extending from 1928 to 1932, much more serious and obstinate than the crisis of 1922. The Government had spent a total sum of £74,000,000 (\$370,000,000) in subsidies, and was further committed to an annual expenditure of £11,000,000 (\$55,000,000) ranging from 30 to 50 years in the future, for subsidies on its past building programme. Over a million houses had been built at a cost of £850,000,000 (\$4,250,000,000) and yet large numbers of the working classes, on whose behalf this vast expenditure had been undertaken, were still housed in sordid and degraded conditions.

From 1928 to 1933, Britain passed through the most serious financial crisis that she has experienced in modern times. It was essential that public expenditure on housing must be curtailed, especially as it had not materially improved the housing conditions of the poorest classes, for whose benefit it had been incurred. Great improvements in housing conditions had been effected, but they had been largely secured by the middle classes and by the upper ranks of the working classes.

Enquiries revealed the following defects in the system as it had developed between 1920 and 1928:

1. There was severe competition between the Local Authorities and private enterprise for the subsidies, stimulating excessive development in one particular direction;
2. Both the Local Authorities and private enterprise tended to build the highest class of dwellings eligible for the subsidies, to the neglect of the lower and cheaper classes of dwellings.
3. It was easy to get tenants (from the middle classes and the higher paid workers) to pay the rents for the better class dwellings; it was more difficult to construct the cheaper classes of dwellings to be let at rentals within the capacity of the poorer workers.
4. The generous subsidies being paid tended to keep up the high costs of building materials and building construction.

The first step taken was to withdraw subsidies from private enterprise. This could not be done immediately as there were at the time many schemes in our advanced stage of consideration based on the understanding that subsidies would be paid. Although the decision to withdraw subsidies from houses financed by private enterprise was made in December, 1928, it was not till 1930 that the withdrawal became general. Of course, the annual payments on the 310,359 houses already constructed on the subsidy system, and on the houses built under the rapidly diminishing number of subsidy schemes sanctioned in 1929, had to be continued; but future commitments, except to special schemes devised by philanthropic bodies, were discontinued.

Not only were subsidies withdrawn from private



enterprise; they were stringently limited to Local Authorities. These bodies were instructed to confine their attention to the cheaper classes of houses which could be let at the lowest possible rentals to the poorest classes of tenants. Every proposed scheme was rigorously examined by the Ministry of Health and sanction was refused for all schemes that did not make low rentals their main objective. Although there was no question of withdrawing subsidies completely from the Local Authorities, the rigorous pruning of schemes by the Ministry of Health resulted in a greater set-back to the number of subsidised houses financed by Local Authorities than was suffered by private enterprise. The following statement shows the immediate effect of the new policy in the numbers of subsidised houses constructed:

Year	HOUSES FINANCED BY :		Total
	Local Authorities	Private Enterprise	
1927-28	104,034	74,548	178,582
1928-29	55,723	49,069	104,792
Reduction	48,311	25,479	73,790

From this period, subsidies occupy but a subordinate role in British housing policy. They vanish to a negligible amount in the finance of Private Enterprise. They maintain a level ranging between 50,000 and 70,000 houses per annum financed by Local Authorities. But these numbers have been far outdistanced by the num-

ber of houses built by unsubsidised private enterprise. The remarkable achievements of British house building which have attracted such widespread attention from all visitors to Britain during the past three or four years have not been financed by subsidies. Subsidies are now rigidly limited to housing in the poorer quarters to which overseas visitors seldom penetrate.

The rapid progress achieved during the Subsidy Period is best illustrated by the comparison, or rather the contrast, provided, by the following statement:

Year	NUMBER OF HOUSES BUILT		Total
	Subsidised	Not Subsidised	
1920-21	28,000	6,000	34,000
1927-28	178,582	60,332	238,914

It was a great achievement to raise the number of houses being built from approximately zero per annum in the year following the War, to a figure approaching a quarter of a million per annum in eight years. But that achievement was far surpassed in the following eight years. The great epic of British housing is not the building of 772,181 subsidised houses in the period 1920-28. It is the building of 1,444,388 unsubsidised houses in the subsequent eight and a half years, April, 1928 to September, 1936, four years of this latter period comprising a severe trade depression of unparalleled magnitude.

Anticipating a little, the gradual retreat of the Brit-



*Courtesy London County Council*

TABARD GARDEN ESTATE. APARTMENT HOUSES TO ACCOMMODATE FAMILIES OF PREVIOUS  
SLUM AREA.



*Courtesy London County Council*

ECONOMICAL BLOCKS OF EIGHT HOUSES ON 68 ACRE WORMHOLT ESTATE. 895 HOUSES  
AND FLATS.

ish Government from its subsidy policy, was accomplished in the following steps:

- 1928 —Curtaiment of subsidies owing to financial stringency;
- 1928–29—Formal withdrawal of subsidies from Private Enterprise;
- 1930–31—Formal withdrawal of subsidies from Local Authorities for all dwellings except C Class houses;
- 1933 —Withdrawal of all subsidies except for slum clearance and overcrowding schemes.

The operation of subsidies in stimulating the removal of slums and overcrowding is the subject of Chapter X.

The final considered opinion of the British Government on the question of subsidised housing is contained in the following passage:

The abolition of indiscriminate subsidy—a type of subsidy which experience has shown to be no remedy for the basic housing problems—has not only removed an artificial obstacle to the development of building by private enterprise and the lowering of costs, but has made it possible to devote the available financial assistance to the solution of these factors of the housing problem which most demand rapid and drastic treatment.

## CHAPTER IV

### *The Turning Point*

It is within the knowledge of Local Authorities that many of the working classes of this country live in sordid and degraded housing conditions the continuance of which is nothing less than a social menace. *Circular of the British Government Ministry of Health, dated 19th August, 1930.*

In England and Wales since the War, from public and private resources, more than £1000 million (five billion dollars) has been spent in the building of more than 1½ million new houses. This represents a housing effort which has probably never elsewhere been equalled. *Ministry of Health Report of the Inter-Departmental Committee on the Rent Restriction Acts; July, 1931.*

The Housing Act, 1930, marked a turning point in post-war housing policy. *Report of the Ministry of Health 1930-31.*

THE revolution in British housing policy, commenced in December 1928 by the announcement that subsidies would be withdrawn from houses financed by private enterprise, was continued by the rigid reduction and limitation of subsidies to the Local Authorities. They were restricted to schemes which made their main objective the provision of small cheap houses at the lowest possible rentals. The revolution was completed by the Housing Act of 1930, which was officially announced as marking a turning point in post-war housing policy.

The serious financial condition of the country from 1928 to 1930 had made it imperative to effect a stock-taking of the achievements resulting from the outpouring of subsidies for housing since 1920. The results of that stocktaking are summarised in the first two of the three quotations forming the heading of this Chapter. Issued within a year of each other under the authority of the British Ministry of Health, they appear to be in hopeless contradiction. Unprecedented efforts had been made for eleven years (1920-1931) with the avowed objective of improving the housing conditions of the working classes. Subsidies had been injected into the task of improving and expanding housing accommodation with unparalleled generosity. The whole of the democratic administration of the country (County Councils, Borough Councils, District Councils) had been mobilised to assist and supplement private enterprise in the financing and construction of healthy and comfortable houses for the families of the manual workers of the country. In the rhetoric of Mr. Lloyd George, Britain was to be made "a land fit for heroes to live in."

And yet the effort had failed to fulfil its original purpose. Many of the working classes, the majority of them in fact, were continuing to live in such sordid and degraded housing conditions that they amounted to a social menace. The housing effort, unparalleled and magnificent as it had been, had miscarried. A fresh attempt to solve the intractable problem must be made.

The Ministry of Health was very reluctant to admit

that its efforts had failed in their primary objective. In its Annual Report for 1929-30, its dissatisfaction with the results achieved was expressed in very guarded language, as follows:

In the main, houses provided under the Act of 1923 have been of value in meeting the demands of the better paid workers. There is indeed reason to believe that in some instances the houses were occupied by persons who are not, within any ordinary acceptance of the term, "working classes." Practically all the houses built by private enterprise with assistance under the Act were built for sale at a price beyond the means of the less well paid workers.

But two months after this guarded admission was made, the Ministry expressed in the forcible language of the first quotation forming the heading to this Chapter the complete failure of its housing policy to achieve its primary objective.

There had been an irresistible temptation in the housing policy evolved after the War, to react from the sordid and unhealthy conditions in which the mass of the workers were living, by providing the new houses with accommodation and amenities of a high standard. The parlour house is a case in point. But this defeated the main objective of the policy. Houses providing such accommodation, even with the help of subsidies, could only be let at rentals out of all harmony with the wages of the workers for whom they were built. To avoid the heavy subsidies necessary to bridge the gap between their economic rents and the rentals which the lower-waged workers could pay, they were



let or sold to the higher paid wage-earners and to members of the middle classes.

It was necessary in the Annual Report of the Ministry of Health for 1930-31 to warn the Local Authorities against the practice of providing too elaborate and expensive types of housing. The warning was conveyed in the following passages:

There appear to be areas in which the interests of the working class, which the Housing Acts are designed to meet have been subordinated to the desire of the Local Authority to obtain satisfactory and even substantial tenants.

While many smaller houses have been built by Local Authorities to the great advantage of the new tenants, an ample average size for three bedroomed non-parlour houses has been found to be 760 feet. Many Local Authorities, however, continue to base their housing work upon plans involving the construction of very much larger houses. It is however clear that

- (a) fewer people are rehoused by the expenditure of a given sum of money;
- (b) the people who are rehoused have to pay a higher rent.

The Report suggested concentration on types of houses of moderate accommodation to be erected by Local Authorities at small cost. It attributed the failure of the housing policy to the fact that the subsidies given had stimulated the construction of houses too large and too expensive for the families they were intended to benefit.

But the failure was due much more directly to the

lack of appreciation of the facts briefly related in the first Chapter of this volume. The unsuitability of the 80-year-old houses to provide the accommodation considered essential for modern requirements was only slowly filtering through into the official mind. The facts that there were 3,578,000 such houses at the close of the War, and that the numbers of obsolete and insanitary houses were being increased by the lapse of time at a rate of approximately 50,000 houses per annum, were thrust into the background owing to the necessity for concentrating on new building programmes. The construction of one and a half million houses in eleven years, magnificent effort though it was, failed to neutralise such a mass of obsolescence and decay.

The following statements from a general survey of housing policy contained in the Ministry of Health Report for 1930-31, indicate the grave nature of the omissions and their causes:

The policy previously followed by all Governments had been to concentrate almost exclusively on the provision of new houses in order to increase the total pool of accommodation available for the working classes.

While a limited amount of slum clearance was undertaken it was considered that any direct and comprehensive plan to clear the slums and to meet the needs of the poorest workers must meanwhile be deferred.

Difficulty has been experienced, in spite of the large subsidies from taxes and rates, in letting the houses at rents within the capacity of numbers of the poorer classes.

There is a considerable amount of evidence available, in the Reports of Medical Officers of Health, and elsewhere,

that there has been discouragingly little improvement in the worst cases of overcrowding and unhealthy conditions.

The general filtering up process had been retarded by certain factors, for which perhaps insufficient allowance had been made.

Perhaps, most significant of all are the following:

Certain decisions of the Courts on technical aspects of improvement schemes made under the old code of legislation, rendered it immediately necessary to introduce amending legislation, if even the slow progress, which had hitherto been made in slum clearance, was not to be brought to a standstill.

And:

Various decisions in the Courts have made it impracticable to carry out to the full all of the 121 slum clearance schemes confirmed since 1919.

The admissions of failure made in 1930-31 are but a repetition of a similar admission made 45 years previously, in 1885, by the Royal Commission on the Housing of the Working Classes, to the following effect:

Though there was a great improvement, described by Lord Shaftesbury as enormous, in the condition of the houses of the poor compared with that of thirty years ago, yet the evils of overcrowding, especially in London, were a public scandal, and were becoming in certain localities more serious than they ever were.

There is a remarkable resemblance between the admissions of 1885 and 1930-31. There had been the same

concentrated effort to effect an improvement, the same enormous improvement actually effected, and yet the continuance of evils which can only be described in such terms as "a public scandal," "sordid and degraded housing conditions," "a social menace," and "more serious than they ever were."

There is a very good reason for this apparent contradiction between the continuous efforts for improvement, and the persistence of housing conditions revolting to the social conscience. The durability of houses enables them to outlive their utility. Housing conditions regarded as sumptuous in 1800 were considered a public scandal in 1885. The equipment of a house, regarded as complete when Queen Victoria came to the throne, was hopelessly out of date in 1930. And yet there were millions of houses, built for service at the earlier of these dates, still doing duty more than 80 years subsequently. Such ancient dwellings suffered a double depreciation. They depreciated, because of the physical decay and disintegration of the substances of which they were constructed owing to lapse of time, and also because of the contamination resulting from continuous human occupation for a lengthy period. They had also depreciated because their initial structure and equipment fell behind what were considered as essential by succeeding generations.

Food is ruthlessly destroyed the moment it is regarded as being deleterious to health. We are becoming far more sanitarily conscious of the need for discarding and renewing clothing when it has become

contaminated by too frequent use. Machinery, mills, factories, shipping and other means of transport, are scrapped as soon as it is found that the cost of maintenance, repairs and obsolescence are greater than the interest cost of supplying new and efficient substitutes.

But in the matter of housing there is an obstinate reluctance to scrap and rebuild. This is due to many causes. In the first place, there are seldom enough houses to supply the need for accommodation. In a world supposed to suffer from chronic over-production, there is seldom an over-production of houses. Obsolete and insanitary houses are tolerated because there are not enough well-equipped modern houses to supply the needs of the population.

This point was noted in the Annual Report of the Ministry of Health for 1932-33 in the following passage:

Criticism has recently been made of the post-War housing effort that, according to the 1931 Census Statistics, the output of new houses in the decennium 1921-31 has hardly been sufficient to provide for the increase in the number of families during that period, and has done nothing to overtake the accumulated shortage which existed in 1921.

Obviously there was no strong inducement to clear away the worst type of houses, when the most strenuous efforts to build new houses had not kept pace with the natural increase of population and had therefore scarcely done anything to relieve the serious housing congestion they were intended to relieve.

Moreover, the scrapping of ancient houses is a costly

process, especially if complicated by expensive site values. The disadvantages of an old, decrepit, insanitary dwelling are often balanced by an exceptionally high site value. A building may be of zero value, or even of negative value, regarded from the viewpoint of its accommodation and its amenities. But it may have a high site value owing to its proximity to an important commercial centre. The slum dweller prefers an insanitary hovel in a busy neighbourhood rather than a model dwelling in ideal surroundings at a distance from his daily work. If such dwellings are pulled down, they are usually replaced by expensive commercial buildings, thereby causing an additional shortage of housing accommodation.

To these obstacles to the clearance of obsolete houses are added the almost insuperable barrier of legal procedure. Throughout the period 1920-31, in addition to the construction of one and a half million new houses, the housing authorities had been making small but determined efforts to effect schemes of slum clearance. But all such efforts were hampered by costly legal processes and unfavourable judicial decisions. One of the objectives of the Housing Act of 1930 was to remove the legal obstacles which prevented slum clearance on any comprehensive scale.

This Housing Act of 1930 completed the revolution in housing policy which had been initiated by the withdrawal of subsidies from private enterprise in 1929. Reference has been made in previous Chapters to the immense complexity of the post-war housing proposals

and of the unsatisfactory competition between the efforts of the Local Authorities and of private enterprise. The new policy was one of simplification, effected principally by determining the respective spheres of these two factors in housing policy.

The sphere of the Local Authorities was for the future to comprise the following:

1. The building of cheap houses, which could, with the help of subsidies, be rented to the poorest classes;
2. the building of somewhat larger houses, if there was a genuine demand for them from the manual working classes, and if it could be demonstrated that, with the help of the standard subsidies, the rents would be within the capacity of the prospective tenants;
3. the clearance of slums, and the housing of the displaced families as near as possible to their previous dwellings, at rentals within their financial capacity;
4. the assistance of private enterprise by loans and by guarantees towards the cost of building houses principally for sale or for owner-occupation.

The sphere of private enterprise was to be the building of larger houses both for letting and for sale or owner-occupation, assisted by loans or guarantees from the Local Authorities in the case of houses up to £1500 (\$7500).

The co-operation of Local Authorities with Private Enterprise by loans was enjoined in the following instruction from the Ministry of Health:

Section 92 of the Housing Act, 1925 was intended to increase existing housing accommodation, and provides for advances up to 90 per cent of the value of the applicant's

interest in houses or flats of not more than \$7500 estimated value, ascertained by a valuation made on behalf of the local authority. Loans under this section may be made to persons or bodies of persons proposing to build one or more houses.

This change of policy was communicated to the Local Authorities, the Building Industry and Building Societies in Circular 1238 of January 12th, 1932, in the following terms:

The Minister of Health suggests that Local Authorities should concentrate their efforts on the provision of houses of the type, and not exceeding the size, mentioned above (a three-bedroomed non-parlour type within a superficial floor space of 760 sq. feet) and expressed the hope that this concentration would lead to the provision by private enterprise, without subsidy, of houses of better types both for sale and for letting in substantial numbers.

The two main objects of the policy were:

- (1) the concentration of the activities of the Local Authorities on the provision of houses to let at the lowest possible rents;
- (2) the encouragement of private enterprise to build the larger houses.

The revolution effected in British housing policy in 1929-30 was closely associated with the more dramatic revolution in British monetary policy effected in 1931. Both were due to the same cause. The financial depression of 1929-32 was due to the failure of the Gold Standard monetary system to finance post-war industry and commerce. It was the financial depression



which caused the rigorous curtailment of the policy of stimulating house building by means of subsidies. It was the same depression which caused the gold reserve of the Bank of England to vanish in September, 1931, and forced Britain, in the absence of any gold reserves, to adopt a strictly managed monetary system.

This close association of British housing policy with British monetary policy, initiated in the financial depression of 1928-32, continued during the restoration to prosperity from 1932 to date. The Housing Act of 1930 was a turning point both in making a decided move away from the policy of fostering housing construction by subsidies, and also in separating the spheres of operation of the Local Authorities and private enterprise.

But the new managed money policy adopted induced an equally pronounced turning point in housing policy and housing finance. Housing construction by private enterprise did not suffer from the withdrawal of subsidies. To the astonishment of all, it progressed more rapidly after the subsidies were withdrawn than under the stimulus of their operation. A new stimulus was discovered in the action of low rates of interest which became one of the primary essentials of the new British monetary policy. Low rates of interest proved a far more effectual, and a far less expensive, method of stimulating house building by private enterprise than the payment of subsidies.

It is necessary at this point to digress for two Chapters from the narrative of British housing progress

in order to examine the theoretical operation of the new form of stimulus—low rates of interest—which superseded the old form of the payment of subsidy. This is necessary if a complete understanding of British post-war housing policies and achievements is to be attained. There are two distinct periods with differing policies, differing methods of stimulation, and divergent achievements. The first period, 1920-28, may be termed the Subsidy Period. The second from 1929 to date may be termed the Low Interest Period, although the low interest rates did not begin to operate till 1932, the interval, 1929-32, was a transition period between the Subsidy and the Low Interest Periods. It may conveniently be classed with the latter period, partly because it divides the duration of post-war housing activity into two approximately equal periods of 8 years and  $8\frac{1}{2}$  years, and thereby facilitates comparisons; and partly because it emphasises the primary distinction between the earlier period, when the payment of subsidies was regarded as the normal stimulus to be applied, and the later period, when subsidies were rigidly restricted. The contrast between the two periods may be presented in concentrated form in the table on page 53.

These totals differ slightly from the numbers published in the last official return. The discrepancy is due partly to the fact that the returns for the first two or three years are approximate only, and partly to the fact that the figures published every six months are constantly being revised to allow for returns received too

Period	No. of Years	NUMBER OF HOUSES BUILT		Total
		Sub-sidised	Not Sub-sidised	
April 1920-March '28	8	722,181	382,387	1,104,568
April 1928-Sept. '36	8½	585,299	1,444,388	2,029,687
April 1920-Sept. '36	16½	1,307,470	1,826,765	3,134,255

late for incorporation in the initial publication. The divergence is not of sufficient importance to justify the labour of attempting to reconcile the total of the figures for each year with the finally published total.

## CHAPTER V

### *The Cunliffe Sequence*

The raising of the Bank's discount rate, and the steps taken to make it effective in the market, necessarily led to:—

1. a rise in interest rates
2. and a restriction of credit.
3. New enterprises were therefore postponed,
4. and the demand for constructional materials and other capital goods was lessened.
5. The consequent slackening of employment
6. also diminished the demand for consumable goods,
7. while holders of stocks of commodities, carried largely with borrowed money, being confronted with an increase of interest charges,
8. if not with actual difficulty of renewing loans,
9. and with the prospect of falling prices,
10. tended to press their goods on a weak market.
11. The result was a decline in general prices in the Home Market,
12. which, by checking imports,
13. and stimulating exports,
14. corrected the adverse trade balance, which was the primary cause of the difficulty. *Cunliffe Interim Report, 1918.*

THE Cunliffe Interim Report of 1918 is the most authoritative presentation of the traditional pre-war Gold Standard monetary system that has been published. The Cunliffe Commission was appointed to consider the steps to be taken to enable Britain to return to the Gold Standard after the War. Its Chairman was Lord Cun-

liffe, Governor of the Bank of England. Its members were bankers with the exception of the eminent Cambridge economist, Professor Pigou. When it was evident that the Great War was drawing to a close, although the Commission had not completed its enquiries, an Interim Report was issued, in order that there might be available a clear exposition of the policy underlying the Gold Standard as soon as peace should be declared.

Prior to the War, it had always been assumed that the Gold Standard was an automatic monetary system. Britain was particularly susceptible to a drain on its gold reserves. As a country dependent on overseas supplies for the food of three-quarters of her population, and for one-half of the raw materials for her industries, her large imports always tended towards an adverse balance of trade. Moreover, as the international banker of the world, she had heavy international commitments, quite disproportionate to the amount of her gold reserves. Any panic or unsettlement in any part of the world caused a run on British gold reserves.

But it was considered that they were adequately protected by the automatic action of the Gold Standard. At the first sign of a drain on the gold reserves of the Bank of England the bank rate was put up. This caused an immediate, and it was assumed, an automatic, improvement in the adverse balance of payments causing the drain of gold. Prior to the War, Britain's financial predominance was sufficient to ensure that this method of protection of Britain's gold reserve was effective.

It was, however, impossible to regard the Gold

Standard as being an automatic system of currency after the revelations of the Cunliffe Interim Report. Instead of a rise in the bank rate stopping the drain of gold automatically, it set in motion a lengthy sequence of reactions, profoundly affecting the internal prosperity of the country. The quotation from that Report forming the heading to this Chapter has been presented in a tabulated form in order that the length and continuity of this sequence may be emphasised. After a rise in the bank rate by the Bank of England, there are thirteen important reactions on British industry before the final correction of the adverse trade balance which had been causing the drain of gold.

The Cunliffe Interim Report sounded the doom of the Gold Standard so far as Britain was concerned. The Gold Standard gave the Bank of England unlimited and despotic power over British industry and commerce. In defence of its gold reserves the Bank of England was empowered to restrict credit, to postpone new enterprise, to reduce the demand for constructional materials and capital goods, to create unemployment, to lower the standard of living of the people by diminishing the demand for consumable goods, to confront commercial borrowers (that is, all agriculturalists, merchants and manufacturers) with an increase of interest charges and with difficulty of renewing loans, and to demoralise industry generally by causing falling prices and by forcing agriculturalists, merchants and manufacturers to sell at a loss through a general decline of prices in the Home Market.

Briefly, the Bank of England was given the power to check British imports by lowering the standard of living of the British people to such an extent that they could no longer afford to purchase the amount of food they needed from overseas, and by making British industry so unprofitable that it could not afford to buy the raw materials it needed from the countries producing them.

The sequence of disasters inflicted on British industry by the Bank of England in raising the bank rate, as enumerated in the quotation from the Cunliffe Interim Report quoted as the heading to this Chapter, is not complete. In particular it minimises the amount of unemployment caused by raising the bank rate. Item 5 of the sequence uses the euphemistic phrase: "The consequent slackening of employment," to disguise the active creation of unemployment on a gigantic scale. Unemployment is created not only by Item 4 of the sequence. It is created by items 3, 6, 7, 8, 9, 10, and 11.

Nor does the sequence convey any clear impression of the wide-spread degradation caused by the lowering of the standard of living following a rise in the bank rate. The phrase: "Also diminished the demand for consumable goods," omits to state that such diminished demand is created by the wholesale creation of unemployment, and wholesale reductions of wages. The sequence, indeed, is silent on the subject of the reductions of wages caused by a rise in the bank rate, though Mr. Montagu Norman, Governor of the Bank of Eng-

land, under severe cross-examination by the economist, Mr. J. M. Keynes, admitted as one of its effects:

that unemployment would tend to bring down wages and costs of production generally.

Nor does the sequence, as admitted, even mention the flagrant injustice to agricultural, commercial and industrial borrowers caused by items 7 and 8 of the series, the increase of interest charges and the calling in of loans. In order to present a complete summary of the disasters inflicted on industry by unnecessarily high interest rates, it is necessary to supplement the sequence given at the head of this Chapter by the following twelve supplementary items:

- 3 (a) Unemployment due to the postponement of new enterprises.
- 6 (a) Unemployment due to the diminished demand for consumption goods.
- 6 (b) Lowered standard of living demonstrated by the diminished demand for consumption goods.
- 7 (a) Unemployment due to the increased interest charges on working capital.
- 7 (b) Injustice to agricultural, commercial and industrial borrowers caused by increased interest charges.
- 8 (a) Unemployment due to the difficulty of renewing loans.
- 8 (b) Injustice to agricultural, commercial and industrial borrowers caused by the difficulty of renewing loans.
- 9 (a) Unemployment due to the prospect of falling prices.



- 10 (a) Unemployment due to the prospect of forced sales of produce on a weak market.
- 11 (a) Unemployment due to decline in general prices on the Home Market.
- 11 (b) Injustice to agricultural, commercial and industrial borrowers by the enhancement of the commodity value of all loans, and of all interest payments on loans, caused by the decline in general prices on the Home Market.
- 11 (c) General reduction of wages.

The sequence of disasters to British industry, threatened by the Cunliffe Sequence, was imposed in 1920 in a premature attempt to return to the Gold Standard. But the uprush of unemployment was so great, the reductions of wages were so widespread, and the losses to industry were so universal, that the attempt was abandoned in 1922. Relieved from the incubus of the operation of the sequence, British industry revived and expanded, and in 1924 had reached a pitch of prosperity that has not been equalled since the War.

But the attempt was renewed towards the end of 1924, and in April, 1925, Britain returned to a Gold Standard which rivetted the incubus of the Cunliffe Sequence on to British industry for six and a half years, till September, 1931. During those six and a half years, despite the desperate protests of the Federation of British Industries, though British workmen were as skilful as ever, British manufacturers as progressive as ever, British merchants as enterprising as ever, British industry declined to those two years of unrelieved disaster, 1930-31.

But what has all this to do with British housing policy and the rate of building construction? A reference back to Chapter III will show that the progress in house construction suffered two severe retrogressions, both closely associated with British monetary policy. The set-back in 1923-24 was primarily due to the severe deflation of 1920-22, caused in an abortive attempt to get back to the Gold Standard. The extreme financial stringency of the year 1922 was not apparent till the year 1923-24 owing to the time-lag that must necessarily elapse between a modification of government policy in housing and its resultant effect in housing construction.

Similarly the time-lag between the return to the Gold Standard in 1925 did not produce deterrent effect on house building till 1928-29. The subsidy policy of the British Government was much more securely established in 1925 than it had been in 1922. It had created an enormous momentum which carried on housing construction for three years despite the operation of adverse financial forces.

But though the reaction of housing policy to the operation of the Cunliffe Sequence was slower in 1925-28 than it had been in 1922-24, it was more comprehensive. It profoundly modified the Government's subsidy policy. It caused the withdrawal of subsidies from housing financed by private enterprise. It caused a considerable curtailment of the subsidies given to Local Authorities for housing purposes. It caused

the Ministry of Health to issue the following warning:

It is essential in existing financial circumstances to ensure that all new expenditure in housing should be used to the best advantage.

But the operation of high interest rates through the Cunliffe Sequence was more insidious than the modifications it effected in Government policy. It brought the industry of housing within the sequence of disasters specified in the tabulated statement at the head of this Chapter, and the statement of supplementary disaster subsequently introduced in the course of the Chapter. While the Government was endeavouring by subsidies, by loans, by organisation, by propaganda, by encouraging the Local Authorities to adopt new and unfamiliar activities, to stimulate house building, the Cunliffe Sequence, in 1920-22 and in 1925 to 1931, was operating vigorously to defeat the efforts of Government.

The third item of the Cunliffe Sequence,

New enterprises were therefore postponed,

is its first impingement on material industry. House construction is one of the most important forms of new enterprise in every country. The building of new houses for the accommodation of a growing population and to replace the houses which are destroyed, either through obsolescence and decay or to provide sites for commercial, industrial and transport developments, is a form of new enterprise in constant demand. In

Britain, from the cessation of the War in 1918 up to date that demand has been urgent and imperative.

Yet the Bank of England, for eight and a half years of that period, adopted a policy of an unnecessarily high bank rate and unnecessarily high rates of interest which frustrated the satisfaction of that demand. Government was pouring out subsidies to stimulate that form of new enterprise comprised in the building of new dwelling houses. The Bank of England, in the words of the Report of a Commission of which its Governor presided, adopted a policy which would postpone that form of new enterprise and which operated to neutralise the efforts of Government to stimulate housing activity.

The fifth and sixth items of the Cunliffe Sequence and the supplementary item 11 (c) :

5. The consequent slackening of employment,
6. also diminished the demand for consumable goods,

11 (c). general reduction of wages ;

explain why the efforts of the Government miscarried so widely, and why they failed to achieve their main objective, the better housing of the poorer section of the working classes.

The economic term "consumption" means much more than the consumption of food. It means the destruction, or the deterioration, or the wearing out, of goods and commodities in maintaining human welfare. Consumption may be rapid as in the case of food or the daily Press. It may be less rapid, as in the case

of clothing and automobiles. It may be slow, as in the case of machinery, steamships and the rolling stock of a railway. It may be very protracted, as in the cases of dwellings or churches.

Item 6, the diminished demand for consumable goods, therefore does not only mean a diminished demand for food. It means a diminished demand for clothing, for travel facilities, for housing. This slackening of demand for these necessities is not natural. It is artificial. It is induced by the operation of the Cunliffe Sequence, particularly by the operation of items 5 and 11(c):

The consequent slackening of employment,  
and

General reduction of wages.

Those results, unemployment, reduction of wages, a lowered standard of living, a lessened demand for all consumable goods, including houses, are deliberately and consciously produced by the monetary authorities whenever they raise the bank rate, and produce a general rise in the rates of interest. They may have been produced unconsciously and in ignorance prior to the publication of the Cunliffe Interim Report. But since 1918, every monetary authority which has raised the bank rate has done so in the full consciousness and knowledge that it is producing the series of disasters to industry comprised in the Cunliffe Sequence.

Here then is the reason why the housing efforts of

the Ministry of Health so largely miscarried between 1920 and 1930. They were using the whole force of their elaborate organisation, backed by generous subsidies to provide better housing conditions for the poorer classes of British workers. But the Bank of England was following a policy which was deliberately hampering the production of capital goods, such as houses, which was driving those poorer classes into unemployment, which was reducing the wages of those still in employment, and was curtailing their power to demand consumable goods (including houses). The Bank of England was pursuing a policy which frustrated the policy of the Ministry of Health.

The houses built by the Ministry of Health for the poorer classes of British workers were completely out of their reach because of the operation of the Cunliffe Sequence. Its Annual Reports for the years 1928-31 exhibit an atmosphere of bewilderment that greater success had not been achieved. On paper, the success had been equal to the most optimistic anticipations. The numbers of houses built since the War exceeded the numbers built by any nation in an equal period of time. But they were being occupied by the wrong classes of families. The great majority of the working classes were still living in sordid and degraded conditions. There had been a considerable amount of filtering up, but it had not extended to the lowest stratum of all.

The Subsidy System had perforce to be severely curtailed because of the financial stringency caused by the

industrial depression of 1929-31. That depression itself was purely artificial, the result of the unrelieved operation of the disasters of the Cunliffe Sequence since 1925. There was nothing to suggest that out of the depths of that depression was to emerge a programme of housing construction which, in its achievements, was destined to outdistance by far what had been accomplished by the strenuous subsidised endeavours of the Nineteen-twenties. But before considering the latest, and more successful, phase of British housing policy, it will be necessary to illustrate the theory expounded in this Chapter by a few practical examples.

## CHAPTER VI

### *How Low Interest Stimulates House Building*

According to many authorities, recovery in Great Britain has been largely based on high building activity in that country, predicated on the low interest rates that have been maintained since the close of 1932 and 1933.—Mr. G. J. Eder, *Foreign Securities Division, Standard Statistics, Inc.*

THE problem whether British recovery is based on high building activity, or whether British high building activity is based on the industrial recovery of Britain, is the old problem of the hen and the egg. Which came first, the hen, or the egg? Neither scientists nor archaeologists appear to have solved this latter problem. The solution of the former problem is that British prosperity and building activity were both caused by the same factor—low interest rates.

The high building activity, noticed by every American visitor to Britain during the past few years, is contemporaneous with the industrial recovery which commenced in 1932. It is usually attributed to the heavy subsidy policy adopted towards housing construction by the British Government. "Britain subsidised herself into prosperity," is an opinion strongly held by many overseas observers. The heavy subsidies granted to assist the building of houses, according to



some authorities, increased employment in the building and allied industries (the basic construction trades, road and sewer construction, production of gas and electricity, and the furnishing and equipment trades) to such an extent, that the increased purchasing power distributed in these trades brought about a general revival.

This opinion is completely negated by the statement inserted at the end of Chapter IV, which for the sake of convenience is herewith re-introduced:

Period	No. of Years	NUMBER OF HOUSES BUILT		
		Sub-sidised	Not Sub-sidised	Total
April 1920-March '28	8	722,181	382,387	1,104,568
April 1928-Sept. '36	8½	585,299	1,444,388	2,029,687

This statement demonstrates clearly that the period when subsidies were most generously being given, was followed, not by prosperity, but by the great depression, 1928-32, and that subsidies to house building had been vigorously curtailed years before the industrial recovery started. Whatever may have started the industrial recovery, it was not the housing subsidies.

In the extract quoted at the head of this Chapter, Mr. Eder correctly mentions the actual link which associated the high building activity with industrial recovery—low interest rates. This was the prime motive force which stimulated both activities, the recovery of industry and the high building activity. Neither was

the cause of the other. Both were the result of the operation of the same cause, the low rates of interest prevailing in Britain from 1932 to date.

The great advantage of the departure of Britain from the Gold Standard in 1931 was that it enabled Britain to restore easy money and pre-war rates of interest. The bank rate was rapidly reduced, after withdrawal from the Gold Standard, from 6 per cent in September, 1931, to 2 per cent in June, 1932. This was followed by general reductions in all rates of interest. The emphasis which the British Government has placed on low rates of interest in the monetary policy adopted in supersession of the Gold Standard, is apparent from the following quotations from the two official publications in which that policy is embodied—the Ottawa Monetary Report of August, 1932, and the British Empire Currency Declaration of July, 1933:

An ample supply of short term money at low rates (of interest);

Low rates of interest and an abundance of short term money;

The rates of interest for all purposes should be kept as low as financial conditions permit;

The persistent adherence of the United Kingdom to the policy of cheap and plentiful money has been increasingly effective;

Special importance attaches to the decline in the rate of interest on long term loans.

How very closely the British policy of low rates of interest, pursued with unflinching rigour since 1932,

is in harmony with American policy in the same direction is demonstrated by the following extracts from the Press Statement of Governor Eccles, Chairman of the United States Federal Reserve Board, issued on the 15th March, 1937:

I have been, and still am, an advocate of an easy money policy, and expect to be an advocate of such a policy so long as there are large numbers of people who are unable to find employment in private industry.

Other means than a restrictive money policy must be used under present conditions to control unwarranted price advances.

The supply of money to finance increased production at low rates (of interest) is ample.

What then is the function of the monetary authorities of the Government? It is to help to bring about and maintain the essential element of an adequate supply of funds at reasonable rates (of interest) to call forth and facilitate production and distribution.

The Federal Reserve System has exerted the greatest possible influence to bring about and maintain easy money conditions as a necessary integral part of the recovery movement.

To resort to monetary restraints under such conditions would involve the risk of halting recovery and precipitating another deflation before we have recovered from the last one.

I cannot favour at this juncture the remedy of "tight money" and high interest rates. Such a remedy, if invoked now would result in a reduction of the nation's buying power.

In these passages, Governor Eccles is proclaiming exactly the same monetary policy as that which has

brought about the progress of Britain towards prosperity, and which has stimulated the remarkable progress of unsubsidised housing activity in Britain for the past five years. The phrases "an easy money policy," "low rates" (of interest), "an adequate supply of funds at reasonable rates," "easy money conditions" used by Governor Eccles, describe exactly the cheap money policy by which house building by the owner-occupier in Britain has been stimulated to so high a degree. His refusal to adopt "a restrictive monetary policy" or "to resort to monetary restraints" or to favour "the remedy of tight money and high interest rates" implies an appreciation of the necessity for easy money and low interest rates, if housing construction and employment generally are to be restored to their normal level. High rates of interest or a restrictive monetary policy at the present juncture would stifle the growing interest in house-building.

Departure from the Gold Standard in 1931 enabled Britain to reflate both her internal currency and the international currency, and to stimulate house building on a large scale by private enterprise, by injecting large amounts of fresh money into the heavily deflated monetary circulations. But it was useless to create fresh money unless a method of putting it into active circulation by stimulating new enterprises was adopted. The method of stimulating new enterprises and the circulation of the fresh money created, was the adoption of the lowest possible rates of interest, or, as it is

generally known in the United States, a policy of easy money.

It is necessary to emphasise this fact because orthodox banking and economic opinion in the United States has denied most emphatically that it is within the power of the monetary authority to foster new enterprise by stimulating the circulation of money. Such opinion admits that the monetary authority can increase the volume of money, but denies that it can make the extra volume of money circulate.

The refusal of the banking system to accept complete responsibility for the operation of the monetary system, especially in the control of the velocity of currency, has been frequently illustrated by the remarkable metaphor of "the loose string." Throughout the hearings of the Banking and Currency Committees of the House of Representatives of the United States for 1934-5, the metaphor of the loose string repeatedly occurs. It was generally conceded that the banking system could exercise a restrictive influence on the velocity of currency and on the amount of currency in circulation. In so doing, the bankers were metaphorically pulling a string.

But when it is a question of increasing the velocity of circulation, the defenders of the banking system replied metaphorically that it cannot push on a string. It cannot ring a bell by pushing the bell-rope upwards. The bankers can provide as much money as is necessary, but it cannot compel the public to take it and to use it. The motive force which creates the circulation

of currency must come from the public, not from the banker. The public must ring the bell by pulling on the rope, and not expect the bankers to ring it by pushing on the rope; or, in other words, trying to push money into circulation when the public is unwilling and unable to use it.

The fallacy of this argument is that the metaphor of the loose string is a misrepresentation of the monetary relation between the bankers and the public. It assumes that such monetary phenomena as the quantity or the velocity of currency can be compared with a loose string. Economic phenomena are, however, the resultants of balanced systems of forces with no loose ends completely out of control and aimlessly flapping about. This is particularly the case in all monetary matters. The quantity of currency in circulation, and the velocity with which it is circulating are the resultants of intense forces of great magnitude, balanced against each other in a state of extreme tension, leaving no room for laxity. There is in the monetary world no loose string and no loose end, limiting or preventing the control of the banking system over the volume and circulation of currency.

If the metaphor of a string is permissible to illustrate the relations between the banking system and the public in monetary matters, it should be a string, or a rope, or better still, a cable, in a state of intense tension between two immense forces pulling from opposite directions.

The positive contestant in this struggle comprises

the forces of progress, of optimism, of enterprise, assisted by the wonders of Science, the miracles of research, the discoveries of invention, all improvements in industrial and commercial organisation, the increasing domination of mankind over nature, the higher standard of knowledge and the persistent demand of the public for a higher standard of living.

The negative contestant in the struggle, leading to inertia and stagnation, comprises the forces of tradition and distrust for everything that is new and unfamiliar, the caution that prefers safety and security rather than enterprise and adventure, and the many defects arising from the imperfections of our social, political, monetary and international structure.

The banking system can throw its weight into either side of this struggle. It can assist the positive or progressive forces, and stimulate the circulation of money to any extent by the adoption of low rates of interest. It can, on the other hand assist the negative or repressive forces, clogging the circulation of money and causing trade depression, the cessation of enterprise and unemployment, by the adoption of high rates of interest.

Briefly, new enterprises of all kinds (including housing) are fostered, and the circulation of money is stimulated when the current rate of interest is so low that there is a reasonable prospect of a contemplated enterprise, such as the building of a house, bringing in a return on its capital cost higher than the low current rate. On the other hand, new enter-

prises of all kinds (including housing) are hampered, and the circulation of money is slowed down when the current rate of interest is so high that there are grave doubts whether a contemplated enterprise, such as the building of a house, will secure a return equal to this high current interest rate.

This is not mere theory. It is the third item of the Cunliffe Sequence, that a high rate of interest causes the postponement of new enterprises, an item which was considered at length in the previous Chapter. It is useless for the banking system to deny the admitted experience of the Bank of England for over a century, published authoritatively in the Cunliffe Interim Report of 1918. The Bank of England as a matter of deliberate and considered policy was accustomed to raise the rate of interest with the intention of checking new enterprise and of slowing down the velocity of the monetary circulation. The contrary policy of lowering the rate of interest fosters new enterprises and stimulates the monetary circulation.

A few practical illustrations from the housing world will show how the Theory of Interest operates to stimulate, or to retard, housing construction. High rates of interest are a strong deterrent to housing construction, whether for owner-occupation or for renting. Low rates of interest have the contrary effect, strongly encouraging both owner-occupation and the building of houses for renting to tenants.

As the first illustration, the case of the head of a family renting a small house, or living in an apartment



house, and desiring to acquire and live in a house of his own, may be taken. It may be assumed, for the purpose of making the illustration definite, that he is paying a rent of \$230 per annum, and he desires to acquire a house of his own for exactly the same expenditure as he is undertaking at present in paying rent for living in another person's house.

The author desires to acknowledge his indebtedness to Mr. G. J. Eder and to the Committee for the Nation, for the calculations and the tables utilized in this Chapter. They are contained in a letter from Mr. Eder to Mr. J. H. Rand, Jr., and forwarded by Mr. Rand to President Roosevelt on the 8th August, 1936. The correspondence was subsequently published by the Committee for the Nation. The statements therein contained enable the author to utilise calculations drawn from American experience, and based on American conditions, to illustrate his theme.

The American citizen desiring to purchase a house with an outlay of \$230 per annum spread over 25 years, will find that the size and the class of house he wishes to buy will depend on the prevailing rate of interest. If a high rate of interest prevails, he will be able to buy only a small house. If a low rate of interest prevails he will be able to buy a larger house. His enquiries will enable him to compile a statement as to the house he can build on an outlay of \$230 per annum for 25 years, as follows:

At 6	per cent	he can build a	\$2940	home
" 5	" " " "	" " " "	3240	"
" 4¼	" " " "	" " " "	3500	"

At  $3\frac{1}{2}$  per cent he can build a \$3790 home  
 “ 3 “ “ “ “ “ “ “ 4000 “

As the rate of interest falls, the size and the value of the house he can build for exactly the same outlay increases. At 6 per cent, the class of house he can get will have a value of less than \$3000 (including site and legal and other charges). This will probably not attract him. It will not be worth the trouble involved in making the change, to move into a house giving him probably less accommodation and fewer amenities than he already enjoys. But if the rate of interest falls to  $4\frac{1}{4}$  or  $3\frac{1}{2}$  per cent, he finds that for exactly the same outlay (\$230 per annum for 25 years) he can buy a home valued at \$3500 or \$3790. He will be tempted, and probably decide to build. Such a house will in all probability give him more accommodation and better amenities than those he is enjoying at present; and moreover, he will be buying a house and acquiring a valuable property, instead of merely paying rent for living in another person's house.

It will be noticed that the decline in the value of the house purchasable for a given set of instalments is highly disproportionate to the change in the rate of interest. Thus, a rise in the rate of interest from 5 to 6 per cent will mean a decline in the value of the house purchasable from \$3240 to \$2940 or 9 per cent. A rise of one per cent in the rate of interest is multiplied ninefold in depreciating the value of the house that can be purchased with a given series of instalment payments.

Similarly an increase of three-quarters per cent in the rate of interest (from  $3\frac{1}{2}$  to  $4\frac{1}{4}$  per cent) is multiplied tenfold, or 7.6 per cent, in a diminution of the value of the house purchasable (from \$3790 to \$3500). Also, an increase of one-half per cent in the rate of interest is magnified into 5 per cent in the diminution of the value of the house purchasable for the same set of instalment payments (from \$4000 to \$3790).

This illustration demonstrates how new building can be stimulated, and the circulation of money fostered by low rates of interest. Another illustration from a different angle comes to exactly the same conclusion.

In this second illustration, the head of a family has seen the standard plans of a house costing \$3000, including site value and legal and other expenses. It is exactly what he requires for his family, but he is extremely doubtful if he can afford it. To find out he studies the following calculation as to what instalments he will have to pay to purchase the house in 25 years:

At 7	per cent	his instalments	will be	\$265	per annum		
" 6	"	"	"	"	"	235	" "
" 5	"	"	"	"	"	213	" "
" $4\frac{1}{4}$	"	"	"	"	"	197	" "
" $3\frac{1}{2}$	"	"	"	"	"	182	" "
" 3	"	"	"	"	"	172	" "

He will undoubtedly check up these instalments with the rent he is actually paying at present, and will be disinclined to go much beyond his present annual rental. If the rates of interest are 6 or 7 per cent, he will probably abandon his dream of the ideal home,

as being beyond his reach because of the high annual payments. With interest at  $4\frac{1}{4}$  or  $3\frac{1}{2}$ , it will prove to be, not a dream, but a substantial home well within his means, which he can forthwith order to be built for the health and enjoyment of his family. Again, in this second illustration, housing enterprising and the circulation of money are stimulated by low rates of interest.

In this illustration also, the deterrent effect of a rise in the rate of interest is magnified in the size of the instalments payable. A rise of one-half per cent (from 3 to  $3\frac{1}{2}$  per cent) means an increase of 5.8 per cent (from \$172 to \$182 in the amount of the instalment payable. A rise of three-quarters per cent (from  $3\frac{1}{2}$  to  $4\frac{1}{4}$ ) increases the instalment by 8.5 per cent (from \$182 to \$197). And if the rate of interest increases by one per cent, the amount of the instalment increases by 10 per cent (from \$213 to \$235).

Such illustrations can be multiplied. As a third instance, suppose the head of the family wishing to materialise his dream of owning a \$3000 house, whose case has just been considered, has approached middle age. He wishes a permanent home for his family, but dreads the payments being spread over the long period of 25 years. He wishes to complete the purchase in the shortest possible time, while he is still able to earn his livelihood, without straining his financial position. He finds that he can afford \$300 a year, but wants the payments to cease before he approaches old age. Here, the number of years during which he will have to pay

instalments of \$300 per annum, paid semi-annually to purchase a \$3000 dollar house will again depend on the rate of interest, as calculated in the following table:

At 8 p.c. it takes	20 $\frac{1}{2}$	years,	his interest payments will be	\$3,155
" 7 " " "	17 $\frac{1}{2}$	" " "	" " "	2,250
" 6 " " "	15 $\frac{1}{2}$	" " "	" " "	1,650
" 5 " " "	14	" " "	" " "	1,210
" 4 " " "	13	" " "	" " "	870
" 3 " " "	12	" " "	" " "	594

At 8 or 7 per cent, the proposition is hopeless. At 5 or 4 per cent it becomes highly attractive. He will be able to obtain the home he desires for his family within a reasonable time, and without an undue expenditure in interest on his deferred payments. This is another illustration of the fostering of housing enterprise and the circulation of money by loan interest rates.

These calculations, culled from an American source, receive absolute confirmation in English experience from the Presidential Address of Sir Enoch Hill to the members of the Halifax Building Society on March 22nd, 1937, in which he stated:

The Small Dwellings Acquisition Acts were for many years a dead letter or in abeyance whilst rates of interest were high, and the principal service in this respect was given during those years to borrowers by building societies.

The three previous illustrations have been cases in which the heads of families have been desirous of transferring from a rented house, or from apartments, into a house of their own. Their decision, and consequently the stimulation of building enterprise, has in

each case been decided by the prevailing rate of interest. Their decision to build a house of their own has been strongly encouraged by low rates of interest, and strongly impeded by high rates. The same forces of stimulation and repression operate in the cases of houses built for renting to tenants. Here again, as in the previous illustrations, the amount of the rental payments are magnified out of all proportion to the rise in the rate of interest.

In the next case, the illustration will be taken from British experience, though for the convenience of American readers, amounts expressed in British money will be converted into dollars. The following paraphrase from the British Ministry of Health Circular 1238 issued to all Local Authorities on the 12th January, 1932, expresses the policy of the Government as regards the size and type of cheap houses for which there was the most urgent demand, and the necessity of encouraging private enterprise to build the better types necessary, without the aid of subsidies:

Local Authorities should concentrate their efforts on the provision of houses of the three-bedroomed non-parlour type, with a superficial area of floor space not exceeding 760 square feet. It is hoped that this concentration of Local Authorities on cheap houses of a special type will lead to the provision by private enterprise, without subsidy, of houses of better types both for sale and for letting in substantial numbers.

At that time, the houses on which the Local Authorities were told to concentrate were being built at a

cost of \$1585. The better types which it was hoped that private enterprise would provide for sale and letting to the working classes without subsidy, were to be of the value of \$2000 and upwards. It was stated in the Annual Report of the Ministry of Health for 1930-31 that:

It should be possible to build houses of the three-bed-roomed non-parlour type at an all-in cost of \$2000, which is equivalent approximately to an inclusive rental of eleven dollars a month.

The following statement shows the nature of this problem set to private enterprise by the British Ministry of Health, in terms of varying rates of interest:

Rate, Per Cent	INTEREST ON CAPITAL COST	
	Annual	Monthly
6	\$120	\$10.00
5	100	8.33
4	80	6.66
3½	70	5.83
3	60	5.00

As the Report of the Ministry of Health mentions that the rental of 11 dollars a month for such a house must be inclusive; that is, it must include all such charges as taxes, insurance, repairs, management, it can be seen that no house with "an all-in cost of \$2000" could possibly be let at an inclusive rental of 11 dollars a month, if the rate of interest should be 5 or 6 per cent. The margin between interest and inclusive rental

was too small. It only became possible when the capital for building the house could be obtained at about 4 per cent or less. At such low rates, it would be possible to build and let houses of the type specified at the prescribed rentals, though with a very small margin for taxes, other expenses and contingencies. What happened was that private enterprise found it quite impossible to build such houses for letting at the rental specified until the rates of interest did fall to four per cent and less. They could only be built if it was possible to obtain capital to finance them at 3 or  $3\frac{1}{2}$  per cent. In other words the construction of unsubsidised houses for renting to the poorer classes of workers was financially impossible till the rate of interest fell below 4 per cent.

The illustrations in this Chapter have constituted an attempt to translate the operation of the third item of the Cunliffe Sequence into terms of house building. That item states definitely, on the authority of a century's experience of the Bank of England, that a rise in the rate of interest ensures that:

New enterprises are therefore postponed.

The practical examples cited in this Chapter demonstrate that a high rate of interest not only postpones new enterprises in the special form of building new houses; it absolutely prohibits many new enterprises in this form from being undertaken.

Of the three factors of the cost of production of houses, wages, materials and interest, the operation



of interest is of a very subtle nature. It does not add much to the actual cost of production. The amount of interest paid by a builder to his banker for the short term loan during the period of the cost of construction of a house is almost negligible. It does not add materially to the cost of a house. It is during the period of consumption, or of occupancy, and not during the period of production, that the rate of interest adds to the cost of a house.

Food is consumed almost immediately. Clothing and automobiles are consumed in a short space of time. But houses, being built for durability, are consumed slowly and imperceptibly over a long period which may amount to a century. Throughout the whole of that period the rate of interest is adding to the cost of a house. Therefore the effect of a high rate of interest in housing construction is not confined to the small addition it makes to the capital cost of a house. It is expanded throughout the whole period during which a tenant is paying rent, or a purchaser is paying instalments.

Thus, the deterrent effect of a high rate of interest operates mainly through the effect it has on the psychology of the tenant or of the prospective purchaser. The illustrations cited in this Chapter demonstrate that a high rate of interest increases the costs to the owner-purchaser in the following directions:

1. It greatly reduces the size and equipment of a house he can purchase with a given series of instalments;
2. It tends to raise the amounts of the instalment pay-

ments for a given house to a scale beyond the financial capacity of the purchaser;

3. It raises the term of the instalment payments for an elderly purchaser to a prohibitive period.

For a rented house, a high rate of interest acts as a deterrent both to the owner and to the tenant. An owner can see that he can get a better return for his money by letting it remain passively out at interest, or by buying stocks or debentures, when the rate of interest is high, than he can obtain by putting his money into house property. Therefore he refrains from giving orders for house construction. A tenant perceives that a high rate of interest means a high rent beyond his financial capacity to pay; and he therefore endures intolerable conditions of living for himself and his family, rather than obtain better amenities at a prohibitive cost.

The deterrent effect of a high rate of interest on house building is often overlooked, partly because it is psychological rather than material, partly because it is deferred and becomes apparent only in the course of consumption, and not during production, and partly because it is disguised by being spread over a series of comparatively small payments over a long period of time. But though so disguised that they are frequently overlooked, the deterrent effects of high rates of interest, and the stimulating effects of low rates of interest, are potent factors governing the demand for home building.

A most remarkable illustration of the deterrence and confusion caused by high rates of interest in the provision of houses is given by Sir Enoch Hill in his Presidential address to the Halifax Building Society in March last. During the early Subsidy Period the Local Authorities had advanced money on mortgage at the high rates then prevailing. Their early tenants or their first instalment purchasers, were, despite the subsidies received, paying high rents and high instalment repayments owing to the high rates of interest at the time the houses were constructed. Later tenants and later instalment purchasers were getting equally good unsubsidised houses for much lower rentals or lower instalment payments when the rates of interest fell.

The Local Authorities had no powers by which they could give their earlier clients and tenants the benefits of the subsequent low rates of interest. But the Building Societies stepped in, took over the old high interest mortgages from the Local Authorities, paid them off, and issued fresh loans at the lower rates prevailing, to the great benefit of the tenants and owner-occupants of the houses concerned. Here is Sir Enoch's account of these transactions:

During the year the society has taken over from corporations many hundreds of mortgages, owing to the inability of the local authorities to reduce their rates of interest on old mortgages. The fact that this society, or any other society, can take over such mortgages is, I think, a tribute to the elasticity of the building society movement and to its willingness to help at all times.

This Chapter and the previous one explaining the effect of the prevailing rate of interest on housebuilding, has interrupted the free flow of the narrative of British Housing Activity since the War. But this digression has been necessary. In its absence, it would have been impossible to explain clearly how many more houses were built by Private Enterprise without the aid of subsidies since 1932, than were built with the aid of heavy subsidies prior to 1928. The fact that, after a brief set-back, Private Enterprise proceeded to construct many more houses when subsidies were withdrawn, than it had previously constructed with the aid of subsidies, would have been an unexplainable paradox without the assistance of the general theory and the practical examples contained in these two Chapters. They form a convenient interruption, serving as a broad line of demarcation between the Subsidy Period of British Housing Activity from 1920 to 1928, and the Low Interest Period from 1932 to 1936.

## CHAPTER VII

### *The Low Interest Stimulus in Operation*

The other factor favourable to the return of private enterprise to the field of small house production is, as stated, to be found in the fall in the interest rate on money, and the return obtainable from gilt-edged investments. It may reasonably be anticipated of these more normal conditions, there will be an inducement to private persons and organisations of various kinds to turn once more to what used to be one of the commonest forms of investment, and take their part in the ownership of working class houses. *Report of the Ministry of Health, July, 1933.*

THE retreat of the British Government from the policy of subsidising the construction of new houses was gradual and protracted, extending from 1928 to 1932. It began with the financial stringency of 1928, when there was a general tightening up of the administrative machinery by which the sanctions were granted. It was at first an instinctive curtailment of expenditure dictated primarily by financial considerations. It developed into a definite policy in December, 1928, when the withdrawal of subsidies from private enterprise was formally announced.

This was followed in due course by the curtailment of subsidies to Local Authorities, who were gradually headed off from carrying out their more ambitious projects for expensive dwellings for the working

classes. In 1930, subsidies were rigidly limited to two forms of activity by Local Authorities:

slum clearance,

the building of non-parlour, two or three bedroom cottages to be let at rentals of \$2.50 per week, or less, to the lowest income classes of manual workers.

In December, 1932, Local Authorities were notified that it was intended to discontinue subsidies for the second of the above classes of dwellings, that is, for the building of cheap houses at low rentals. A Bill was introduced into Parliament (subsequently enacted as the Housing Act of 1933) providing that no subsidy should be paid in respect of such a house which was not included in a proposal submitted to the Ministry of Health before the 7th December, 1932. As the Report of the Ministry for 1932-33 states:

The only subsidy for new houses, now available, is payable only in respect of houses provided for the accommodation of persons of the working classes, equivalent in number to the persons displaced by proceedings under the Housing Act, 1930.

In other words, subsidies for the future were to be limited to slum clearance and overcrowding schemes only to accommodate the persons displaced by such schemes. The era of subsidy for new housing construction under normal conditions had passed completely away.

The quotation at the head of this Chapter will explain the reason for the inclusion of the two previous

Chapters in this volume. Subsidies were unnecessary any longer because of the operation of two factors, a reduction in the cost of building and low rates of interest. Government relied on these two factors to stimulate private enterprise to undertake all the building construction and to provide all the finance necessary (except in the case of slum clearance).

Before presenting the detailed figures for the eight and a half years which have succeeded the Subsidy Period, it will be convenient to draw attention to the big fall in housing construction which followed the first departure of the Government from its complete reliance on a policy of subsidies. This is effected in the following statement:

Year	NUMBER OF HOUSES BUILT		Total
	Subsidised	Not Subsidised	
1927-28	178,582	60,332	238,914
1928-29	104,792	64,740	169,532
Reduction	— 73,790	+ 4,408	— 69,382

This statement shows the high peak reached for housing construction in the Subsidy Period, and also the deterrent effect of the curtailment of subsidies. It also shows the comparatively low level from which the second post-war period of building construction commenced in the year 1928-29.

The operation of low rates of interest did not take effect till the year 1932-33, but the following state-

ment reveals many interesting movements in the progress of building activity prior to that date:

Year	NUMBER OF <u>HOUSES</u> BUILT		Total
	Subsidised	Not Subsidised	
1928-29	104,792	64,740	169,532
1929-30	112,057	90,491	202,548
1930-31	55,874	125,368	181,242
1931-32	70,061	128,418	198,479
1932-33	55,991	142,012	198,003
1933-34	55,840	207,869	263,709
1934-35	41,593	286,374	327,967
1935-36	52,335	271,389	323,724
April to Sept. 1936	36,756	127,727	164,483
8½ years	585,299	1,444,388	2,029,687

In the above statement the triple classification previously adopted:

Local Authorities (Subsidised)

Private Enterprise (Subsidised)

Private Enterprise (Non Subsidised)

has been abandoned for the sake of a simplicity. Generally, from 1928 onwards subsidised houses have been financed by Local Authorities, and Private Enterprise has been concerned with non-subsidised building. This is not absolutely true, but the number of exceptions is so small, that it does not affect the general validity of the statement. The gain in simplicity outweighs the value of the more complex statements that would be needed to include the small number of exceptional cases.



There was a rapid increase in the numbers of non-subsidised houses built by Private Enterprise between 1928-1931, the numbers rising from 64,740 to 125,368 per annum. In two years they nearly doubled. This was due to two causes:

the cost of building materials diminished;

Local Authorities ceased to compete with Private Enterprise by building superior class houses with the aid of subsidies.

The change-over between the years 1929-30 and 1930-31 is interesting. The lead which subsidised houses had established was reversed in a most thorough manner, being transformed from a surplus of 21,566 in the former year to a deficit of 69,494 in the latter year. The financial stress caused by the deep trade depression of 1931-32 prevented any appreciable increase in the number of non-subsidised houses over the number for the previous year.

This was however but a momentary check. As soon as the low rates of interest, adapted to enable the country to recover from the depression, began to operate, progress was resumed. The increase in the number of non-subsidised houses in the year 1932-33, almost exactly balanced the decrease in the number of subsidised houses, caused by the withdrawal of subsidies for the erection of new house building in 1932, the totals for the two successive years being just over 198,000. In the following year, 1933-34, the total number of houses built (263,709) soared high above the high peak of the Subsidy Period (238,914) attained in the year 1927-28.

This remarkable increase in the numbers of non-subsidised houses was stimulated by the low rates of interest caused by the change in British monetary policy in 1931-32. Public Authorities had been paying 6 and  $6\frac{1}{2}$  per cent for their loans, and mortgages on housing by private enterprise were seven per cent and more. But in 1932 and 1933 rates of interest were gradually reduced to 4 per cent,  $3\frac{1}{2}$  and 3 per cent for housing loans by Local Authorities, and mortgages on houses financed by Private Enterprise fell to 5 per cent and then to  $4\frac{1}{2}$  per cent, and finally to 4 per cent in London and the South of England, and  $3\frac{1}{2}$  per cent in the Midlands and North.

Mention has already been made of the importance of the Building Societies in financing house building. Co-operation between the Local Authorities and the Building Societies had been established by the Housing Acts of 1924 and 1925, which empowered a Local Authority either to supplement the amount usually advanced by a Building Society on the mortgage of a property (75 per cent) by an additional 15 per cent; or alternatively to guarantee the Building Society in extending its loan up to 90 per cent. In its Report for 1932-33, the Ministry of Health states:

In order to ensure additional finance on easy terms for those builders and investors who may need it, the Housing Bill contains provisions designed to make effective the offer of the Building Societies to put their great financial resources at the disposal of private enterprise for the purpose of providing working class houses to let. The provision

empowers the Minister to share equally with the Local Authorities and the Building Societies the risk involved by making advances up to 90 per cent of the valuation.

Thus, a person desiring to buy or build a house for his own occupation, or desiring to build houses of the standards specified for the working classes, subject to the conditions prescribed by the Ministry of Health, could obtain a mortgage of 90 per cent of the value of the house, and need only provide an initial payment of 10 per cent. This initial payment was in most cases still further reduced to 5 per cent by the builder advancing 5 per cent of the total valuation in order to secure the contract for the construction of the house, and thereby making the total amount advanced to the purchaser of house property 95 per cent of its valuation.

This advance of 5 per cent by the builder of the house has led to many enquiries made to the author, during a lecture tour in the United States, as to the effect of this advance on the profits of the builder or on the receipt of the cost of the house when it is completed.

The builder finances the building of the house in the normal method. He obtains a short term loan from his bank to pay wages and the cost of materials while the house is under construction. When the house is finished and sold, he receives the complete price, made up of the 5 per cent initial payment of the purchaser and the 95 per cent advance to the purchaser on the mortgage of the property.

His own 5 per cent share of the 95 per cent advance

is repaid out of the first repayment instalments towards the amortization of the total advance of 95 per cent. There is an understanding between the building industry and the Building Societies that the first repayments shall go to the builder until his 5 per cent share of the loan, with interest, is repaid. The loan from the builder is therefore made and repaid, without affecting in any way the normal course of industry by which his profits and his payment for constructing the house are determined. This explanation has been deemed necessary because of numerous enquiries whether the 5 per cent advance of the builder to the purchaser of the house interfered in any way with the financial arrangements of the builder in the construction of the house.

The co-operation by the various factors concerned in providing the funds by which house-building by Private Enterprise could be stimulated was directly fostered by the Government. In Circular 1334 issued on the 22nd May, 1933, the Minister of Health suggested that Local Authorities should call conferences of builders, Building Societies and others interested for the explanation and discussion of the Housing Act 1933. One of the objectives of this Act was the elimination of competition between Local Authorities and Private Enterprise by the complete withdrawal of subsidies from Local Authorities except for schemes of slum clearance. It was necessary to convince and reassure the factors providing finance for Private Enterprise that they had nothing to fear from unfair sub-

sidised competition of the Local Authorities backed by their powers of taxation. As the Report of the Ministry of Health for 1933-34 states with reference to the working of the new Housing Act:

It postulates the co-operation of four parties, the Minister, the Local Authority, the Building Society and the builder. In the present housing situation there is room for all agencies able to assist in the provision of small houses, and there can be but few areas where it can be said that there is not a need for houses such as can be provided under this Act.

Up to 1933, Private Enterprise had done little since the War to provide houses to let at rentals to the working classes. The high rate of interest had effectually precluded such provision. Although the Housing Act of 1933 had been passed with the intention of encouraging the provision of rented houses by Private Enterprise, the Ministry of Health had so little faith in any immediate response that it made no arrangements to obtain records of results in order to ascertain whether the new policy was achieving any success. The Annual Report for 1933-34 states:

Until the latter half of the year under review, the returns made to the Minister did not distinguish the number of new houses which were of a rateable value of \$65 (\$100 in Greater London) or less, or whether they were for sale or to let at rentals.

The term "rateable value" must not be confused with the term "annual rental." The "rateable value,"

the basis of all local taxation, is calculated every five years. It is obtained by deducting from an amount sufficient to cover maintenance, repairs and depreciation. The proportion which rateable value, so diminished, bears to annual rental may be estimated by the fact that houses in towns in Britain in the year 1925-26, with a total annual rental of \$219 millions, had a total rateable value of \$152 millions, or about 70 per cent of the annual rental. Houses of a rateable value of \$65 (\$100 in Greater London) or less, were termed "C Class" houses, and were houses of low cost of construction let at the lowest possible rentals to the poorer sections of the working classes.

Not having made in advance any arrangements to secure direct information as to the success of the new policy, the Minister of Health, made a sample enquiry concerning 19,176 newly built houses in 50 areas outside London and 15 areas inside London, with the following result:

Of these houses, 38 per cent were "C Class" houses and 16 per cent were for letting. Of the "C Class" houses 19 per cent were let; in the areas outside London the proportion to let was as high as 35 per cent.

This quotation suggests the following comparisons for the houses built in the year 1933-34:

Total houses built :	
Better Class houses,	62 per cent.
C Class houses,	38 per cent.

## Total houses built :

For owner-occupation,	84 per cent.
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For renting,	16 per cent.
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## "C Class" houses generally :

Owner-occupation,	81 per cent.
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For renting,	19 per cent.
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## "C Class" houses (outside London) :

Owner-occupation,	65 per cent.
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For renting,	35 per cent.
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Thus, after about fourteen years of endeavour (1920-34) the Government, thanks to low rates of interest, had at last solved two of the difficult problems which had hitherto evaded solution. These two intractable problems were to get Private Enterprise, without subsidy:

1. to build houses which would be occupied by all sections of the working classes, down to the very poorest;
2. to build houses to be let at rentals within the financial capacity of the poorest classes.

The reaction of the Building Societies to the efforts of the Ministry of Health to introduce co-operation with the Local Authorities, and to stimulate the building of houses to be let at low rentals to the poorest sections of the working classes is well expressed by Sir Enoch Hill in his last Presidential Address to the Halifax Building Society in the following passage:

I therefore make no apology for drawing your attention and the attention of the building trade and of the local authorities throughout the country to the very simple yet most effective procedure still available for the abnormal

financing by building societies—with appropriate guarantees—of the erection of houses to be let at comparatively low rentals.

The machinery of the Act provides a scheme which is at once economical, equitable, and simple, and I know of no other method of providing modern housing accommodation for the bulk of our people which is equal to the Housing Act of 1933 in any respect.

The comparisons instituted above demonstrate that a large number of the working classes were in a position to own their homes. This is strikingly illustrated by the more complete returns obtained for the following year. After stating that:

During the year under review 286,050 houses were built without Exchequer assistance by private enterprise,

the Annual Report gives the figures summarised in the following statement:

Quality of Houses	Let at Rentals	Owner Occupied	Total
C Class .....	33,103	72,231	105,334
Medium class houses ..	22,446	124,269	146,715
Superior houses .....		34,001	34,001
Total .....	55,549	230,501	286,050

These figures demonstrate that the problem of the satisfactory housing of the working classes, which baffled the expensive efforts of the Government during the Subsidy Period, is now being much more effectively solved through the operation of low rates of interest,



by the unsubsidised efforts of private enterprise. But these figures understate the progress made. In the earlier chapters of this volume mention was made of the revolting conditions under which many working class families lived, three, four and five families being crowded into a house with accommodation and cooking and sanitary equipment for one family only. The subject is also further considered in Chapter X. The need for new houses was so great that little or no relief was afforded to such families for the twelve years elapsing between 1920 and 1932.

But the increased output of houses from private enterprise after 1932 indirectly effected a considerable amelioration of these deplorable conditions. The Annual Report for 1933-34 states:

From the point of view of working class housing the result may be more advantageous than the mere figures suggest. A further sample enquiry indicates that the vacation of existing accommodation by the purchasers of new houses is leading to the improvement of the housing conditions of poorer families to a greater extent than might have been expected. The provision of 709 new houses investigated enabled 694 other working class families to move their quarters. Of these 694 families, 364 definitely improved their position in that they either obtained more convenient and up-to-date accommodation, or were able to obtain better accommodation at a reduced rent.

If this sample may be taken as typical, it means that for every two new houses built, a third family is now able to obtain better housing conditions. (The proportion is 709 to 364.) This suggests that the 252,049

houses of the C and Medium Classes built in 1934-35 gave improved housing accommodation to at least 126,000 additional families in that year or relief to a total of 378,000 families in one year. The total amount of relief in this respect given by the million and more working class dwellings erected by private enterprise since 1932 is almost incalculable.

The last Report issued by the Ministry of Health indicates that, outside the spheres of slum clearance and overcrowding, the problem of housing the working classes satisfactorily is now in a fair way of being accomplished. If there is a touch of complacency in the following passage:

Reliance on a large contribution of small houses by private enterprise, assisted by lower money rates and fallen building costs, has continued amply to justify itself by results;

it has been well merited. It had taken sixteen years of stress and strain, many disappointments, many mistakes, many attempts to solve unfamiliar problems by untried methods, before an approach to the correct solution of construction by private enterprise, stimulated by low rates of interest, was discovered.

In the present Chapter the influence of the low rate of interest in contributing to the remarkable achievement of financing the construction of over two million houses in the eight and a half years, April 1928 to September 1936, has been indicated. That influence is even more clearly demonstrated if this period is divided

into two periods of four and four and a half years respectively, as follows:

Period	No. of Years	No. of Houses Built	Average No. of Houses Per Annum
April 1928 to 1932 . . . .	4	751,801	187,950
April 1932 to Sept. 1936	4½	1,277,886	283,975

In the first four years, house building was being stimulated by the lowered costs of construction and by the cessation of competition between Public Authorities and Private Enterprise. In the second period of four and a half years there was the added stimulus of low rates of interest, the effect of which is clearly brought out in the above statement.

The effect of the lowering of the costs of building materials and construction must now be considered. High costs were one of the main obstacles to the success of the subsidy policy, because one of the effects of the generous subsidies granted between 1920 and 1928 was to perpetuate the high construction costs which were the legacy of the War. The great merit of low rates of interest was that it stimulated a remarkable expansion of building and yet permitted building costs to be brought down to levels that equaled costs with the financial capacity of all classes, either to purchase their houses, or to pay the rentals necessary to provide an adequate return on the capital sunk in their construction.

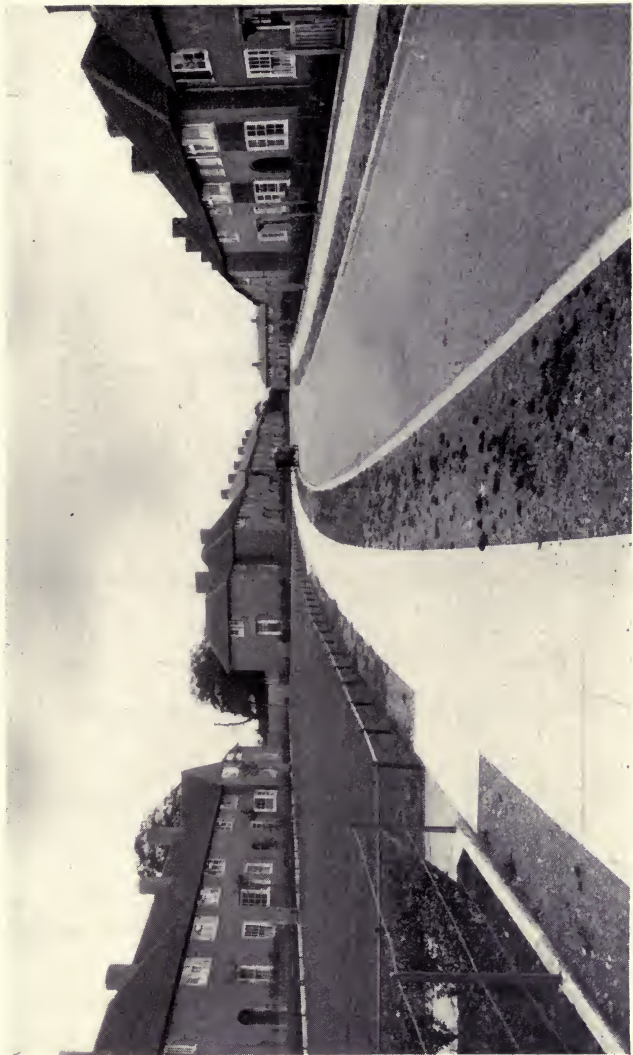
## CHAPTER VIII

### *Building Costs*

Adequate housing costs too much. Whether you build or buy, or whether you pay rent, the cost is out of all proportion to what you get for your money in comparison with what you get when you spend it for almost anything else you can think of. This is the central fact of the housing problem.—*Harpers Monthly Magazine, March, 1937.*

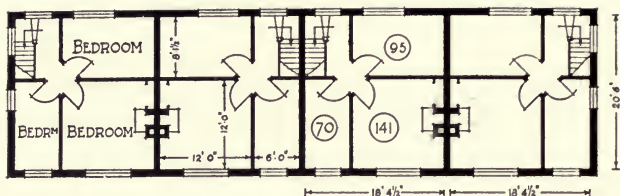
THE above quotation, from a stimulating anonymous article in the March number of Harpers Magazine, explains one of the reasons why the American public has held back from assisting in the provision of the houses needed to bring the housing of the people up to date. Housing is supposed to cost too much, to give less value than equivalent expenditure in other directions.

This opinion, so strongly expressed in the above quotation, underestimates the value of the house in the contribution it makes towards the home and family life. The home is the basis of civilization. It is providing incalculable value, not only to each separate individual in residence, but to the family as an entity, for twenty-four hours of the day. Costing possibly one-sixth or even one-fourth of the family income, the comprehensive and composite utilities it provides compare most favorably with those obtained from the remainder of the income. So many of its uses and its

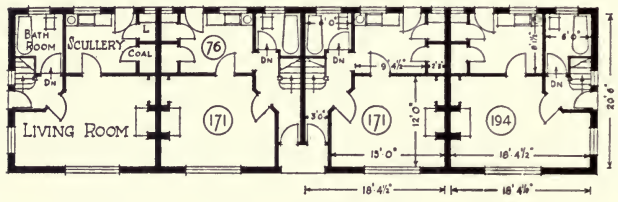


*Courtesy London County Council*

A COMPLETED PROJECT, ST. HEBER ESTATE, SURREY. 825 ACRES. 9068 HOUSES AND FLATS.



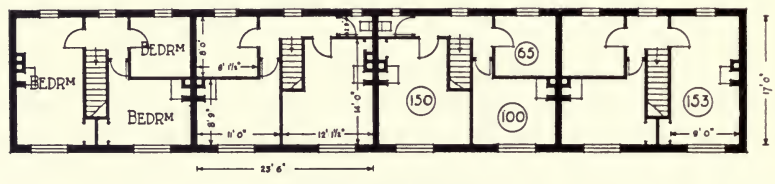
FIRST FLOOR PLAN



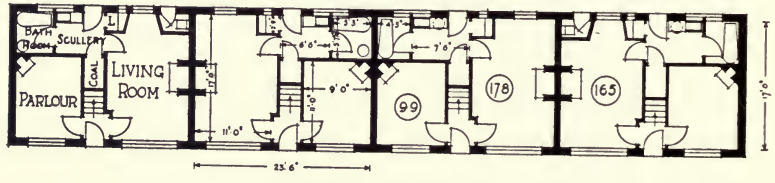
GROUND FLOOR PLAN

*Courtesy British Ministry of Health*

STANDARD PLANS OF BLOCK OF FOUR NON-PARLOUR HOUSES.  
SUPERFICIAL AREA 754 SQ. FT.



FIRST FLOOR PLAN



GROUND FLOOR PLAN

*Courtesy British Ministry of Health*

STANDARD PLANS OF BLOCK OF FOUR PARLOUR COTTAGES.  
SUPERFICIAL AREA 799 SQ. FT. OPEN COAL FIRE HEAT.

amenities are taken for granted that its value is underrated and its cost unintentionally magnified.

Still, the opinion that housing costs too much is undoubtedly widely held, and, whether true or not, it has served to restrain progress in house building in the United States. It can be paralleled by the following opinion forcibly expressed by the British Ministry of Health:

The estimated cost of houses has unfortunately increased almost month by month, owing mainly to increases in the rates of wages and the prices of materials. The increase of cost has also been due to some extent to an unusual degree of uncertainty, under present conditions, as to the availability of labour and materials, and other matters, owing to which builders were themselves unable to judge with certainty as to what would be the actual cost of building working class cottages, and were naturally driven to make ample provision in their estimates to cover such special contingencies, many of which might never arise.

So long as prices continue to rise, the actual cost of the houses will consequently be higher than the tenders accepted by the amount of the increases in the cost of labour and materials during the currency of the contract.

But though these statements are similar in their purport they differ in the times to which they refer. The American complaint of housing costs is contemporary. It relates to today. The British complaint of high costs is seventeen years old. It was recorded in 1920. It has since been completely transformed by the following statements of experience in the contrary direction:

In view of the substantial fall in building costs in the last two years, the subsidy necessary as a stimulus to this class of housing can now be removed (1928).

Conditions arose which made it possible to contemplate a further step in the direction of bringing back Private Enterprise into the business of building houses to let for the working classes. One was the continued fall in building costs (1933).

Reliance on a large contribution of small houses by private enterprise, assisted by lower money rates and fallen building costs, has continued amply to justify itself by results (1934).

Returning, however, to the efforts being made in 1920 to restore British building activity, the obstacles of high costs and high wages to the resumption of normal building activity at the conclusion of the War were increased by transport difficulties, expressed in the following passage of the same Report:

The progress of housing schemes has been seriously affected by the shortage of railway wagons and the congestion of traffic on the railways.

The extent to which the costs of building materials had increased since the outbreak of War in 1914, and were still rising in February, 1920, may be seen in the above statement published in White Paper Number C 611, revised on the date mentioned (see page 105).

In view of the extreme difficulty of erecting houses of the traditional pattern (brick houses—2 bricks thick on outer walls—one brick thick for inner walls) the Standardisation and New Construction Committee ap-



Material	PERCENTAGE RISE OF PRICES SINCE	
	July, 1914	December, 1918
Bricks (stocks) . . . . .	149	42
Sand . . . . .	236	47
Limestone . . . . .	118	30
Slates . . . . .	192	47
Lead . . . . .	172	22
Drainwater goods . . . . .	328	40
Drain pipes . . . . .	200	34
Timber . . . . .	203	..

proved schemes for building houses with cement concrete, steel framing and timber framing. But the Report of the Ministry of Health states:

As regards the actual adoption of any of these special methods of construction, the patentees or contractors concerned required time to develop the systems, they had difficulty in obtaining the necessary materials and in getting the necessary financial support to carry on their business. Even those firms who were in a position to undertake the construction of houses on a large scale experienced the same difficulties as contractors of brick houses as regards transport and the cost of materials and labour.

These difficulties prevented any departure from tradition to any great extent, and departures from the normal methods and materials of construction gradually vanished. The labour situation is clearly presented in the following passage from the First Annual Report of the Ministry of Health:

The end of the War found the building trade enormously below the strength required to deal with housing and the very large arrears of building work. So far as housing schemes are concerned the situation is that there are practically no schemes in progress on which an adequate supply of labour is employed. The result is that progress on schemes, which have already begun, is delayed, the commencement of work for which contracts have been signed is hindered, contracts are prevented from being signed, and the price of tenders is being forced up.

It is a striking illustration of the recognition of Trade Unionism as an integral part of British industrial organisation that the Ministry of Health formed a Special Labour Committee comprising four representatives of the leading Building Trade Unions to assist in solving the problems associated with the scarcity of labour. The efforts made were successful, as shown by the following statement of the increase in the number of workers engaged in building construction within the period of one year, April, 1920 to April, 1921:

Date	NUMBER OF		Total Number of Workers
	Skilled Workers	Unskilled Workers	
1st April, 1920 . . . . .	8,138	No record	. . . .
1st Oct., 1920 . . . . .	27,024	31,537	58,561
1st April, 1921 . . . . .	63,646	62,119	125,765

It would be impossible without considerable research to give any figures for the actual costs of materials or

for the amounts of wages paid during the period of the reorganisation of the building industry and the restoration of building construction, from 1920 to 1922. Both wages and costs of materials varied with the locality. They also varied considerably from time to time, and it would be difficult to present any figures that could be regarded as representative of the period. The rapidly rising demand for materials and labour, induced by the Government policy of stimulating house building by generous subsidies, caused wages and the cost of materials to rise unduly. Any collected statistics of wages and prices were obsolete before they were published. In July, 1922, the Ministry of Health recorded:

The cost of building had, during the previous year, risen to such a height, as to make it imperative, in view of the general financial position, to limit the amount of building to be undertaken at the expense of the Exchequer.

This action was taken on the recommendation of the Departmental Committee on the High Cost of Building to the following effect:

A definite limit should be immediately fixed to the number of houses to be erected under the present scheme of State Assistance. In the future, with a view to preventing undue inflation of costs, the market should not be overloaded in any area with more building work than can be economically undertaken by the supply of building labour available. All possible steps should be taken to revive house building by private enterprise under normal competitive methods.

It was by this time appreciated that the policy of stimulating house building to intense activity beyond the capacity of the building organisation and of the amount of finance available, tended to defeat itself by causing unduly high costs of construction. A halt was therefore called, the change of policy being thus expressed:

From the beginning of the financial year, a policy was adopted of limiting new commitments. Authority for the erection of additional houses was given only after careful consideration of the relative needs of each area, the preparation of those needs which would be met by the programme already authorised, the progress to date, the availability of the necessary skilled labour, and the prices obtainable by competitive tenders for small numbers of houses.

It was decided that for the time being, at any rate, the number of houses to rank for assistance under the existing scheme must be limited to the number being built, building, or for which tenders had been approved.

This policy had the desired effect. For the first time since building activity had been revived in 1920 the cost of housing construction began to fall. As will be seen from a reference back to the tabulated statement of houses built, incorporated into Chapter III, this change of policy resulted in a marked drop in the number of subsidised houses completed in the year 1923-24. But the permanent results were beneficial. As soon as financial conditions permitted a resumption of the previous policy of granting subsidies, in accordance with the demand for houses, the reduced cost of construc-

tion resulted in an expansion of house building to record heights by the year, 1927-28.

The class of house first prescribed by the Ministry of Health as being eligible for subsidy in its report for the year 1919-20 is thus described:

A self-contained two story cottage type, ordinarily including the following accommodation:—living room, scullery, larder, fuel store, w.c., bath in separate chamber, and three bedrooms.

Two types were eventually evolved, namely,

A type—as above,

B type—the same with the addition of an extra room known as a parlour.

Precision was eventually given by prescribing the following classes of houses as qualifying for a subsidy:

One story—floor space ranging from 550 to 880 square feet;

Two stories—floor space ranging from 620 to 900 square feet.

The permission to build houses for the working classes with an extra room known as a parlour had considerable influence, not only in raising costs, but also in defeating the policy of the Government. This extra room was not used by the working classes as a living room, but was kept as a spare room to be used for state occasions only, christenings, marriages, funerals, or for the reception of important guests. Not being constantly used, and having no permanent heat-

ing apparatus, it became a damp, cold, forbidding mausoleum of a room, with furnishings chosen for their pretentious appearance rather than for their comfort or their utility.

In due course it was found that both Local Authorities and Private Enterprise were building an undue number of the larger and more costly parlour houses, to the prejudice of the erection of the cheaper, non-parlour type that could be let at low rentals to the working classes with the help of the government subsidy. It was a better commercial proposition to build the more expensive houses and let them to middle class families, who could easily afford to pay the rentals, reduced as they were by the subsidy payments.

The members of the middle classes found the extra room, or parlour, of great utility as a dining room, whereas the members of the working classes preferred to take their meals in the kitchen. The warm sociability of the kitchen appealed to them with much greater attraction than the damp, icy solitude of the parlour. The working classes kept the extra room for show purposes. The middle classes actually used it.

The consequence was that the subsidy policy of the Government very largely miscarried. The praiseworthy attempt to raise the standard of housing accommodation for the working classes resulted in the deflection of a very large proportion of the houses built for their benefit to other tenants and owners. It was ultimately necessary (in 1929) for Government to withdraw all subsidies for parlour houses, and to limit the payment

of subsidies to the cheapest class of houses, with no parlour and two or three bedrooms only, in order to ensure that the benefit of the subsidies should be confined to the poorest sections of the working classes.

This digression on the subject of the English parlour is relevant to this Chapter, because the erection of parlour houses added considerably to the average costs of construction of houses, at a time when the Ministry of Health was being severely handicapped in its efforts to restore building activity by high wages and high costs of materials. The two efforts, to ameliorate the severe housing congestion, and, at the same time, to effect a marked improvement in the standard of working class housing accommodation, largely defeated each other. The new houses providing higher standards of accommodation went to other classes, and the housing congestion suffered by the working classes remained largely unrelieved for many years.

It is a matter of some difficulty to compare the quality of the accommodation provided in British houses with that of American houses of the same capacity. Briefly, the actual fabric of the British house would generally be of a higher quality and more durable than that of the American house; but the standard of kitchen and sanitary equipment, of heating, of plumbing, of house engineering, would be very much lower in the British house. The absence of wooden frame houses in British means that practically every working class house is built substantially of brick. But it is necessary to go fairly high in the social scale, to the

upper middle class, to find houses equipped with central heating, permanent hot water, hot and cold water basins, and the many amenities considered essential in an American home. For instance, the home of the author, although he lives in London, possesses none of these amenities. Heating is supplied by open fires, with a stove or range in the kitchen. The kitchen stove usually has a small boiler fitted at the back, which ensures a limited supply of moderately hot water when the range is actually being used. It is essential to have these wide divergencies in mind when considering the costs of British houses, and comparing them with the costs of American houses of the same capacity.

The first tenders received after building had been galvanised into activity up to the 31st March, 1920, comprised 21,347 houses. The following statement gives the average cost per house according to the tenders received:

Class of House	Number of Houses	Average Cost	
		£	\$
Parlour type . . . . .	12,672	837	4,185
Non-parlour type . . . .	8,675	722	3,610
Both types . . . . .	21,347	790	3,950

These figures are very misleading. They were accompanied by a warning to the following effect:

These figures represent the average between wide limits of maximum and minimum prices, which will be varied before the houses are completed, so that they can only be taken as representing an approximate indication.



At the time these tenders were received, prices of materials and wages were rising rapidly, and provision was accordingly inserted in the contracts that costs should be revised to adjust any differences caused by rising prices and wages in the interval between the submission of the tender and the accomplishment of the work.

The figures are misleading in another respect. They comprise only contractors' tenders for the actual construction of a building. They contain no items for the cost of the site, or for development expenditure, such as road making and sewerage, essential factors in computing the all-in costs of housebuilding.

But, misleading as the figures are, they bring out two extremely important points most clearly:

first; that sixty per cent of the houses to be built (12,672 out of 21,347) were of a type which subsequent experience proved to be beyond the rent paying capacity of the working classes;

second; that quite apart from the deflection of so large a proportion of the houses to families for whom they were not intended, parlour houses added \$575 per house to the cost of construction, at a time when every effort was being made to keep such costs down.

In 1920-21, detailed figures were given of the cost of acquisition of 10,684 acres of land for housing purposes. The average prices ranged from £137 (\$865) per acre in rural districts to £242 (\$1,210) per acre in boroughs, with a general average of £191 (\$955) per acre. The following year the bald statement was made

that, as indicated in previous reports, the average price paid for land acquired was £190 (\$950) per acre.

Taking from 12 to 15 house sites per acre, the site cost per house ranged from \$46 to \$80, with an average of about \$70.

There are compulsory powers of acquisition of land for housing programmes, the method followed being explained in the following passage from the Annual Report for 1920-21:

It has been the usual practice for the negotiations to be conducted by the Valuation office, and during the year negotiations have been concluded for 2705 areas, the original price asked being £2,505,343, and the price agreed being £1,834,438, showing a difference of £670,905 (\$3,354,525). In the great majority of cases the price to be paid has been settled entirely by agreement. The extent to which it has been necessary to exercise compulsory powers has been small in comparison with the total area of land acquired for housing schemes.

The cost of preparing the ground acquired for building by the provision of roads, sewers, and other general equipment varied even more widely than the costs of building construction. It went on increasing till it reached a high peak average of \$350 per house at the 31st March, 1931. It then decreased by about 30 per cent during the ensuing year to an average of \$225 per house at the 31st March, 1933.

Without these somewhat elaborate preliminary discussions it would have been impossible to appreciate the atmosphere of fog, and doubt, and uncertainty, in

which the British housing authorities were working during their initial efforts to resuscitate building activity in the years 1919 to 1922. They were making vast commitments, they were raising loans in large amounts at high rates of interest, they were undertaking the payments of immense sums in subsidies, without in the least knowing what would be the final cost per house, or whether the working classes would have the financial capacity to pay the rentals for the houses, even when largely reduced by the subsidies to be paid.

Even in March, 1921, by which time arrangements had been made for the erection of 156,000 houses, the Ministry of Health was still very hazy about the costs of the houses when completed. The tenders received and the contracts executed did not help much, as can be gathered from the Second Annual Report, published in July, 1921, which stated:

The great majority of the contracts are on a fixed price basis, with provision for adjustments for increases, or decreases, in the costs of labour and materials, and follow the lines of a model form suggested by the Department. About 30,000 houses are being constructed under contracts on a cost basis with a fixed sum for profit.

As stated above, the tenders for 21,347 houses received up to the 31st March, 1920 average \$4,185 for houses of the parlour type and \$3,610 for houses of the non-parlour type, with a general average of \$3,950. But when they were completed it was found that they

had an all-in average cost of \$5,095, made up of the following constituents:

Land .....	\$ 70
Development (roads, sewers, etc.) .....	350
Construction .....	4,675
	<hr/>
Total .....	\$5,095

Thus, the houses for which tenders had been received on the 31st March, 1920 at a general average of \$3,950 for construction only, were found on completion to have a construction cost amounting to 18 per cent more than tender, or \$4,675 per house.

Even this was not the highest peak reached. The financial stress experienced in 1921 caused the appointment of a Committee on National Expenditure. The report of the Ministry of Health to this Committee on the cost of housing construction for the working classes is summarised in the following passage:

The majority of the building contracts are still in progress, and accordingly it is not yet possible to give final figures of the cost of the scheme. The estimate submitted to the Committee on National Expenditure gave an average all-in cost per house of \$5,500. This figure was built up from tender prices, with additions for increases in labour and material and for cost of variations since the contracts were let.

This represents the high peak of the average cost of buildings for the housing of the working classes. It may be resolved into the constituents:

Land .....	\$ 70
Development .....	350
Construction .....	5,080
	<hr/>
Total .....	\$5,500

It was this high cost which led to the drastic curtailment of subsidised building construction described in detail in Chapter III. The degree of curtailment can be appreciated from the following statement of houses completed:

Year	HOUSES COMPLETED		Total
	Subsidised	Unsubsidised	
1922-23	68,500	34,000	102,000
1923-24	18,664	67,546	86,210
Reduction or Addition	- 49,836	+ 33,546	- 15,790

The effect of this rigorous policy of curtailment of subsidised building construction is jubilantly proclaimed by the Ministry of Health in July, 1922 in the passage:

That success has attended this policy is demonstrated by the fact that whereas during the year 1920-21, the average of accepted tenders was \$4,720 for parlour type houses and \$4,275 for non-parlour types, the average prices accepted came down from \$3,990 and \$3,485 in April 1921, to \$2,565 and \$2,180 in March of this year, while during March tenders of \$2,250 and \$1,890 have been obtained. Further decreases are expected.

This rapid decline in costs of construction (excluding costs of sites and development) is best illustrated by the statement:

Period	Parlour Type	Non-Parlour Type
Year 1920-21 .....	\$4,720	\$4,275
April 1921 .....	3,990	3,485
March 1922 .....	2,565	2,180
March 1922 (tenders received).	2,250	1,890

This statement fails to show the peak of construction costs, which was \$5,080 per working class house as reported to the Committee on National Expenditure.

The extent to which the policy of generous and indiscriminate subsidies had artificially enhanced the costs of building construction is demonstrated by the fact that when that policy was drastically restricted, the cost of parlour houses in one year fell by 52 per cent, and the cost of non-parlour houses fell by 56 per cent in the same period.

As soon as the heavy restrictions imposed in the year 1921-22 were withdrawn and house building was permitted to resume its normal activity, subsidised in the case of all houses built for the working classes, there was a natural reaction from the low prices of 1922-23. The lowest level of the costs of completed houses in that period appears to have been reached for those completed in September, 1923 at figures \$1,950 for parlour houses and \$1,750 for non-parlour houses. Costs then rose in twelve months to \$2,510 and \$2,255



*Courtesy London County Council*

PART OF THE CHINA WALK ESTATE. 283 HOUSEHOLD UNITS.



*Courtesy London County Council*

OSSULTON ESTATE, ST. PANCRAS, APARTMENT HOUSES REPLACING PARTICULARLY BAD  
TYPE OF SLUMS. 371 OUT OF 514 UNITS ARE COMPLETED.



for the two classes of houses respectively completed in September, 1924.

But although costs rose in response to the rapid growth of house building after the restrictions of 1921-22 had been withdrawn, they were not allowed to get out of hand. The following principle was applied in the consideration of all programmes sent up for sanction:

The market should not be overloaded in any one area with more building work than can be economically undertaken by the supply of building labour available.

The rate of house building was never allowed to rise to a height in excess of the capacity of the labour supply or the supply of building materials. Thanks to the application of this principle, the rise in the cost of construction was reversed and a fall in costs proceeded gradually, despite the increasing numbers of houses being constructed, as indicated in the following statement:

Year	CONSTRUCTION COSTS	
	Parlour House	Non-Parlour House
1925-26	\$2,435	\$2,185
1926-27	2,450	2,125
1927-28	2,185	1,840
1928-29	2,065	1,695

This reduction in costs enabled the Ministry of Health to announce the discontinuance of subsidies to Private Enterprise. But despite the reduction in construction

costs achieved, the Ministry of Health became very dissatisfied with the slight effect that the rapid provision of subsidised houses was having in improving the housing conditions of the working classes. The wrong classes of people were taking advantage of the houses being built, particularly the parlour houses. The Report of the Departmental Committee on Rent Restriction stated:

The large number of new houses has not had the effect of improving the conditions of the poorest workers to the extent which might have been anticipated.

The provision of working class houses to let at rentals is undertaken in a large scale only by the Local Authorities, the rents of whose houses are often higher than the poorer worker can afford. The fact that building costs are now much lower has not yet been effective.

Local Authorities were thereupon instructed to discontinue building parlour houses, and to concentrate on two or three bedroomed non-parlour houses with a maximum floor space of 760 square feet, and the example of certain Local Authorities with a lengthy experience of housing administration was cited to demonstrate—

that it is possible to build a suitable three-bedroomed non-parlour type of house with a floor space considerably below 760 square feet.

The withdrawal of all subsidies from houses larger than this type was reinforced by injunctions to exercise unsparing economy in all plans and specifications, such as the following:

It is more economical to plan in blocks of four, six or eight houses rather than in blocks of two;

The ground floor ceiling height need not be greater than 8 ft., and in the upper floor a saving can be made if the wall plate level is left lower than the main ceiling.

Expensive facing bricks, elaborate door heads, projecting brick quoins, unnecessary string courses, gables and projections, extravagant eaves, bay windows and dormer windows, should be avoided.

Economy in the quantity and strength of concrete used, in the form of drainage adopted, in the construction of chimneys, in the size of roofing slates, in the class of carpentry used, and in many other details, was stressed as being essential, and plans not complying with these instructions were sent back for amendment. The result of these instructions was that the average cost of construction per square foot declined from \$2.30 to \$2.09 in one year.

Even smaller types of houses, in particular, houses of a two-bedroomed type for elderly married persons whose families had married and gone away from the parental roof, and also for younger childless or small families, were also encouraged. The elimination of the parlour house, and the encouragement of specially small houses for small families had brought down the average construction costs in March, 1932 to the figure of \$1,585 for the three-bedroomed house (the lowest since the War) and \$1,125 for the two-bedroomed house.

But although construction costs were reduced, other

items of cost (land, roads, sewers, fees and legal expenses) particularly the cost of land in towns, continued to trouble the Ministry of Health. In 1930-31, such costs for 17,350 were as tabulated in the following statement:

Number of Houses	Costs Other than Construction
2,240	Less than \$250
12,582	Between \$250 and \$500
2,528	Over \$500

However, construction costs were still kept low, the costs of the non-parlour three-bedroomed house in 1933-34 averaging \$1,425, at which figure it remained without substantial change until developments on the Continent of Europe had an unexpected reaction on British housing activity.

It is a mistake to suppose that the increase in British armaments commenced with the sensational announcement of the prospective expenditure of seven and a half billion dollars on armaments, made in February, 1937. Long before 1937, Britain had awakened to the fact that her disarmament policy pursued for a period of ten years had misfired. The failure of the League of Nations and the aggressive policies, first of Italy and then Germany, had convinced the British Government that her policy of disarmament was premature. Early in 1934, a silent and unadvertised change of policy was initiated. The production of ships, airplanes and other essentials for defence purposes was quietly accelerated.

Preparations were also made for the expansion of this mildly increased activity in the production of armaments into full and unrestrained activity, when the proper time should arrive.

These initial preparations were largely in the form of the increased construction of the factories and other fixed equipment necessary for the expansion of the production of all classes of armaments in due course. Such preparations competed with the intensely active house building activity then proceeding, both for materials and for labour. The inevitable happened. The cost of materials and wages in the building industry began to rise.

The rise at first was slow and almost imperceptible. But as a large increase in the production of armaments was accepted as being inevitable, the rises in costs and wages grew apace. And when the size of the contemplated programme was announced in February last these rises proceeded with accelerated rapidity. In his Presidential Address to the members of the Halifax Building Society on the 22nd March, 1937, Mr. Enoch Hill stated that among the problems of the immediate future is the certainty of the increased cost of building.

The rise is too recent to have had any appreciable effect on the outturn of houses so far. Its consideration belongs rather to the future than to the present. Its operation will therefore fall far more appropriately into Chapter XII devoted to the outlook for the future. It is hoped therein to make some estimate of its effect on the activity of building construction.

The record of this Chapter demonstrates the strong influence exercised by the Ministry of Health, the responsible Department of the British Government, in keeping down the costs of building construction. Apart from the solitary exception of the extension of subsidies to parlour houses up till 1930-31, the Ministry of Health has exerted the whole of its influence in keeping down the costs of construction to the lowest possible figures. After the confusion of the earlier years, when it attempted the double task of simultaneously remedying the housing shortage and raising the standard of accommodation, it has made rent-paying or purchasing capacity the main guides to its policies. It eventually realised that its attempts to raise the standards of working class housing accommodation, enabled the middle classes to obtain cheap subsidised houses, and left the members of the working class as badly housed as ever.

The author understands that this policy differs materially from the policy of the Housing Authorities in the United States. It is with very great diffidence that he ventures to express a comparison between British and American housing policies. But the contrast is so marked that it makes the British policy stand out in revealing clarity. Any reference to the housing policy in America is not made in the spirit of criticism but merely to bring out the contrast between American policy and ideals and British policy and achievement.

On the day the author hopes to complete the writing of this Chapter, the 31st March, 1937, he observed a

letter in the New York Times containing the following passages:

The housing record in this country initiated through government enterprise leaves much to be desired. While the comparatively limited affluence of European governments resulted in economical housing projects containing frugal appurtenances, the housing of this country to date has been notoriously extravagant at bankruptcy costs. Our professional housers vociferously defend this ineptitude on the grounds of social desirability, superior site-planning and coordinated recreational and educational facilities, but totally disregard fundamental economic requirements.

Building four-story walk-ups at \$3,000 per room with construction cost of 55 cents per cubic foot to be rented at \$6 per room suffers ignobly by comparison with private initiative which produces de luxe elevator apartments at \$1,500 per room with a construction cost of 30 cents per cubic foot and rents at \$20 and over.

We have reached the stage of stocktaking in determining whither we are going in housing. Building costs are mounting to unprecedented levels. It is impossible to estimate the cost of any building because of the rises without notice of prices of material and labor. The thirty-hour week will be a reality this Spring without any reduction in wages, which in effect means a 33 per cent increase in labor costs. Our government is definitely committed to a thirty-hour week, and it is impossible to figure out how that can spell low-cost housing. This is certainly the most inopportune time to push a large-scale low-cost housing program.

The author is not in a position to assess to what extent these extracts are a faithful and restrained exposition of American housing policy and prospects. They have been included to emphasise the diametrically

opposite policy which has stimulated British housing activity to the level it has attained. The following extract from an article "Facing the Facts on Housing" in Harpers Magazine for March 1937, presenting the facts from a somewhat different angle, is also included in this Chapter with the same objective:

As a result, enjoyment of the bulk of the new housing produced is within the reach of only about ten per cent of the population. It is a luxury article.

Unable to produce anything but a luxury article, the construction industry proceeds to make the article still more luxurious. It does so through its desperate efforts to increase sales, sales which are difficult to obtain because of failure to reach a broader market and to create a replacement demand. In order to keep the ten per cent dissatisfied with what they have and thus receptive to new sales efforts, the industry focuses its attention upon architectural fads, striking materials, elaborate bathrooms, more complicated heating systems, an increase of automatic features, more fascinating gadgets of all kinds. As the house becomes more complex and expensive, the public, through the influence of advertising, becomes so enthralled by these extravagant standards that not only do builders quail at the thought of a product which eliminates any of them, but agencies established to produce dwellings for the underprivileged appear to find it impossible in the interest of economy to revert to a less adorned standard.

Standards of living, which include housing conditions, are very different in Britain and the United States. Britain with a much lower standard of living, after seventeen years of stress, has come to the conclusion that the housing problem is to be solved by



restricting efforts to the practicable, the attainable and the financially feasible. British housing authorities have deliberately and of set purpose adopted the motto, "The best is the enemy of the good." After an expensive and futile attempt to attain the best housing accommodation that British instincts demanded, Britain philosophically retreated from idealism and cut down her housing programme to what she could afford. The results are practical rather than heroic or spectacular. Still, they have attracted most favourable comment from American visitors to Britain, and nothing will convince the British Government that its housing policy is on sound lines, more than the unstinted admiration of its achievement accorded by American observers.

## CHAPTER IX

### *Security and Amortization*

Mortgage lending in this country (the United States) has proved to be an extremely risky business.

The waste and expense attendant on the short-sighted lending policies which have produced combinations of first, second and even third mortgages in home finance, their frequent renewals (at a cost), their ever impending total payment, have been roundly and loudly enough condemned since the depression not to require another recital here. The oppressive system, while continuing a now almost furtive existence, is fairly well displaced, thanks to public revolt and recent federal policy. Unfortunately this does not mean that the mortgage problem has been solved. Commissions are still charged; interest rates are still higher than for most types of security; and fixed charges as a whole, including amortization, still continue a threatening element in the total. *Facing the Facts on Housing; Harpers Monthly Magazine, March, 1937.*

EVEN greater obstacles to the satisfaction of the demand for more and better houses than building costs are the financial methods by which payments are arranged and made. The amounts and the duration of the actual amortization payments are calculable by the purchaser. But the psychological burden of a long mortgage, with its relentless encroachment on the family income and its nightmare fears of legal and other unknown pitfalls, are incalculable; and, being incal-

culable, are magnified out of all proportion by the prospective purchaser. The Building Societies in Britain have secured their predominant position in the building world, not merely by providing funds for the financing of all housing requirements, but also by reducing and simplifying the imponderables which operate as strong deterrents to house building and house purchase. Such "threatening elements" as are so eloquently expressed in the passage forming the heading to this chapter,— "the waste and expense attendant on short sighted lending policies", "frequent renewals, at a cost", "commissions, high interest rates, and fixed charges" have either been eliminated or reduced to their lowest possible dimensions. The fact that British Building Societies are mutual, and not profit making, has resulted in the provision of a high quality of "service" in these difficult matters freely placed at the disposal of their members.

The majority of persons in Britain who desire to purchase a house for their own occupation have usually little or no collateral security to offer. A member of a Building Society has his share in the Society, of trifling value in comparison with the value of the house; and he may have an Insurance Policy, which is of value in determining the period of repayment of the loan advanced to him to purchase his house, especially if he is of middle age. But the figures introduced in the latter part of Chapter VII demonstrate that the great majority of house purchasers in Britain are members of the working classes and of the lower middle

classes, who would have no appreciable collateral security to offer apart from the house they were purchasing.

Take, for instance, the figures for the year 1934-35, as specified in the tabulated statement towards the end of Chapter VII. In that year 72,241 houses purchased were of the C Class Standard, the cheapest standard of working class houses constructed, all under \$2,000 in value. A further number of 124,269 better class houses were built and sold to owner-occupiers in that year. These would range in value from \$2,000 to \$8,000. The security for purchasers of C Class houses, apart from the houses, would be purely personal, and so it would be for the purchasers of the majority of the 124,269 better class houses between \$2,000 and \$8,000 in value.

The technique of estimating the credit-worthiness of applicants for the purchase of these two classes of houses is highly complex. One reason for the supremacy which the Building Societies in Britain have established in the financing of housing properties, is their development of the technique of assessing the value of the personal security of their members. Just as the success of a Bank depends on the ability of its Bank Managers to assess the value of the security offered by its borrowing clients, so the success of a Building Society depends on its technique in assessing the personal security of the classes of persons who comprise its membership.

Such security, being personal and psychological, is

most difficult of assessment. It involves innumerable considerations, the principal of which are:

1. The personal character of the applicant;
2. The income;
3. The prospect of permanency in his employment;
4. The prospect of permanency in his place of residence;
5. The value of the house he wishes to purchase;
6. The amount of rent he is already paying for his present housing accommodation;
7. His age;
8. The standard of living of himself and his family.

As regards his personal character, the threefold nature of the source of the loan by which he is assisted in purchasing his house, as described in Chapter VII, provides a searching test. He must satisfy three different lenders, the Building Society, the Local Authority, and the builder of the house, that he is a person worthy of the financial credit they are about to extend to him. The technical Investigation Department of the Building Society is supplemented in this respect by the special knowledge of the Housing and Tax Collecting Departments of the Local Authority, and by the personal knowledge or enquiries of the builder. If he can pass these threefold tests there is *prima facie* evidence that his credit is good for the amount to be advanced.

But the rent he has been paying for the housing accommodation he has previously occupied is perhaps the most valuable test as to the range of his personal security. The rent he has actually been paying in the past is a most reliable indication of the amount of the in-

instalments he will be able to pay in the future. If it is possible to fix the periodic repayments of his loan at a level not far removed from the rent he has previously been paying, there is a strong presumption that such repayments will be within his financial capacity. If the period of amortization can be arranged on the basis of previous rental payments, then the personal security of the purchaser has a high value. The higher the periodic amortization payments diverge above the previous rental paid, the lower is the value of the personal security for the repayment of the loan.

It may be supposed that the facts that the purchaser is buying his house, and that at the expiry of the period of amortization he will be the owner of a valuable property, justifies a higher fixation of loan repayments than the previous rental paid. A man should be prepared to pay higher instalments to purchase a house than merely to rent it. This may be a true proposition in abstract logic; but it is not true of human nature, which is moved by many other factors than pure logic.

Although the owner is buying a house, and thereby acquiring a valuable property, he is accepting responsibilities and liability for expenses from which he was free when a tenant. The local taxes in Britain will be the same in any case, whether he is owner or tenant. But as owner he will be faced with extra expenses for decoration, maintenance, repairs, and possibly insurance. His property will also depreciate in value, however much he spends on maintenance and repairs.

If therefore the instalment repayments of the pur-

chase loan are fixed much above the previous rental paid, the extra payments due to ownership are likely to impose an unduly heavy financial strain on the purchaser, and therefore to reduce considerably the personal security for his loan.

Moreover, the standards of living of the classes concerned in purchasing their houses by means of this system of instalment payments are usually fixed very close to the family income. There is little or no margin allowed for unusual or unexpected contingencies. Consequently, if higher periodic outlay is required to meet the cost of housing accommodation, it involves a corresponding curtailment of expenditure in maintaining the customary standard of living in other directions. No doubt in the first flush of enthusiasm engendered in living in one's own house, the necessary economies are effected. But when the freshness has worn off, there will be a strong tendency to revert to the previous standard of living, thereby causing a financial strain, and reducing the value of the personal security for the loan.

The lower the income of the purchaser, the more is the necessity of keeping the amortization payments of a house purchase loan near to the level of the rent previously paid. As the purchase of houses in Britain has now extended to the low income classes who previously had been satisfied to live in rented houses or apartments, and had never previously aspired to own their own houses, it was imperative to keep this principle in mind in estimating the credit-worthiness of the

borrower, in determining the size of the house he should be assisted to buy, and in fixing the period and the amount of the instalment repayments.

The amount of the instalment repayments are determined by three factors, the value of the house purchased, the rate of interest on the mortgage loan, and the period allowed for amortization. Obviously, in estimating the value of the personal security of a purchaser the value of the house he desires to purchase is a preliminary consideration. The personal security which would be perfectly safe for a \$2,000 house, might be far from sufficient for a \$3,000 house. Fortunately, the low rates of interest on which the amortization payments are based, compared with the high rents prevailing, make it possible to supply a prospective purchaser with a new house providing equivalent, or even superior, accommodation to that he has previously utilised, without any marked increase in his instalment payments above the rentals he has been paying. In these circumstances, the choice of a house within the security capacity of the purchaser is not difficult. Detailed specific instances of the application of this principle have been given in Chapter VI.

There are, however, limits to the application of the principle of reducing the amount of the amortization repayments to an amount governed by the previous rental paid. These limits are fixed by the age of the prospective purchaser and the rate of depreciation of the property. The same elasticity in the period of repayment cannot be permitted to an elderly purchaser

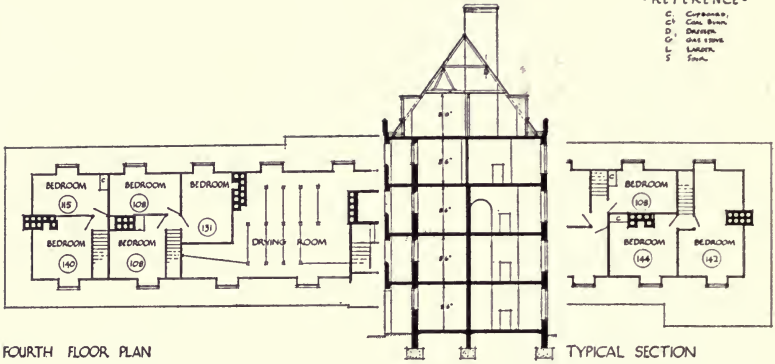




*Courtesy London County Council*

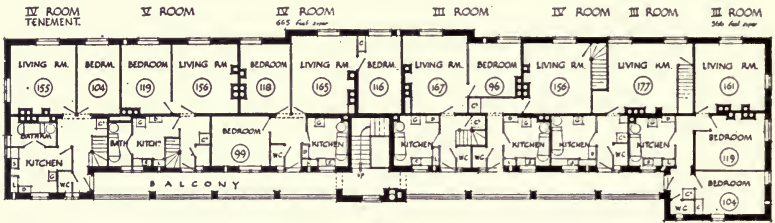
TYPICAL SLUM IN TARN STREET AREA.

- REFERENCE •
- C. CUPBOARD
  - CB. CASE, DRAW.
  - D. DRESSING
  - G. GAS FIRE
  - L. LUGGER
  - S. STOVE

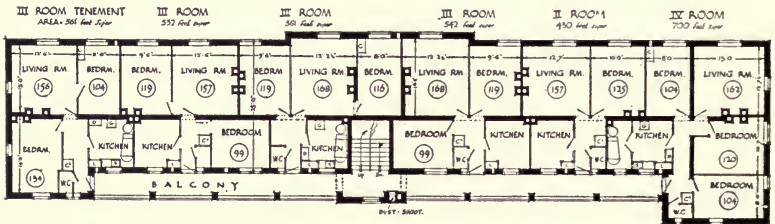


FOURTH FLOOR PLAN

TYPICAL SECTION



THIRD FLOOR PLAN



SECOND FLOOR PLAN  
GROUND & FIRST FLOORS SIMILAR.



Courtesy London County Council

LONDON COUNTY COUNCIL FIVE STOREY APARTMENT HOUSES.  
HEATED BY COAL FIRES AS INDICATED BY CHIMNEYS.

as to a much younger man. The mortgage must be cleared off while he is in full possession of his earning powers, and before he has to ease off on account of old age. This difficulty can be met partly by the assignment of an insurance policy to the Building Society. But as a general rule, the period of repayment is shorter, and the amount of the instalment repayment is higher, when an elderly man desires to purchase a house.

Another very important limitation to low instalment repayments is the rate of depreciation of the building purchased. The instalments must be fixed so that the repayment of the principal (not the total instalment, but the portion of the instalment allocated as repayment of the principal of the loan) must be greater than the rate of depreciation of the building. Otherwise, there is a great temptation for the owner-occupant to regard his occupation as a tenancy, and to default in his payments should he be confronted with any financial difficulties. If he thinks at any time that the depreciated value of his house is less than the burden of his prospective payments, he will be greatly tempted to default and leave the Building Society to make the most of a depreciated property.

There must accordingly be a margin, the more substantial the margin the better, by which the amount of the principal incorporated in the amortization repayments must exceed the cumulative depreciation of the building. Such a margin enables consideration to be given to a purchaser suffering from a financial setback

after having made a substantial number of payments. In such a case, his future payments are well below the value of the property, and it is possible for the Building Society to ease down the amount of the repayments and to lengthen the period of repayment for the remainder of the loan; or, if the financial loss sustained by the purchaser is too severe to enable him to continue to occupy the house, the sale price will probably be sufficient to cover the present value of the unpaid instalments.

These considerations by no means exhaust the comprehensive nature of the factors determining the value of the personal security of purchasers of moderate incomes. For instance, the ownership of an automobile is most relevant. An income quite capable of standing up to the instalment purchase, depreciation and maintenance of an automobile, or alternatively, to the instalment purchase, depreciation and maintenance of a house, may not be able to stand the strain of the double burden.

The estimation of the value of personal security is, in short, an intensely variable, personal and individual matter, not subject to mechanical rules and regulations. In the business of banking, though general rules must be followed, it is necessary to invest every bank manager with considerable powers to use his discretion and judgment as to the personal security of each borrower. It is better to risk an occasional mistake, and to suffer an occasional loss, than to fetter business with too rou-

tine or too elaborate a series of safeguards and prohibitions.

The same is true in the much more difficult field of the mortgage of house property in the course of acquisition by persons of low or moderate incomes. Rigidly fixed terms of amortization prohibit the adaptation of the loan and its amortization to the peculiar circumstances of each individual prospective purchaser. In no branch of business is it so necessary to utilise the personal circumstances and idiosyncracies of the customer in order to clinch and to finance the deal. And in no branch of business is it so important to supplement the material security of the property mortgaged with reliable personal security.

Realising the extreme difficulty of dealing with the problem of security for the mortgages on houses purchased by persons with low incomes, the Ministry of Health devised a co-operative sharing of the risk by the Central Government, the Local Authorities and Private Enterprise as explained in the following instruction:

In order to ensure additional finance on easy terms for those builders and investors who may need it, the Housing Bill contains provisions designed to make effective the offer of the Building Societies to put their great financial resources at the disposal of private enterprise for the purpose of providing working class houses. The provision takes the form of an extension of Section 92 (1) (b) of the Housing Act, 1925, which enables Local Authorities to guarantee advances made by Building Societies, and it empowers the Minister, subject to compliance with his requirements as

to the number, type and size of houses, and certain conditions as to density, etc., to share equally with Local Authorities and the Building Societies the risk involved by making advances up to 90 per cent of the valuation.

The effect of the grant of these financial facilities is described in the Report of the Ministry of Health issued in July, 1935, as follows:

The large proportion of houses of a low rateable value is an indication that the extensive activity of private enterprise has been of substantial benefit to members of the working classes. While most of the houses are for sale, it is well known that the financial facilities now so widely available enable persons of quite limited resources to purchase their houses.

During the course of the author's lecture tour in the United States, he has heard many expressions of surprise that the British Government should stimulate so risky a form of enterprise as the purchase of house property by low income workers. It has frequently been suggested that such a policy may appear to be successful during a period of return to prosperity such as has been experienced in Britain since 1932. But strong doubts are expressed as to the future of the purchasers and the mortgage holders, should the progress towards prosperity be transformed into a period of depression.

The answer to these suggestions is that Britain did pass through a most severe and prolonged period of depression between 1928 and 1932. Though the depression caused several changes in housing policy, it did not cause any severe epidemic of default on the part

of the purchasers of houses by instalments. There were defaults, of course, but they were not sufficiently numerous to cause any appreciable inconvenience or loss to the Building Societies or the guaranteeing Local Authorities.

Nor did the depression cause any slackening in the demand for new houses or in their rate of construction. The drop in 1928-29 was due to the withdrawal of Government subsidies from Private Enterprise. The number of non-subsidised houses built in that year increased. The following figures for the construction of houses during the depression suggest that its direct effect on house construction and on public confidence in house purchasing was not deterrent:

Year	NUMBER OF HOUSES BUILT	
	Subsidised	Not Subsidised
1927-28	178,582	60,332
1928-29	104,792	64,740
1929-30	112,057	90,491
1930-31	55,874	125,368
1931-32	70,061	128,418

The number of subsidised houses fell rapidly because of,

the withdrawal of subsidies from private enterprise, the subsequent withdrawal of subsidies from parlour-houses built by Local Authorities.

But throughout the depression there was a continuous rise in the numbers of non-subsidised houses built

by Private Enterprise, the numbers built in the last year of the depression being more than double those built in the year when the depression first developed. Building construction during the depression, instead of collapsing through defaults and lack of confidence, proved that the four-fold combination of low construction costs, close co-operation between the financing factors, the prospect of lower interest rates, and a common sense security policy, reduced the risks of building finance to a low and manageable level.

Indeed, it was the experience of the security of housing finance during a period of unprecedented depression, which formed the basis of the subsequent extension of house ownership to classes who previously have been content to live in rented houses or apartments. The quotation at the head of this Chapter suggests that mortgage lending in the United States is an extremely risky business. The experience of the Halifax Building Society may be cited to demonstrate that in Britain mortgage lending has been shorn of most of its terrors. Sir Enoch Hill, the President of the Society, in his annual speech to the members, described the new business of the Society for the year 1936 in the following statement:

The total receipts for the year, exclusive of investments realized, were \$189,429,465. Of this amount, the sum of \$102,443,760 was advanced upon new mortgages granted mainly for the purpose of buying or building houses for the personal occupation of the borrowers. The number of new borrowers was 31,794 and the average amount of each ad-



vance was \$3,220. This average loan has been substantially increased by the mortgages upon groups of houses.

The average loan advanced, \$3,220, was greater than the loans advanced on the majority of the houses, because this figure included larger single mortgages on groups of houses built for investors in house property to let at rentals, mostly for the low income classes. The general nature of the business effected by means of these 31,794 loans to new borrowers, was that of lending to home purchasers of houses of comparatively small value. This is emphasised by Sir Enoch Hill in the passage:

A perusal of the accounts will show that out of the 226,059 borrowers, 177,587 are in respect of balances not exceeding \$2,500 each. This gives ample evidence that the society's resources are used mainly to encourage men and women of comparatively small means to acquire their own homes.

The elimination of risk from this immense number of small loans is due to the personal and individual attention given to the status, the circumstances and the character of each borrower. Sir Enoch was able to give the following assurance to the members of his Society:

I can assure you that each one of these 31,794 new advances has been carefully scrutinised by the directors and they have all been considered suitable securities.

As the personal security of each borrower had been "carefully scrutinised," the Directors were able to con-

template with perfect equanimity an increase of \$31,268,300 in the total sum due on mortgages during the year, bringing that total up to \$460,978,940, with an average per mortgage account of \$2,035. It is an instructive task to compare the following passage with that forming the heading to this Chapter :

The directors are pleased to report that there are no properties in the possession of receivers on behalf of the society as mortgagees. The cost of realizing all properties which have been repossessed has been met out of the profits of the year, without recourse to the special reserve fund No. 2 which has been provided for such contingencies, and which now amounts to \$3,750,000.

The directors have been gratified to observe during the conduct of the business in the past year the admirable manner in which the society's mortgagor-members have shouldered their responsibilities and promptly maintained their monthly repayments of principal and interest. The increased prosperity of the country has, no doubt, contributed to this very desirable state of affairs, which has certainly been reflected in the very excellent position with regard to the number of borrowers' accounts in arrear. In fact, the condition is so satisfactory that it is hardly possible of improvement.

The experience of the Halifax Building Society is typical of the resumption of the normal function of financing the national demand for house construction by Private Enterprise. The fact that the satisfaction of the normal demand was assured enabled the British housing authorities to concentrate their attention on the twin evils of slums and overcrowding, which had

been steadily growing worse since the War. The provision of new houses had survived the mistakes and miscalculations of the Subsidy Period, and the risks and dangers of the Great Depression, and could now be left to the care of Private Enterprise, guided and assisted whenever necessary by co-operation with the Ministry of Health and the Local Authorities.

But the subsidies of the former, and the energies of the latter, were now to be devoted to a problem, which had been discussed for over half a century, but which had hitherto defied all efforts at solution—the intractable problem of the slums.

## CHAPTER X

### *Slums and Overcrowding*

In England, particularly, bad housing is regarded the same as decayed meat. Large-scale demolition of slums has been effected with the difference between what people can pay and the cost of better housing being equalised through Government subsidy. *Research Department Circular*, C. W. Young & Co., Inc., New York, dated November 26th, 1935.

WOULD that the first sentence of the above statement were true. It correctly states the opinions of a large and growing body of housing reformers in Britain. The national conscience is slowly being educated up to the ideal therein presented. But it is far from representing the opinions of the Local Authorities who form the housing administration of the country; far from representing even the policy of the Ministry of Health; still further from expressing the general conscience of the country; and far, far indeed from presenting the state of the law or of judicial rulings on housing conditions.

The housing authorities were far too worried by the refusal of Private Enterprise to undertake new building construction after the War, and far too busy devising methods of stimulating new house building, to pay much attention to slum clearance. Moreover, it would have been impossible to destroy any dwellings

providing shelter and accommodation, however insanitary and defective they may have been, at a time when the primary consideration was the provision of more accommodation. The negative attitude towards slum clearance in the years following the War was imposed by the magnitude and complexity of the problems to be solved.

There were, however, conditions so extremely revolting that they forced even the most unwilling Local Authorities to take action. In the twelve years, 1919 to 1931, 121 slum clearance schemes were undertaken, just over ten schemes a year. These, however, were largely blocked by judicial decisions. The majority of slum properties were owned by small capitalists, who had put their small savings in the only form of investment that could be kept under their personal control. They had no funds available for maintenance or repairs. They had no social conscience as to the evil consequences of slum dwelling. Living, as they did, in conditions little removed from those of their slum tenants, they had no knowledge themselves of decent standards of accommodation. In their eagerness to obtain the greatest possible rental return on their investments, they encouraged overcrowding up to the physical limits of the space available.

The Housing Act of 1919 made but elementary provisions to deal with these accumulations of misery. When the Local Authorities, in their few attempts to clear away these properties, took action, they found themselves hampered by judicial decisions, which up-

held the property rights of the slum owners. In 1931, the hopelessness of action under previous legislation was expressed in the following terms:

Certain decisions of the Courts on technical aspects of improvement schemes made under the old code of legislation, rendered it immediately necessary to introduce amending legislation, if even the slow progress which had hitherto been made in slum clearance, was not to be brought to a standstill.

Not that the Local Authorities would have been able to do much, even if the law had been more effective in promoting slum clearance. They were occupied in other directions. In 1931, the Ministry of Health stated:

The Housing Act, 1930, marked the turning point in post-war housing policy. The policy previously followed by all governments had been to concentrate, almost exclusively on the provision of new houses in order to increase the total pool of accommodation available for the working classes; and, while a limited amount of slum clearance was undertaken under the Housing Acts from 1890 to 1925, it was considered that any direct and comprehensive plan to clear the slums and to meet the needs of the poorest workers must meanwhile be deferred.

The "turning point" created by the Housing Act of 1930 has already been considered in Chapter IV. The succeeding Chapters have described how the turning movement then initiated affected the building of new houses, causing the gradual withdrawal of subsidies, stopping the competition between Private Enterprise

and subsidised building by Local Authorities, and eventually restoring to Private Enterprise the financing of all normal house building due to the operation of the demand for additional accommodation.

But it is necessary now to consider a new movement commencing with the same "turning point." As the Local Authorities were gradually freed from the responsibility of supplying new houses, they were stimulated by the Ministry of Health to take more energetic action in removing the evils of slums and overcrowding.

There is no definition of a slum. A slum is the most revolting, degrading and insanitary form of housing accommodation that the public conscience will tolerate. In times of housing shortage, the public conscience goes to sleep in this respect, and slums flourish and multiply. With the construction of a moderate sufficiency of new houses, the public conscience begins to awaken and to recognise the slum as an unspeakably effective forcing hotbed of vice, disease and degradation. Such an awakening happened in Britain in 1931. The following was its cautious official announcement, indicating that the conscience of the Ministry of Health was still more than half asleep:

It further appears to the Minister that the time has come when Local Authorities should reconsider the practicability of enforcing the law against overcrowding. There is no suggestion that a general campaign against overcrowding should be instituted regardless of whether alternative accommodation is or is not available, but Local Authorities should at

least make a start by enforcing the law against the owners, from whose premises they have taken tenants into the Council's houses, if the owners again allow the premises to be overcrowded.

It was found necessary to make a distinction between slums and overcrowding. A slum comprises house property in such a hopeless state of dilapidation that it would be impossible to transform it into satisfactory dwelling accommodation. Overcrowding is the congestion of more people to a room, or more families to a house, than are consistent with decent and healthy living. The only remedy for a slum was to wipe it off the face of the earth. Overcrowding could be remedied by transferring a sufficient number of the overcrowded occupants to new buildings, and thereby providing adequate space for the remainder to live in decent conditions. The remedy for slums involved both destruction and construction. The remedy for overcrowding involved construction only; new dwellings for the surplus occupant, together with any reconditioning that might be necessary in the previously overcrowded houses.

The Housing Act of 1930 required that every Urban Authority with a population exceeding 20,000 must formulate and submit to the Minister of Health, a quinquennial statement of the steps they proposed to take for dealing with bad housing conditions in their area and for new accommodation for the disturbed families. These programmes were required by the Act to be submitted by the 31st December, 1930. In spite of the short time available, this requirement was com-



plied with by nearly all the larger authorities and by most of the smaller ones.

The returns received made it imperative to separate the problem of slums from the problem of overcrowding. The Ministry of Health accordingly classified its policy into three main constituents:

- (a) Slum clearance,
- (b) Overcrowding,
- (c) New housing built to supply normal demands.

The first two fell within the sphere of action of the Local Authorities. The third was the province of Private Enterprise. The three constituents were carefully defined as follows:

- (a) the clearance of the slums, the demolition of individual houses unfit for habitation and incapable of being made fit at a reasonable cost, and the provision of rehousing directly related to, and synchronised with, clearance and demolition;
- (b) the abatement of overcrowding by securing the removal to suitable alternative accommodation of all those dwelling under overcrowded conditions in town or country, together with the necessary measures to prevent a recurrence of the evil;
- (c) the production of additional working-class houses to meet the normal demand, apart from that arising in connection with the clearance of slums or abatement of overcrowding.

By 1932, the conscience of the Ministry of Health had thoroughly awakened, and the following clarion call to action was issued to all Local Authorities:

The Government has formed the view that the present rate of progress achieved in slum clearance and in the removal of bad housing conditions is definitely too slow, and that the time is opportune for an intensive and concerted effort to put an end to this national evil. The fall in building costs and in the rate of interest at which money is obtainable on loan has led to the conclusion that present conditions are favourable to a vigorous attack upon the problem. The Government is satisfied that the clearance of the slums—a legacy of the uncontrolled building which accompanied the industrial expansion of the last century—is a limited problem, measurable as both the cost and the time required for its solution, and it has accordingly been decided to call upon Local Authorities, with the help of the subsidies available under the Act of 1930, to concentrate, as a matter of urgent importance, upon programmes designed to remedy the evil in their respective areas within a prescribed time.

This instruction to the Local Authorities is significant in other directions than its manifestation that the conscience of the Ministry of Health had awakened to the evils of slumdom. It stresses the importance of a low rate of interest on slum clearance as well as on other branches of housing activity. It also makes a direct reference to the immense problem to be faced owing to the mass of unsatisfactory dwellings which were the legacy of the uncontrolled building of the previous century.

The Ministry of Health imagined that this was a limited problem measurable both in cost and in time. By separating slum clearance from overcrowding it was thought that the amount of slum clearance, involving drastic methods of destruction and the rehousing of the



*Courtesy London County Council*

TABARD GARDEN ESTATE, FIVE STOREY APARTMENTS BUILT ABOUT FIVE ACRE OPEN SPACE.



total population concerned, could be brought within a five-year programme. The more vague and indefinite, though much larger, problem of overcrowding could be separately treated at leisure by much less drastic methods, involving no destruction of buildings, and the rehousing of only that portion of the over-crowded population, necessary to bring the congestion down to a proper standard of accommodation.

A circular letter was accordingly sent to all Housing Authorities (circular 1331 of 6th April, 1933) requiring them to show the areas which should be dealt with either as clearance areas or as improvement areas, and the time-tables for the clearance or improvement, as the case might be; also for the provision of the necessary rehousing accommodation. The programmes were to be drawn, as far as possible, on the basis that all slum areas that required clearance should be cleared not later than 1938, that is, within five years. Local Authorities were urged to make an immediate start in dealing with the clearance areas that could be dealt with at once. In order that they could give their undivided attention to slum clearance and the removal of overcrowding, all subsidies for the building of houses, however small, in response to normal demands for increased housing accommodation, were withdrawn.

On the 9th March, 1934, a Report to Parliament showed that returns had been received from 1,664 out of 1,716 Local Authorities and that 1,428 programmes of slum clearance had been provisionally accepted. These programmes provided for the demolition of

266,851 houses accommodating 1,240,182 persons, and for the building of 285,189 houses for these persons displaced. These proposals all came under the classification of "Slum Clearance", and at the time this Report was presented to Parliament, many of the programmes had been commenced and were already well on their way.

It was found that new legislation would be necessary to deal with the companion evil of overcrowding, and in the same month (March, 1934) the Minister of Health outlined the provisions of legislation to deal with overcrowding to be introduced later in the year. He emphasised that there was nothing in the new proposals, dealing with evils of a different nature, to interfere in any way with the work of slum clearance; and that such clearance must go on without delay or hesitation, as it dealt with a definite class of property which could not be allowed to remain standing a day longer than necessary, whatever further housing proposals the government might have in mind. He explained that the first stage of the government's housing policy was based on the principle that slums should no longer be tolerated, and that the second stage (about to be initiated) was based on the principle that overcrowding should no longer be tolerated.

But before the second stage could be put into operation it was necessary to define precisely what overcrowding was, and by means of additional local surveys to ascertain where overcrowding existed, and its extent. The new measure was also to be designed to secure

that, where no overcrowding existed at the time, future overcrowding must be prevented, and that where the abatement of overcrowding in a particular area had been achieved and the necessary new accommodation provided, no house in that area should again be overcrowded.

The rapid progress of slum clearance, and the prospect of a large programme of relief of overcrowding, brought to light one very serious obstacle that must be overcome before any effective relief could be achieved. In the earlier Chapters it was mentioned that the people of Britain have never taken kindly to apartment houses, or flats, as they are called in Britain. But apartment houses form the only possible means of providing housing for slum dwellers near their places of employment. To transfer them to well designed estates on the outskirts of a city, three or four miles from their occupation, is in many cases to condemn them to unemployment. They resent intensely their transfer to unfamiliar surroundings, with higher expenses of rent and transport, and the possibility of unemployment thrown in. Even if they are persuaded to remove, they gradually filter back to create a higher degree of overcrowding in the slums remaining in the neighbourhood from which they have been displaced.

The only method of accommodating them near the centre of a city, where land values rise to extreme heights, and where the demand for land for commercial purposes is intense, is by means of apartment houses. Single houses in the older parts of British towns are

built so closely together, and are so densely overcrowded, that the only method of accommodating their occupants on equivalent area space at first was by what were ironically known as "model dwellings" usually of five stories in height; that is, apartment houses with a few of the slum characteristics eliminated.

The following description of one of these "model dwellings" by Mrs. Sidney Webb (Lady Passfield, though she refuses to use the title) explains the horror of the British slum dweller to the prospect of transfer to apartment houses. Mrs. Webb, as a girl, revolted against the inanities of a life of leisured ease, and found relief in investigating the conditions of the life and labour of the people of London. She worked for years in sweating dens, and then, to vary her experience, worked as a rent collector for several "model dwellings" erected and owned by philanthropic societies, which sought to improve conditions of life in East London. Katherine Buildings, the subject of the following description, actually exist, and, as Mrs. Webb not only visited them weekly to collect the rents, but also was responsible for their administration, for the eviction of the recalcitrant and the defaulters, and for the selection of new tenants for vacant apartments, her account is the fruit of long and intimate personal knowledge. In her autobiography, "My Apprenticeship," she writes:

Katherine Buildings, situated close to St. Katherine's Docks, was itself an experiment. A group of philanthropists, inspired by Octavia Hill, had undertaken the difficult task



of rehousing without financial loss, in a manner both sanitary and cheap, the poorest of the poor; in particular, the dock labourers, who had been ousted from their homes by the Metropolitan Board of Works in its demolition of insanitary slum property.

Katherine Buildings was a long double-faced building in five tiers (stories). Right along the whole length of the building, confronting a blank wall, ran four open galleries, out of which led narrow passages, each passage to five rooms, identical in size and shape, except that the one at the end of the passage was much smaller than the others. All the rooms were decorated in the same dull, dead red distemper, unpleasantly reminiscent of a butcher's shop. Within these uniform cell-like compartments there were no labour-saving appliances, not even a sink nor a water-tap. Three narrow stone staircases led from the yard to the top-most gallery. On the landings between the galleries and the stairs were sinks and taps—three sinks and six taps to about sixty rooms. Behind a tall wooden screen were placed sets of six closets on the disgusting trough system, sluiced only once every three hours. In the yard below were the dust bins.

The sanitary arrangements had the drawback that the sets of six closets, used in common by a miscellaneous crowd of men, women and children, became the obtrusively dominant feature of the several staircases, up and down which trooped, morning, noon and night, the six hundred or more inhabitants of the buildings.

In short, all amenity, some would say all decency, was sacrificed to the requirements of relatively low rents and physically sanitary dwellings.

The free intercourse has here, as elsewhere in this dismal mass, a demoralising effect. The bad and indifferent, the drunken, mean and lowering elements, overwhelm the effect of higher motives and noble example.

The meeting places—there is something grotesquely coarse in this—are the waterclosets. Boys and girls crowd in these landings. They are the only lighted places in the buildings. They gather here to gamble and flirt.

What can be done in face of this collective brutality, heaped up together in infectious contact; adding to each other's dirt, physical and moral?

A woman, diseased with drink, came up to me, screaming, in her hand a quart pot, her steps directed to the public house (saloon). What could I say? Why dissuade her? She is half way to death. Let her go, if death ends all.

It is difficult to find really good workmen. They become quickly demoralised and lose their workfulness.

Those were model dwellings, erected by philanthropists, under the inspiration of England's greatest housing reformer, Octavia Hill. It is possible to obtain some conception of what slums really were, when these "model dwellings", intolerable as their conditions might be, were decided improvements on the slums they displaced.

Another point to notice in the above description is that the Metropolitan Board of Works, the predecessor of the London County Council, deliberately evicted these people from their dwellings, in order to provide the space for the construction of the Katherine Docks, and made no provision whatever for their rehousing. It was left to philanthropic enterprise to make such provision with the results described. But what would have been the fate of those people had philanthropic enterprise not been forthcoming? Bad as were the model dwellings, the slums were worse. And the slums

were constantly being reinforced by displaced occupants from buildings destroyed to provide land for commercial purposes, with no provision made for their accommodation.

The existence of such model dwellings created a bitter prejudice against them in the minds of the slum dwellers. They preferred the dark, familiar, hidden abominations of the slums to the stark, exposed indecencies of the model dwellings. But the Local Authorities had no alternative. The British prejudices against slums had to be overcome. The Ministry of Health Report for 1933-34 states:

Much of the overcrowding to be dealt with occurs in the congested inner areas of the large cities, and the provision of cottages on the outskirts would be no adequate remedy. To deal effectively with this aspect of the housing problem some new accommodation must be provided at the centre. In order to make the fullest use of the limited amount of land available for housing these people, who, for some reason or other, need accommodation in the central areas of the larger cities, it will be necessary to provide a proportion of the re-housing accommodation in the form of flats (apartment houses). The building of tall flats on expensive central sites must make the accommodation so provided more costly than the provision of cottages in housing estates in the circumference, and accordingly it is proposed that an Exchequer Subsidy shall be made available for Local Authorities who resort to this method of supplying their re-housing needs.

The legislation to deal with overcrowding was drastic. The Ministry of Health claimed that it embodied

a remedy for overcrowding which was fundamentally new and was directed at the root of the problem. Defining clearly what should be the maximum permissible number of inhabitants of every dwelling, according to the number and size of its rooms, it made it a criminal offence for that standard to be infringed in the future, subject to the necessary safeguards to protect existing tenants from eviction until other accommodation shall be available. It called for a survey by each Local Authority to ensure that a sufficiency of suitable alternative accommodation is either available, or, in so far as it is not provided, to prepare and carry out plans for its provision.

Resolutely attacking the problem of flats or apartment houses, Local Authorities were able to overcome what had been a deep-rooted British prejudice. In the Report for 1934-35, the Ministry of Health was able to record that much of the prejudice against working class flats had disappeared in the light of the improvements effected by modern design and construction. The latest practice had demonstrated the very real possibilities, in terms of health and labour-saving comfort, of working-class flats as they are now conceived and constructed. In order to ensure the maximum of efficiency and economy in this form of construction, the Minister of Health appointed a Departmental Committee to enquire into and report upon materials and methods of construction suitable for the building of flats for the working classes, with special reference to efficiency and cost. The determination of the Ministry

to keep down the cost to a practical level is characteristic of recent British housing practice.

The latest report of the Ministry of Health states that the material for the final report of the Committee is being collated. In particular, the Committee has received estimates from a number of building contractors of the costs of different forms of construction as applied to a unit five-storey block. This does not mean that rebuilding is being held up awaiting the Report. Excellent blocks of apartment houses, well designed and constructed, though sparsely equipped according to American standards, are being erected in large numbers.

The two programmes of slum clearance and the abatement of overcrowding are proceeding concurrently. Slum clearance is much the further advanced of the two. It comprises the demolition of over a quarter of a million houses and the re-housing of one and a quarter millions of persons. A determined effort is being made to complete the whole of this programme by the year 1939. As to the possibility of accomplishing this feat the Ministry of Health reports:

The Local Authorities have become more familiar with procedure under each branch of the governing Act of 1930, have adopted their local organisations to meet the big demand which the campaign makes upon them, and have settled into their stride in translating paper programmes into performance. The rate of progress achieved by the latter part of the year, if continued steadily, is sufficient to ensure fulfilment of the programme in the prescribed period of five

years, outside a few large towns in which the scope of operations is exceptionally large.

Progress in dealing with overcrowding is not so advanced. It started later, and required special legislation before any effective progress could be made. The latest available Report gives the following description of the progress accomplished:

The Housing Act, 1935, has now given statutory force to the new machinery for ascertaining and abating overcrowding. The second main arm of housing policy has thus been now brought into action. The Local Authorities have been engaged in a comprehensive inspection of working-class houses in their areas in accordance with the duty laid upon them, and are preparing reports on the yield of these surveys for submission to the Minister by 1st June, 1936. It will then become their duty by 1st August to prepare and submit proposals for dealing with the overcrowding situation disclosed by these surveys and their second main building campaign will thus be ready to begin.

The Survey revealed about 250,000 families living in over-crowded conditions well below the standard prescribed, and a further 350,000 families living on the margin of the prescribed standard, but not definitely below it. These figures are supplementary to those previously obtained with respect to the numbers of slums and slum dwellers. The survey also revealed that the problem of overcrowding was not so different from the problem of slum clearance as the Ministry of Health had imagined. To attempt to abolish overcrowding by removing the surplus tenants to new dwellings involved two difficulties:

1. There was no land near the center of a town on which to build apartment houses to accommodate the displaced tenants;
2. the buildings that were allowed to remain gave the minimum of housing accommodation on extremely expensive sites.

Difficulty 2 was the cause of difficulty 1. Land was insistently wanted, and yet land was being wastefully utilised by allowing old, but serviceable, buildings providing a small amount of accommodation to remain. It was found that the fact that a building was still serviceable did not justify its retention, if the accommodation it provided was disproportionate to its site value. Even if a building was still serviceable from the narrow individual point of view, it was uneconomic to preserve it,

1. if it prevented the erection of a new up to date apartment house that would provide much greater accommodation per unit of area;
2. if it prevented the drastic re-development of an area which would greatly improve both traffic and housing conditions.

Consequently the problem of eradicating overcrowding proved more complex than had been imagined by the Ministry of Health. Instead of being solved by the simple expedient of allowing the serviceable, but over-crowded, houses to remain after transferring the surplus residents to other houses, it usually implied large and drastic schemes of re-development involving an even greater destruction of houses than was being

effected by slum clearance. Overcrowding, in short, on close investigation, proved to be a wide-spread disease, that could only be cured by wholesale destruction followed by re-planning and re-development, and could not be cured by the piecemeal treatment of individual houses.

The transition from the policy of regarding the solution of the overcrowding problem as one to be effected by the individual treatment of single houses, to the more drastic policy of re-development is still taking place at the time of writing. It belongs to the future, rather than to the present or the past; and will be more conveniently treated in the final Chapter of this volume.

The actual progress achieved in dealing with slum clearance and overcrowding, principally the former, can be obtained from the statistics for subsidised houses constructed since 1933-34. The restriction, that Local Authorities should build new houses only to accommodate families displaced by Slum Clearance or overcrowding programmes, did not become effective till 1932. Many of the houses completed in 1932-33 would be built under the old rules, which permitted them to build cheap houses to be let at low rentals to the poorest sections of the working classes. But from 1933-34 onwards all subsidised houses would be built to re-house displaced persons. The amount of Slum Clearance, measured by the amount of re-housing effected by Local Authorities for the three and a half years up to the 30th September, 1936, is as follows:



Year	Re-housing
1933-34	55,840
1934-35	41,593
1935-36	52,335
6 months to Sept. 1936	36,756
Total	186,524

These figures will be increased as soon as the re-housing due to the abatement of overcrowding is reduced to a definite programme, similar to the Slum Clearance programme.

Building activity in Britain is therefore proceeding at the present time in two separate streams, one financed by Private Enterprise and one financed by the Local Authorities of the country. The former is concerned with the building of houses to supply the ordinary commercial demand for increased and improved housing accommodation. The War completely destroyed the methods of financing the supply of houses to meet this demand. But after seventeen years of continuous intensive experiment, punctuated by failures, mistakes and disappointments as well as by achievements, the finance of house building by Private Enterprise has been completely re-established, and is now responsible for the construction of over a quarter of a million houses per annum.

Side by side with this renaissance of normal housing, a new and unprecedented housing development is proceeding. This new development is inspired, not by the

usual commercial forces operating in the business world, but by an awakening of the conscience of the nation. After fifty years of talking, the unspeakable abominations of slumdom forced themselves on to the national consciousness. Though this awakening occurred in the midst of an intense national business depression, it transformed the apathy of words into the energy of action. In the short space of three years it has resulted in a rising scale of demolition and rehousing which promises to approach the figure of 100,000 houses per annum when the programme for the abatement of overcrowding, based on the policy of redevelopment, is taken in hand. Britain has not yet arrived at the stage, suggested in the quotation forming the heading to this Chapter, of regarding bad housing as being in the same category as bad meat, but she is moving toward that stage. Before proceeding to ask, "What of the Future?" it will be convenient to take a glance at the theory of the "Building Cycle," to ascertain if it has any information to give as to future developments.

## CHAPTER XI

### *The Building Cycle*

For the sources of booms and depressions, therefore, we must look to the enterprises which build and equip houses, stores, factories, railways, docks, and the like.

Of the huge total of construction, making up 77 per cent of all the industrial products of the nation, after deducting land and the necessaries of life, about two-thirds consists of repairs, replacements, and such extensions as are required by the growth of population. But the remaining portion is "optional construction", and is undertaken, or not, according as investors see a liberal or a meager profit in providing new building and equipment. *Paraphrase of Mr. George H. Hull's thesis of business cycles* by Wesley C. Mitchell, in *Business Cycles*.

THE business cycle is the resultant of many different cycles in the industrial and commercial worlds. These cycles are due to the imperfect harmony between Supply and Demand in each and every commodity. Their periods vary widely between industry and industry. For instance, the building industry has its own special cycle, with a long period based on the durability of house property. But, owing to the operation of money in linking all industry together into one vast financial organisation, there is a marked tendency to even out the divergent periods of the cycles of different industries, and to produce the well-known general alternation of boom and slump comprised in the term, the business cycle.

Economic theory at one time held that harmony between Supply and Demand could be most effectively secured by price movements. An over-supply in any commodity would produce a fall in its price, which would tend to check its over-production and reduce its over-supply. Similarly, an under-supply would produce a rise in price, which would tend to increase its production and bring its supply up to requirements.

The business cycle is the supreme evidence of the failure of the theory that Supply and Demand can be harmonised by price movements. Instead of the price movements being confined to the particular commodities with an excess or shortage of supply, and thereby equating Supply and Demand, they are distributed through the operation of the monetary mechanism to all commodities, and the individual cycles of particular commodities are transformed into one general cycle comprising all commodities. The business cycle is therefore a monetary phenomenon by which the operation of money, as the universal medium of exchange, has mitigated the severity of numerous industrial cycles in individual industries, and merged them into one universal business cycle of moderate severity.

Readers who desire to pursue this subject further may do so in Wesley Mitchell's comprehensive volume on "Business Cycles." His conclusions are, briefly:

It is not until the uses of money have reached an advanced stage in a country that its economic vicissitudes take on the character of business cycles;



E. P. WHEELER

ARCHITECT TO THE COUNCIL

*Courtesy London County Council*

ROCKINGHAM ESTATE UNDER REDEVELOPMENT. COMPLETED APARTMENTS SHOWN SOLID, DESIGNED APARTMENTS IN OUT-LINE. TOTAL OF 938 HOUSEHOLD UNITS COST (EXCLUDING LAND) \$2,600,000.



*Courtesy London County Council*

MODERN APARTMENT HOUSES. CLAPHAM PARK ESTATE. 665 HOUSEHOLD UNITS COM-  
PLETED.

also,

Communities slowly become subject to recurrent alternations of prosperity and depression as a large proportion of the people begin to rely on making and spending money in a large proportion of their activities.

This must not be understood as meaning that the operation of money has had the pernicious effect of creating the disasters of the business cycle. Quite the contrary. Money has toned down the appalling catastrophes that used to overwhelm mankind, into the comparatively mild and moderate inflictions of the business cycle. As Wesley Mitchell states:

Life seems to have been more precarious, economic fortune more fluctuating, in a medieval town than in a modern city. Until a large part of a population is living by getting and spending money incomes, producing wares on a considerable scale for wide markets, using credit devices, organising in business enterprises with relatively few employers and many employees, the economic fluctuations which occur do not have the characteristics of business cycles.

In other words, whereas in ancient and medieval days, economic crises took the forms of famines, wholesale national and racial migrations, the annihilation of whole communities, the collapse of kingdoms, the disruption of empires, the vanishing of civilizations, they now take the comparatively mild forms of the British and American depressions of 1928-32 and 1929-33 respectively.

Just as business cycles are in themselves ameliora-

tions of previous catastrophes and cataclysms, so they are susceptible to further amelioration by wise and competent monetary management. If money, quite unconsciously, safeguarded the world from a whole series of major economic disasters to which it was previously subjected, it is possible, by the conscious administration of money to secure such an objective, to carry the process still further, and safeguard the world from the operation of the business cycle.

The reason why the business cycle has not been better understood and already brought under full control, is the persistent refusal of Economic Science to accord due weight to the effect of money in the industrial structure. Economics has been largely an investigation of the processes of Production, Consumption and Exchange in an imaginary money-less world. Two modern economists, as wide apart in their outlook as Wesley Mitchell and John Maynard Kèynes, have expressed in forcible criticisms the amazing lapses of Economic Science in this respect. Wesley Mitchell states:

An account of economic fluctuations in a business economy must deal primarily with business conditions—with the pecuniary aspect of business activity. This conclusion runs counter to one of the traditions of economic theory. Most economists have explicitly subordinated the pecuniary aspect of behavior, on the ground that money is merely a symbol, the use of which makes no difference save one of convenience, so long as the monetary system is not in disorder. The classical masters, and the masters of utility analysis, thought they were delving deeper into the secrets of behavior when, with scarcely a glance at the money surface of things, they



took up the labour and commodities, or the sacrifices and utilities, which they held to be the controlling factors.

Mr. J. M. Keynes, considering a different problem—The General Theory of Employment—from quite a different aspect, expresses the same criticism in the following terms:

The conviction that money makes no difference except frictionally, and that the theory of production and employment can be worked out as being based on “real” exchanges, with money introduced perfunctorily in a later chapter, is the modern version of the classical tradition.

Reliance on this false economic teaching “that money is merely a symbol, the use of which makes no difference save one of convenience” and “that money makes no difference except frictionally” was one of the principal causes which led Britain and the United States into the economic disasters of 1928-33. Instead of being merely a symbol, money has become the most potent of all modern forms of wealth. In addition to its value as a medium of exchange, which makes it readily transferable into every other form of wealth, it has a peculiar and distinctive value of its own, known to economists as “liquidity preference,” and known to business men as “ready money.”

The monetary education imposed on the world by the numerous financial disasters of the post-war era has emancipated mankind from the false economic teaching that money does not matter. The degree of emancipation can best be appreciated from the fact

that the Governments of the United States and of Britain made definite pronouncements in the same month (July, 1933) that they were prepared to adopt monetary policies specially designed to eliminate the dislocations of the business cycle from the world of industry. On July 3rd, 1933, President Roosevelt proclaimed:

The United States seeks the kind of a dollar which a generation hence will have the same purchasing and debt-paying power as the dollar value we hope to attain in the near future.

The very same month, on July 27th, 1933, the British Empire Currency Declaration proclaimed:

The Governments of the British Commonwealth should persist by all means in their power, whether monetary or economic, within the limits of sound finance, in the policy of furthering the rise of wholesale prices until there is evidence that equilibrium has been re-established, and that thereupon they should take whatever measures are possible to stabilise the position thus attained.

These two pronouncements describe precisely the same monetary policy. The fixed purchasing power of the dollar which the United States is seeking to attain and the stabilised equilibrium position of the pound sterling as soon as equilibrium has been established mean the same thing. They both mean that the United States and the British Governments consider that the business cycle, as manifested by its wide fluctuations of price levels, is primarily a monetary phenomenon, to

be controlled by appropriate currency management. By these pronouncements, both Governments adopt the position that business cycles, being monetary phenomena, are controllable and can be eliminated; and both Governments accept the full responsibility of effecting such elimination in due course.

In adopting this position, both Governments have a great weight of authoritative opinion behind them. The most searching analysis of the influence of the operation of money in industry, both national and international, since the War, was that of the British Macmillan Commission, the Report of which was published in July, 1931. That Report stated:

The Credit Cycle seems to be the effect of monetary conditions upon human psychology.

The mitigation, so far as possible, of the Credit Cycle, is, we believe, largely a question of cooperative currency management. The recent worldwide fall of prices is best described as a monetary phenomenon.

Instability of prices is a serious evil, and monetary influences on prices are more controllable than any other. Central Banks should therefore so control such monetary influences as to favour stability rather than instability.

Applying this digression into the theory of the general business cycle to the problem of building activity, the durability of a dwelling house ranges from fifty years to one hundred and fifty years. Consequently, once a demand for dwellings is satisfied, there is not likely to be a general demand for removal for at least forty years; say, building activity for ten years and

comparative stagnation for forty years. There may be subsidiary demands to satisfy the needs of a rising or a moving population, and there are constant demands for renovation and repairs. But, apart from these subsidiary demands, the natural term of a building cycle would, if not subjected to monetary forces, be fifty years.

But the operation of money reduces both the length and the severity of this natural building cycle. Difficulties of finance interpose to stop building progress during the downward swing of the general business cycle, even though the demand for building has not been completely satisfied. Similarly, the upward swing of the business cycle creates a financial ease which permits building to be resumed at the point where it was arbitrarily stopped during the downward swing. The operation of money shortens the period and lessens the severity of the building cycle.

The building cycles of the past sixty years in the United States illustrate how their natural period has been reduced by the intervention of the general business cycle. There have been three building cycles, as follows:

1878-1900; 12 years upwards, 10 years downwards;  
total period 22 years.

1901-1918; 9 years upwards, 9 years downwards; total  
period 18 years.

1919-1934; 9 years upwards, 6 years downwards; total  
period 15 years.

This reduction of the period of the building cycle is due to the progressively greater efficiency of the money mechanism during the past sixty years, reducing both its length and the severity. The breakdown of the monetary mechanism from 1929 to 1934, thereby reducing its efficiency for the time being, undoubtedly lengthened the period of the latest of the three cycles; but, even so, it was shortened by three years as compared with the previous cycle.

This brief divergence into the theory of the industrial cycle is essential in considering the future of building construction. The problem is not the simple one of people wanting houses and the building industry supplying them. The supreme lesson of the previous Chapters of this volume is that building activity is governed by finance. Finance in its turn is governed by monetary policy. The passage selected for the heading of this Chapter, although it regards the building and construction industries as the prime cause of the booms and depressions of the general business cycle, yet regards most new building as being governed entirely by financial considerations. It is "optional construction," undertaken, or not, according as investors see a liberal or a meager profit. The period of the building cycle is therefore governed quite as much by the monetary mechanism as it is by its natural period, as determined by the durability of dwelling houses.

There is a much greater tendency in the United States than there is in Britain to regard the future of house building as being dominated by the building

cycle. Building operations in the United States are on a much greater scale, and the operation of monetary and economic forces is, consequently, more violent and more intense, than in Britain. Nevertheless, the following five considerations apply equally to the United States as to Britain:

1. The business cycle is now much more clearly understood, owing to the tardy and grudging, but nevertheless complete, appreciation on the part of the leaders of Economic Science, of the potent effect of money on industrial organisation;
2. the business cycle in itself measures a marked amelioration of the unregulated economic catastrophes which afflicted mankind before the introduction of the modern monetary credit system, and is but a step to further amelioration, as the efficiency of monetary administration increases.
3. The much better understanding of the nature of money and the much more efficient administration now exercised over the operation of money in the industrial world, has greatly increased the possibility of controlling, and eventually eliminating, the business cycle.
4. The Governments of the two strongest industrial countries in the world have assumed responsibility for the control and eventual elimination of the business cycle.
5. Co-operation between Governments and Private Enterprise promises to eliminate the harmful operation of the building cycle even more rapidly than the general business cycle will be eliminated in other branches of industry.

Undue concern with the operation of the building cycle, and for that matter, with the general business

cycle, has a depressing effect on the progress and activity of constructive works. Fears and anticipations of a depression are among the most potent causes producing a depression. By resolutely ignoring all theories of the building cycle, and by ignoring, with equal resolution, the actual industrial depression caused by the operation of the general business cycle between 1928 and 1932, Britain has succeeded in maintaining fairly continuous building activity for seventeen years (1920-37). Whether the demand for dwelling accommodation is approaching saturation in Britain, whether a downward swing in the building cycle is at hand, or whether the building industry is coming nearer to the point when it will be emancipated from the operation of that cycle, will be considered in the next and concluding Chapter of this volume. But, meantime, the attitude of the British building industry, including in that term all factors concerned in the financing and construction of buildings is well expressed in the following passage from the annual presidential address of Sir Enoch Hill to the Halifax Building Society on March 22nd, 1937:

The future of building societies must rest, along with the future of industry and commerce of our country, on the continuance of peace and prosperity, and an absence of fear in the future, which we all so much desire.

The phrase "an absence of fear in the future" is not merely concerned with fears of the outbreak of war. It refers to those fears caused by lack of confidence; in particular, the fears engendered in the

minds of all business men by what appears to be the senseless and arbitrary operation of industrial cycles. British housing activity since the War has been largely due to putting those fears aside, in the trust that the enlightened wisdom of the Twentieth Century is operating to remove their causes.



## CHAPTER XII

### *What of the Future?*

Standards of housing are continually improving. Old, worn-out and inconvenient houses must give way under normal market influences to modern housing standards. Cleared sites call for redevelopment. Increased prosperity to the individual is signified by the acquisition of improved housing accommodation, and general prosperity in the community will undoubtedly give an added impetus to that upward filtration in housing standards which has been so notably stimulated in post-war years by the work of the building society movement, and which has been strongly supplemented by the demolition of badly designed and unhealthy properties now being carried out on an extensive scale. *Presidential Address of Sir Enoch Hill, Annual Meeting of the Halifax Building Society, 22nd March, 1937.*

THE above passage shows a healthy disregard for the operation of the building cycle. In seventeen years Britain has built over three million houses. If the building cycle has any validity, the time for recession is at hand. But there is no recession in Sir Enoch Hill's mind, nor in his speech. He looks into the future with confidence and sees the continued improvement of housing standards; old, worn-out and inconvenient houses giving way to modern standards; the re-development of cleared sites; the acquisition of improved housing accommodation; an upward filtration in housing con-

ditions; the demolition of badly designed and unhealthy properties being carried out on an extensive scale.

Not that he has closed his mind to present tendencies or to future contingencies. The following passages demonstrate a clear-sighted estimate of building possibilities:

You will expect me to say a word or two with regard to future prospects. I think building society circles generally are now prepared to experience a somewhat lessened demand for mortgage facilities. This is only to be expected after the great boom of recent years.

The attainment of saturation point in certain classes of housing in some districts may prove a factor tending to diminish in the near future the volume of new estate business in many areas, but there will be compensations in the greater development in other districts,

and:

A further slackening in the demand for mortgage facilities may become apparent through some portion of the building trades' labour being diverted from dwelling-house property to the construction of workshops, aerodromes, and other buildings now being erected under the Government defence plans. I hope and trust that such diversion of labour, if any, will not cause any real shortage of housing accommodation.

The author has preferred, on this vital question of the future prospects of house building in Britain, to present the authoritative views of the greatest British leader in building finance, one who has taken a promi-

ment part in creating the system by which the construction of dwelling houses is being financed, whose Society has advanced more money, and has more advances outstanding on dwelling houses, than any other association in Britain, probably in the world, and which is responsible for a considerable quota of the three million houses of Britain's post-war programme. It is remarkable that instead of expressing fears of the over-production of houses, leading to a diminution in activity, he hopes and trusts that the Government's armament programme will not cause a shortage of housing accommodation.

Sir Enoch's phrase "saturation point in certain classes of houses" refers to the fact that housing finance and construction in Britain has been canalised into four main classes or channels:

1. houses for owner-occupation;
2. houses to let at rentals for those whose circumstances, financial or otherwise, do not permit them to own the houses they live in;
3. houses to accommodate displaced slum dwellers;
4. houses to accommodate families displaced by the measures to relieve overcrowding.

This classification of housing activity into four main divisions has several advantages. It reduces what would otherwise be an intractable problem of impossible magnitude into smaller workable parts. It enables a correct allocation of responsibility between the Local Authorities and Private Enterprise to be effected. It permits attention to be concentrated on that branch of housing

activity most in need of stimulation at any given time. It introduces order and co-ordination, where otherwise overlapping and confusion would frustrate the best of intentions.

But far and away the greatest benefit resulting from the four-fold classification of housing activity is that it breaks up the building cycle. The progress and recession of building construction in the four classes is not necessarily synchronous. Recession in one section can be balanced by activity in another. For instance, recession in the third and fourth sections from 1920 to 1933 was balanced by activity in the first section. And now that a recession in the first section is threatened, it is already being balanced by increased activity in sections 2, 3 and 4.

Considering each of the four sections in turn, to quote again the recent Presidential Address of Sir Enoch Hill to the Halifax Building Society:

Among the problems of the immediate future is the certainty of the increased cost of building; but if this should prove not very severe, it will not greatly check home ownership as proved by experience in the past.

Thus, the recession expected in the first section comprising home-ownership is not attributed to the business cycle. It is due to the increased cost of building, which is, in its turn, due to the heavy demands being made on the construction industries in connection with the large armaments programme now being undertaken. Moreover, it is not anticipated that the recession will be very severe. There is still a demand

for this class of housing, and though it may be temporarily slowed down owing to extraneous circumstances, it may be resumed as soon as normal conditions, accompanied by more normal costs of construction, return.

As regards the class of housing falling within the second head of the four-fold classification—houses to let at rentals—Sir Enoch Hill states:

The volume of business transacted under the provisions of this Act (Housing, Financial Provisions Act of 1933) has not generally come up to the expectations of its promoters or the wishes of the Ministry of Health. There is still a very great demand for modern housing available to let to such of our working classes as have no early prospect, by reason of varying circumstances, of enjoying the benefits of home-ownership.

There is no recession, or even prospects of recession, for the construction of the very large class of housing to let at rentals for the working classes. There is still a very great demand for such houses. To what extent this demand will be affected by the rising costs of housing construction it is difficult to say. But even if this demand is adversely affected, it will not mean any diminution in building activity. It will simply mean the temporary transfer of building activity from housing to industrial and commercial construction.

If the four-fold classification of housing construction adopted had comprised the whole building industry, there would have been five sections instead of four, the fifth being industrial and commercial build-

ing. Any recessions of house building in the first and second sections, due to higher costs of construction, will be absorbed by the fifth section, which is itself the cause of the higher costs. It is the heavy industrial and commercial building due to the armaments programme which has created the extra demand for building construction and is causing the higher costs. The slackening of building in the first section, and a possible slackening of building in the second section, will not lead to a downward trend in the building cycle. They will be counterbalanced by the transfer of building activity for a time to another section of the building industry.

In the third section—houses being built to accommodate displaced slum dwellers—there is at present a rapidly increasing activity. Over a quarter of a million houses are to be demolished under a five year plan, and a quarter of a million houses, or dwelling units in apartment houses, are to be erected to house the displaced families. The construction side of the plan has not yet reached its half-way point, and as there will inevitably be a lag in its completion, activity in this section is assured for another three years.

But the slum problem will not be solved in three years. Mr. Craven-Ellis, Member of Parliament for Southampton, with much experience both as a housing administrator, as an active participant in housing construction and practically associated with the building industry, in his volume entitled "The Rebuilding of Britain" states:

But how have these various medical officers decided that a house should come down? I can find in the Housing Act of 1930 no suggestion of a criterion of what is or is not an unhealthy dwelling. That such a small number of slum houses should have been found in their areas by many local authorities suggests that the word "slum" is very widely interpreted. I have seen the effect of this latitude, and it is most unsatisfactory. The Medical Officer in Town A has scheduled certain houses for demolition, and in Town B, a few miles distant, houses in a much worse condition are passed as still fit for human habitation. Such cases are numerous. I have even had brought to my notice a case in which the same Medical Officer of Health condemned houses in one district and left other worse houses standing in another district.

Mr. Craven-Ellis' criticisms are fully justified by the Annual Report of the Ministry of Health for 1935-36, which states:

Some of the Local Authorities have found on further examination the need for submitting supplementary programmes. A welcome tendency during the year has been for some Local Authorities, who were tardy at first in formulating programmes adequate to local conditions, to undertake a new comprehensive survey and adopt a more thorough programme of necessary action.

What is happening is that the national conscience, which was drugged to apathy between 1920 and 1931 by the appalling shortage of houses, and which has been gradually emerging from its stupor during the last few years, is now becoming both wide awake and alert to the degradation and demoralisation caused by the continued existence of slums. The rapid construction of

new and up to date houses in the first and second sections of the housing classification adopted, is removing the objections to the demolition of existing houses which have deteriorated so much that they are no longer fit for human habitation. A building, which would have passed the test of the Medical officer in 1932-33, because the shortage of houses was then still acute, lies heavy on his conscience in 1936-37, when that shortage is being rapidly rectified.

Moreover, the second comprehensive survey designed to search out and enumerate the houses, not yet deteriorated into slums, but suffering from overcrowding, brought to light many houses which could only be classed as slum dwellings. In the first survey, directed to the picking out of slums ripe for destruction, many houses were omitted in the hope that, by careful and thorough reconditioning, they could be made serviceable for a few more years and so avoid the drastic process of demolition. But when more closely examined under the second survey to see what degree of reconditioning would be necessary to make them fit for habitation, many houses were seen to be beyond all hope of transformation up to modern standards. Hence the supplementary slum clearance programmes still being submitted, and the awakening of tardy Local Authorities to a clearer realisation of their responsibilities in securing the health of the citizens living within their jurisdictions by the removal of slum conditions.

It has therefore become quite clear that the five year



plan will develop into a six, seven, or eight year plan; or, alternatively, as the end of the first five years approaches, the Ministry of Health will direct that a second slum clearance survey shall be made, with a much clearer indication as to the standard below which residential property must be scheduled for demolition.

Thus, there will not be for several years any slackening in the demolition of slums, or of the building of dwellings to rehouse the displaced slum population. Slum clearance is, indeed, outside the range of the building cycle. It depends on the national conscience, as interpreted by the Local Medical Officers of Health. Neither the national conscience nor the Medical Officers of Health are governed by the operations of the building cycle. They are governed by the total housing accommodation available. The more good houses available, the less is the toleration extended to bad houses, and the more unfit houses are scheduled for demolition. The rapid construction of good houses, instead of leading to saturation and the cessation of further building, leads to increased demolition, and to increased building to replace the houses destroyed.

Before leaving the question of slum clearance it is interesting to note as an illustration of the scale on which it is proceeding, that in the year 1935-36, 3,159 provisional Slum Clearance Orders, involving the displacement of 127,973 persons, were received by the Ministry of Health for consideration. During the year 2,490 Slum Clearance Orders involving the displacement of 107,906 persons were confirmed.

An indication of the manner in which the slum clearance problem is continually growing, is given by a speech made by the Minister of Health at Harrogate on November 27th, 1936. He stated:

In replacement of unfit houses and the clearance of the slums, over 120,000 houses have already been completed (about half of them during the last year), over 50,000 more are under construction and 6,000 are being completed month by month. As regards the future we have still, in order to finish slum clearance and to abate overcrowding on present standards alone to complete or build nearly 400,000 houses.

Thus, the attempt to limit the programme of slum clearance by separating it from the associated problem of overcrowding has failed. The first survey produced a total of 280,000 houses only, definitely required to rehouse the population displaced by the clearance of slums. But in two years this total had grown to 570,000 houses (120,000 already completed, 50,000 under construction and 400,000 to be built). As more new houses are built, the saturation point recedes, because each new house constructed provides an opportunity to declare an obsolete house to be unfit for human habitation, with the necessity of rebuilding other houses to accommodate the families displaced.

It is with respect to the abatement of overcrowding, the fourth section of the housing classification adopted, that the most revolutionary developments of housing activity are taking place. The Ministry of Health for a long time tried to separate the abatement of Overcrowding from Slum Clearance, thinking that it would

be a cheaper policy to transfer a sufficient number of the families from the over-crowded dwellings into new-houses, and then to recondition the older houses. It was imagined that this would be cheaper than it would be to declare the older houses to be slums and demolish them. But they found themselves up against the following conditions vividly described by Mr. Craven-Ellis:

Our trouble then is not that too few houses are being built. It is that too few houses are being pulled down.

No ordinary house has a life of more than a century. That is the maximum period in which it might be kept in a sanitary and habitable condition. Moreover, although one hundred years is the period accepted, in practice it is generally found that during the last fifth of this period of one hundred years, i.e. during the last twenty years, the possibility of keeping such a house habitable is very doubtful. Usually at the end of eighty years a house has reached a stage of decay at which the rent it yields will not allow for the cost of the expensive repairs then necessary or the cost of its further maintenance in a decent state. Thereupon it must be a slum dwelling.

From this he reaches the conclusion that:

It is not 280,000 but 4,607,679 houses that should be demolished forthwith.

The Local Authorities found themselves defeated by the difficulties described by Mr. Craven-Ellis, when they made their second survey to determine the amount of overcrowding in houses in fairly good condition, which could not be classed as being slums. In their

difficulty they prepared two schedules: one containing the cases in which overcrowding was so offensively bad that there could be no possible doubt in the matter; the other containing marginal cases; that is, bad cases of overcrowding just avoiding the extremely low standard of accommodation prescribed for their guidance by the Ministry of Health.

But there was another difficulty. If an eighty year old house, situated in the centre of a large town, was relieved of its overcrowding and then re-conditioned, it cumbered the ground for another period of, say, ten years, and thereby prevented any much needed improvements or re-development of that area. Suppose that in its over-crowded condition it had accommodated five families, and also that it was decided that with proper conditioning it could house two families only in reasonable comfort. Where were the three displaced families to go? Families displaced by slum clearance were being housed in the vicinity, in apartment houses occupying approximately the same area as the slums had previously occupied. Slum clearance did not create an acute site problem. The displaced families occupied no greater area of land than they had previously occupied.

But the abatement of overcrowding in the centers of large towns created an acute site problem. Many of the displaced families undoubtedly occupied the new dwellings being erected on the outskirts of the town to be let at low rentals. But such dwellings were usually too far away from the place of employment of the residents

of the over-crowded dwellings to suit their circumstances. They had voluntarily submitted to the evils and demoralisation of overcrowding in order to be near their work. The Local Authorities found that many of the families displaced by the abatement of overcrowding had to be housed in the vicinity of their previous dwellings. And yet they could not obtain housing sites for their accommodation except at prohibitive cost.

The Local Authorities, in short, found that the attempt to abate overcrowding without pulling down the congested dwellings led to the following difficulties:

1. Old houses, almost ripe for demolition, continued to occupy intensely valuable sites, and to provide the minimum of accommodation;
2. There was a grotesque discrepancy between the rentals payable by the one or two remaining families, usually in poor circumstances, and the economic rent of the houses occupied, as determined by their site value, plus the cost of reconditioning;
3. No land was available for dwellings to accommodate the displaced tenants.
4. Any re-development of the area as a whole to bring it into conformity with modern traffic and health requirements, was being hampered.

The attempt to preserve from demolition obsolete houses, occupying a central position in a large town and providing a minimum of bad housing accommodation, was, indeed, an extremely wasteful and uneconomic policy. The Ministry of Health, on perceiving that such a policy was no longer tenable, adopted a

drastic policy of Re-development, to deal with such overcrowding. This new policy was first announced in 1934 in the following statement:

The inner congested areas of cities have been for the most part badly developed without any proper regard to town planning considerations, and are ripe for complete and thorough re-development. The rehousing of work people in such areas, where that is necessary or desirable, will in itself involve a certain amount of re-development, but in many cases, a much wider scheme of re-development might be called for by the circumstances of the area. It is proposed to invest Local Authorities with the powers to carry out such wider schemes, including the power compulsorily to acquire over-crowded and other properties included in an area to be re-developed.

The survey of over-crowded houses had forced the Ministry of Health to recognise that the evils to be remedied were far too deep seated to be rectified merely by the transference of population plus the reconditioning of old houses. In addition to overcrowding there were evils of bad planning, the wasteful utilisation of highly valuable sites and the absence of good traffic communications. Such areas were ripe for complete and thorough re-development. It was inconsistent to provide excellent and well planned housing estates on the outskirts of the towns while leaving in the heart of the town large badly planned areas of obsolete houses occupying most expensive sites. There was found to be "a hard core of the overcrowding problem." Radical re-planning and re-development could not be avoided. In 1935, the following comprehensive

policy for rebuilding large areas near the centres of all the larger towns, wherever overcrowding was manifested, was enjoined on the Local Authorities.

To meet the special circumstances of the larger centers of population, it is proposed to invest Urban Authorities with important powers for re-development of those congested central areas which constitute the hard core of the overcrowding problem. In these centers the absence of available sites and the proven inadequacy of a policy confined to building at the circumference, make it imperative that the responsible authorities should be empowered to deal with the congested areas by radical re-planning and re-development which will enable adequate accommodation and amenities to be provided for those who, for occupational or other reasons, still require to be centrally housed. This the Local Authorities will be able to do, by declaring such areas to be "re-development areas" under the Bill and submitting to the Minister schemes for their re-development on a considered plan. They will carry out these re-development schemes partly by purchase of the land in the area, and partly by entering into arrangements with owners for development in accordance with the plan. Where compulsory powers are exercised compensation at market value will generally be paid.

The detailed enquiries of the Overcrowding Surveys had provided a complete diagnosis of the evil of Overcrowding. This evil of Overcrowding was an attempt to realise the high site value occupied by houses with cramped dwelling accommodation. The intense desire of the occupants to be near the place of their employment was the measure of the extremely high site value of the dwellings they occupied. The owners of the

property tried to realise a return on this high site value by crowding in as many families as the limited accommodation would take. The tenants shared the high site value by sacrificing all comfort and decency in order to be near their employment.

Obviously, the reconditioning and retention of such dwellings was a highly wasteful policy. They were a loss whichever way they were utilised. If overcrowding was permitted, in an effort to realise an adequate return on their site value, there was an incalculable loss in health, in physical and moral degradation, and in the existence of centres of social infection. On the other hand, if overcrowding was prohibited, there was the economic loss of the inadequate return from the low accommodation provided on the high site value.

There was only one solution—demolition. The solution of the problem of overcrowding was exactly the same as the solution of the problem of the slums—clearance. That solution was accepted by the Ministry of Health in 1935, and is now in practical operation. One illustration of the magnitude with which the evil of Overcrowding is now being pursued is one of numerous schemes of Re-development being undertaken by the London County Council. An area of two square miles of over-crowded properties in Camden Town, between Regents Park and the Hampstead Road, is to be completely cleared and re-developed.

There is one important difference between Slum Clearance and Re-development. Slum Clearance, being non-economic, is dependent on subsidies, and can only



be undertaken by Local Authorities. Re-development, with its possibility of realising the full value of central city sites, offers a fair field for Private Enterprise. Consequently provision has been made that Re-development may be undertaken either by Local Authorities purchasing the areas to be transformed; or, alternatively, that Private Enterprise may effect the transformation of the scheduled areas up to modern standards in accordance with plans prepared by the Local Authorities.

So vast is the programme of Re-development which the Local Authorities are attacking under the inspiration of the Ministry of Health that some authorities have estimated that it will take twenty-five years for its completion. It is also being questioned whether the existing long term methods of financing housing construction, principally Local Authorities and Building Societies, will be equal to the task. One solution of the problem of finance has been propounded by Mr. Craven-Ellis in his work on "The Rebuilding of Britain" in the following terms:

I do not propose that the rebuilding of Britain should be financed either by loans or by taxation, as public money has been raised hitherto, or by private loans, which must come from the savings of the people. The money, I suggest, should be obtained by an issue of credit secured by the deeds of the newly-erected houses. The rents from such houses would redeem this credit and provide the service charge on it during its redemption.

I propose that Parliament should cause to be set up a

National Mortgage Bank, which would have statutory authority to discharge the services its name implies.

The National Mortgage Bank would supply the long-term credits needed for the carrying out of my rebuilding proposals. The building societies, already efficiently managed, would act throughout the country as its agents. It is for this purpose that building societies would be reorganized.

Details of the proposal for a National Mortgage Bank are beyond the scope of this volume. That the Building Societies do not regard his proposal as hostile is demonstrated by Sir Enoch Hill in his Foreword to the proposals of Mr. Craven-Ellis:

His scheme, therefore, for the formation of a National Mortgage Bank, with all its implications, may come within the realm of practicability before long. There is no doubt also good ground for a generalization that the present character of house building justifies the assumption that provision should be made either for continuous and adequate maintenance or for rebuilding when houses have reached the stage of old age. All careful students of the question will admit that the condition of housing which has endured for some generations past, on the basis of investment ownership and occupier ownership by individual effort, and in the enjoyment of individual freedom, is no longer applicable. Before these old-fashioned principles and methods are scrapped, all genuine inquirers will look for well-founded and well-reasoned evidence that better plans and methods are available. To this desirable end Mr. Craven-Ellis has made a contribution of inestimable value, and few, if any, men in England are more qualified than he is by experience, by study, and by participation in the activities of the building industry, to advise and to give suggestions, both on practical and financial lines.

It is now possible to give an answer to the query, "What of the Future?" the title of this Chapter, so far as Britain is concerned. Considering this question for each of the four classes of building construction and a fifth class to comprise industrial and commercial building, prospects for the future may be summarised as follows:

1. Home ownership: Saturation point rapidly approaching, assisted by a rise in costs of construction.
2. Houses to let at low rentals: A strong and indefinite demand, which may be checked to some extent by rising costs.
3. Houses for displaced slum dwellers: Intense activity, likely to continue for a period of six, seven or eight years.
4. Abatement of overcrowding by re-development: At present in its initial stages with indefinite possibilities that may take twenty-five years to accomplish.
5. Industrial and commercial building: Intensely active under the stimulation of the armament programme. Is sending up building costs. Likely to last for some years.

Naturally, as in all forecasts of the future, there is an element of uncertainty in the above summary. But it is as correct a forecast as can be made on existing data. It indicates that Britain is not exhausted by her achievement of providing over three million houses in less than seventeen years; also that a method of finance has been evolved which eliminates many of the adverse effects of the building cycle with its accompaniment of loss, uncertainty and lack of confidence. It has received some adventitious aids. But it has also withstood the

operation of some adverse forces, in particular, the severe depression lasting from 1928 to 1932.

It has seemed to the author that he has a story worth the telling in the record of how an important industry, completely demoralised at the conclusion of the War, was revived; how it has proceeded from strength to strength through all the financial vicissitudes of the post-war period; how it has created an unprecedented record of achievement in the past seventeen years; and how it now faces the future, prepared to carry out indefinite and unknown schemes of Re-development, promising to rival, and even to exceed, its past accomplishments. Like the story of the course of true love, it does not run smoothly. The mistakes have been many. The intentions of the policies adopted have been frequently frustrated. The disappointments have been numerous. But throughout the story there has been a clear discernment as to the objectives to be achieved. If one method failed to secure the desired objective, it was scrapped, or modified, or supplemented, until the right method was evolved. It is the story of the method of trial and error, rather than of the scientific adaptation of means to ends.

It is, in short, the oft told story of British blundering through to success. As a nation, the British are proud of their reputation for blundering. Under that derisory term is concealed a capacity for improvisation, for dealing with unexpected emergencies as they arise, and for solving unanticipated problems on the spur of the moment. The faculty for devising new, and

untried, and unorthodox methods of dealing with emergencies, may look like blundering. But in a world in which the unexpected is always happening such a faculty is not to be despised, and such methods can be judged only by results.

This presentation of methods and results, this story of the adaptation of means to a determined end, may be as useful to those people in the United States interested in the building problem, in suggesting what to avoid, as in suggesting what to adopt or to follow. The author has tried to portray the extreme elasticity and adaptability of the relations between industry, finance and the various forms of Governmental administration in their methods of dealing with the housing problem. That has been in his mind. He hopes he has succeeded in putting it into his book.











