The Politics of Housing
This report was written by Social Market Foundation for National Housing Federation. The SMF is a leading cross-party think tank, developing innovative ideas across many economic and social policy areas. We champion policy ideas which marry markets with social justice and take a pro-market rather than free-market approach.

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Executive Summary

The current housing supply problem

The affordability problem dominates England’s housing market: an increasing proportion of disposable household income being consumed by housing costs; difficulties for younger generations seeking to access the housing ladder, despite aspirations and expectations to do so; and, very long waiting lists for social housing.

The fundamental cause of the long-term affordability problem is the effect of supply constraints in the context of growing household demand.

Recent house building figures make depressing reading. Although over 230,000 net additions are required on average over the next twenty years, in 2009-10, there were only 115,000 new build housing completions in England. In fact, we have not seen this level of total annual completions since the 1970s, and the private sector alone has not built this level of new dwellings since the 1930s. For two decades and more, the supply of housing – both private and public – has fallen well short of the level needed to match predicted increases in demand. The situation is set to worsen with household numbers rising rapidly in the decades ahead.

A perennial problem?

Evidence suggests that recent governments have been less effective than their predecessors in tackling the underlying problems in the housing market such as supply. This research assesses why this might be the case by analysing the last hundred years of housing supply policy in England. It seeks to answer two questions: First, to what extent have successive governments since 1918 succeeded in addressing housing supply challenges? Second, what factors explain whether governments have pursued and achieved these objectives? In answering these questions, this report differentiates between agenda setting (the political process that identifies which policy objectives central governments pursue) and delivery (the process through which top-line national objectives are brought into being – usually at the local level).

Our research shows that some governments unequivocally have succeeded. Successful governments included those of the 1930s and those from 1945 through to the 1960s. Many other administrations of the past certainly did not categorically fail: by the early 1970s, objective analysis suggests that the backlog of housing need had been cut dramatically and there was slow growth in household numbers.

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2 This problem was clearly identified in 2004 in Kate Barker, Delivering stability: securing our future housing needs chapters and annexes (London: HMSO, 2004). See also, FTI, Understanding supply constraints in the housing market (2012)
Factors explaining why recent governments have failed

So, what explains the failure of more recent governments? Political, market and regulatory conditions have altered markedly over the last century. These have combined to reduce the motivation of political parties to address the housing supply problem. Many of the same factors have also affected the ability of those governments that are motivated to address housing supply challenges of their day to achieve these objectives.

Changing voters, changing ideology

Much attention has been dedicated to the planning process as a constraint on necessary supply. Planning has become more complex thus introducing additional costs and uncertainty for investors since the Second World War, but this is only part of the story.

Three important drivers of political motivations are: the nature and visibility of the problem; the interests and aspirations of voters; and the political and economic ideology. So it is vital to understand how these factors have interacted and indeed changed over time.

First, the tangibility of the housing supply problem has dipped significantly as visible indicators of the housing shortages (such as slum housing and overcrowding) have been reduced significantly. Future household growth is a much less powerful motivating force than current visible failings. Second, homeownership has dramatically increased as a result of rising incomes and Government support. This support appears to have been driven partly by the wish to help voters meet their aspirations to own a home, and partly by the belief in the political and economic benefits from wider asset ownership. Third, an ideological shift has taken place in housing policy, with belief in the market trumping reliance on the state. This has driven a number of big changes: social housing now has a much narrower role than it did in the middle of the twentieth century, with general needs housing delivered principally through the private market; state funding has switched from supply-side capital grant to demand-side subsidies to the individual in an attempt to instil the dynamic of the market into affordable housing. State support is now increasingly focused on means-tested benefits, at a time when attitudes to welfare spending are hardening.

The impact of these changes is set out below.

Less visible

Housing and housing supply was a clearer problem at many times in the past – both to voters and to politicians responding to voters’ concerns. Especially since 1950, there has been remarkable headway in reducing indicators of poor housing and housing need, such as overcrowding and shared housing. Now the challenge is more the future growth in household numbers – a less tangible motivating force. Society is wrestling with a different housing problem now compared to the past.
More homeowners

Remarkable changes to housing tenure since 1918 have meant that many voters now have far less interest in increasing housing supply. The number of homeowners has swelled dramatically from 23% of households in 1918 to around two thirds of households today.

This has had a number of significant effects. First, at the central government level, policymakers increasingly focus housing policy on homeownership policy, whether this is providing reassurance to homeowners that they can continue to service their mortgages or to subsidise the next cohort of homeowners to get on the housing ladder – often through demand-side measures that serve to inflate prices rather than significantly boost supply.

Second, at the local level, homeowners tend to be more anti-development than those in other tenures. Just in sheer numbers, this has served to increase over the last century the downward pressure on new supply of housing. However, this is aggravated by an ‘insider-outsider’ dynamic at the local level. Those on the inside (homeowners) wield disproportionate power over planning policy, being as they are more vocal and more involved in local politics than those in other tenures. Insiders (homeowners) have little interest in boosting supply because they have a long-term interest in their community and have a vested interest (and an invested interest) in house prices remaining high. ‘Outsiders’ in contrast are not only fewer in number but are also less politically cohesive and powerful, comprising those who have a less permanent stake in the community, groups who do not yet live in the area and younger people (some of whom do not have the vote).

Given that homeowners are powerful politically at the national level and at the local level, this has led to a form of path dependent policy favouring property-ownership. The insider-outsider effect means that homeowners – the “insiders” - have disproportionate political power, so that their interests are over-represented in the political debate. Consequently, supply is constrained, increasing the value of homes as an asset, and further fuelling voter demand for home ownership.
Central government has made various attempts over the years to tilt local decision-making away from the power of insiders, through targets and financial incentives, and pushing decision-making and power on economic growth down to the regional and local level. But, arguably, central governments themselves do not have a strong motivation to take drastic action to tilt the balance of power given the current composition of the electorate.

**Social housing: the ideology of the market**

The middle of the last century saw the public sector emerge as a major player in the provision of housing. What was striking was that unlike today, state support for housing was not concentrated purely on low income families. In 1979, 20% of households in the top decile of the income distribution lived in social housing, compared to close to zero by 2004-05. An increased focus on allocating housing to those most in need, rather than those who were seen as more “deserving” changed this. Policies such as Right to Buy further reduced the stock of social housing, leaving greater concentrations of low income families in the sector. In 1971, just over 32% of households rented from local authorities or housing associations. The figure today is below 20%.

The shift in focus of social housing towards those most in need was driven partly by the idea – growing in emphasis in the 1980s - that the market should be the main provider of housing for those who could afford to live in private sector housing. It was thought that the greater efficiency of market incentives would mean better incentives to invest in and maintain
properties. Even for those who could not afford market rents, the private rented sector was to play a greater role, with a switch away from state support through housing stock investment to support through the means-tested benefit system.

However, this ideological shift has left housing policy more vulnerable to general attitudes to welfare. Recent years have seen a general hardening of attitudes among the public to welfare spending. The proportion of people who think that the government should spend more on welfare even if it means higher taxes has plummeted over the last three decades, from 58% in 1991 to 34% in 2012. So there is public pressure to actually reduce state support on welfare rather than increase it.

This creates significant difficulties for the social housing supply, much of which is now provided by housing associations which are heavily dependent on benefit streams to fund the rents of tenants. Future supply of social housing has become increasingly dependent on welfare policy composed in DWP. Recent policy developments such as the benefit cap illustrate the uncertainty in this revenue stream, which in turn is likely to further impede supply.

Where next?
This report illustrates the highly paradoxical nature of the housing market: whilst housing is viewed as a private problem, it remains a very political issue; although housing comprises a principal determinant of quality of life and shortage of housing undermines quality of life, many individuals oppose an increase in supply.

Resolving the dilemma of the housing market is an inherently political process. At the central government “agenda-setting” level, political motivations are likely to continue to be shaped by voter interests and aspirations. Despite the recent dip in home ownership levels, they remain high, and home ownership remains an aspiration for many. However, the government can seek to overcome the customary hostility to new supply by both reducing the number of insiders and diluting the oppositional influence of insiders in decision-making. Such policies will require more attractive alternatives to homeownership – such as a better private rented sector – and stronger incentives for communities to build more homes.

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Chapter 1: Introduction

Housing market failures
Housing policy has a profound effect on us all, from the price of houses to our quality of life, and from financial incentives to work to the productivity of the economy.

But it is clear that the housing market is failing to keep up with demand. Notable problems include: an increasing proportion of disposable household income being consumed by housing costs; difficulties for younger generations seeking to access the housing ladder, despite aspirations and expectations to do so; and, very long waiting lists for social housing.

The affordability problem
Notwithstanding a correction following the financial crash of 2007-08, housing costs as a proportion of earnings for renters and owners are still high, reflecting significant growth in house prices in recent decades. During the house price boom of the 2000s, the price to earnings ratio reached even higher levels than the previous boom in the 1980s, and is still above the 30-year average ratio of just over 4.0, with recent signs of a recovery in house prices on the way.

Chart 1: House price to earnings ratio

Sources: Nationwide, Halifax
Although rents have not risen as much, they are acting as a major squeeze on household finances. The Resolution Foundation recently reported that 590,000 households on low to middle incomes are spending more than a third of their income on rent. In such a context it is hardly surprising that a large proportion of the public, and public renters in particular, think rents are too high. Many people have aspirations to become homeowners, but high prices mean that the prospects of this are bleak. Increasing numbers of young people are being forced into the private rented sector despite the insecurity it entails.

The problem of housing affordability is especially concentrated in some areas. London and the South East of England have seen higher than average growth in house prices and are now seeing very high prices relative to earnings compared to other parts of England.

Simply put, housing has become less affordable and diminished quality of life by reducing the space within which households would otherwise have to live, whilst forcing many into a tenure considered inappropriate for their needs.

Existing homeowners may welcome rises in the value of their homes. But at an aggregate level, house price rises driven by the inability of supply to keep up with demand are a zero sum game and do not contribute to the productivity of the economy. Over time, they contribute to growing wealth inequality across society. This inequality between the older and younger population is widening over time, partly as a result of the gap in housing wealth. In turn, the subsequent distribution of this wealth downwards though bequests and the ‘Bank of Mum and Dad’ exacerbates wealth inequalities within the younger cohort. Excessive increases in house prices therefore can have unintended and undesirable social and economic consequences beyond immediate pressures on household budgets.

The high prices of homes to buy and rent are mirrored in very long waiting lists for social housing. There are currently approximately 1.8 million households on the waiting list for social housing. Lack of provision of social housing alongside affordability pressures also contributes to the continuing residualisation in the social housing sector, as social housing inevitably becomes more focused on a smaller group of households in the greatest need.

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6 Oxford Economics, Housing Market Analysis (July 2011); David Clapham et al, Housing options and solutions for young people in 2020 (JRF, 2012)
7 Urbano, A look to 2030: Social, economic, demographic and environmental trends likely to affect the demand for housing (Interim report to NHF, 2013)
8 Housing may be seen as a vehicle for savings, but there is no reason, in principle, why other assets cannot perform this role. House price rises effectively cause a redistribution of wealth unrelated to any actions taken to improve the quality of housing. In fact, the housing market may attract investment away from more productive uses in the economy.
9 Matt Griffith, Hoarding of Housing (Intergenerational Foundation, 2011)
10 DCLG, Table 600 Rents, lettings and tenancies: numbers of households on local authorities’ housing waiting lists1, by district: England 1997-2012.
This report does not contend that the supply problem is the only housing problem. The quality and design of the housing stock, dealing with homelessness and local community concerns are also principal public policy concerns. However, it takes as its starting point widely-accepted evidence – such as the Barker Review – that supply constraints are a fundamental driver of house prices and of unmet needs.¹²

Sources of England’s high prices: the supply problem
The fundamental cause of the long-term affordability problem is the effect of supply constraints in the context of growing household demand. Supply is constrained due to lack of available land to build on - either because of physical scarcity (i.e. lack of land that can be developed in the areas in which it is needed) or because of planning restrictions.¹³ There is also some evidence that developers further restrict supply, as explored later in this report. The outcome is higher house prices and higher rents.

This has been further exacerbated by trends in debt and lending. During the decade leading up to the financial crisis, there was very strong growth in secured household debt as financial service providers offered generous lending terms and required modest capital sums. This lowered the bar over which potential homebuyers had to jump thus boosting demand. Loose monetary policy can enable an additional cohort of people to get on the property ladder. But if supply is constrained, the effect of cheap money mainly serves to drives house prices up, further exacerbating the affordability problem.

So there are strong arguments to suggest that supply is the most compelling lever that the state has to promote affordability and to ensure adequate living space for households.

The story of housing under-supply
Recent house building figures make depressing reading. Although over 230,000 net additions are required on average over the next twenty years, in 2009-10, there were only 115,000 new build housing completions in England.¹⁴ In fact, we have not seen this level of total annual completions since the 1970s, and the private sector alone has not built this level of new dwellings since the 1930s. The financial crisis and subsequent recession have had a significant negative effect on the number of new homes built. And this is not just a problem for London and the South-East. In all parts of England, forecast annual household growth over the next two decades is expected to be high compared to the rate at which we have been building houses over the last two decades.¹⁵

However, the recent dip in new additions masks a wider failure of governments to meet the projected growth in housing need. A glance at Chart 2 shows that successive governments have presided over falling levels of house-building. For two decades and more, the supply of

¹² Kate Barker, Barker Review of Land Use Planning (HMT, 2006)
¹³ For the impact of restricting housing supply on house prices and affordability, see DCLG, The impacts of restricting housing supply on house prices and affordability (London: HMSO, 2010)
¹⁵ CEBR, The supply of housing in England (2013)
housing – both private and public – has fallen well short of the level needed to match predicted increases in demand.\textsuperscript{16}

Chart 2: Housing completions in England (1946-2012)

This has created a backlog that must be dealt with. Prevalence of homelessness in England stood at 53,540 in the 2012-13 financial year (down significantly from the late 1990s and early 2000s).\textsuperscript{17} However, the number of ‘concealed households’ (family units or single adults living within ‘host’ households) has grown in recent years according to the most recent estimates.\textsuperscript{18} The same is true of incidence of overcrowding and other aspects of need. This means that the overall estimate of the backlog of households in various forms of housing needs in 2013 is 8% (or just under 2 million).\textsuperscript{19}

\begin{itemize}
  \item This problem was clearly identified in 2004 in Kate Barker, Delivering stability: securing our future housing needs chapters and annexes (HMT, 2004). See also, FTI, Understanding supply constraints in the housing market (2012)
  \item As defined by the number of households accepted by local authorities as owed a main homelessness duty. DCLG, Statutory Homelessness: January to March 2013 and 2012/13, England (2013)
  \item DCLG, Estimating housing need (2010). Concealed households, are family units or single adults living within other households. DCLG’s definition includes couples, lone parent families and adult singles (other than children of the main family) who live within other households.
  \item DCLG, Estimating housing need (2010). The last actual figure available is for 2007: 1.6 million (7.3 per cent). In 2010, backlog need was expected to peak in 2010 at 2 million or 8.8%. Under this definition, unmet need comprises: Unsuitable, Overcrowded, Concealed, Sharing, Rental Affordability, and Mortgage Difficulty.
\end{itemize}
However, this problem is set to become far more acute in the decades ahead with new households forming at a rapid rate, driven by a rising population and the trend towards single occupancy. By 2030, the number of households in the UK is projected to grow to 26.7m, an increase of 4.5 million. This equates to an increase of 20% or an average of 236,410 households per year.20 Even though there is significant regional variation in demand for new housing, new supply is needed in all regions of the country on an unprecedented scale. 21

This growth in demand for housing units can partly be met by ensuring that the right types of units are available over time as household composition changes through reallocation of existing housing space, for example, conversions of houses into flats, suitable for a larger number of small households. However, a large number of new houses also need to be built. Figures suggest that not since 1977 have house builders delivered homes on the scale needed for the future.22

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21 CEBR, The supply of housing in England
22 CEBR, The supply of housing in England
Governments and the housing market: a perennial problem?
Despite the gravity of the housing market crisis, evidence suggests that recent governments have been less effective than their predecessors in tackling the underlying problems in the housing market such as supply. This research seeks to assess why this might be the case by analysing the last hundred years of housing supply policy in England.

The research seeks to answer two key questions:
1. To what extent have successive governments since 1918 succeeded in addressing housing supply challenges?
2. What factors explain whether governments have pursued and achieved these objectives?

Methodology and report structure
This research uses a mix of qualitative and quantitative analysis to explore these questions. Our methods include:
- A review of housing policy and academic historical literature,
- A total of 13 depth interviews. These were semi-structured interviews lasting approximately an hour. Interviewees included:
  - previous Housing Ministers (five) with ministerial experience for housing stretching back to the early 1980s;
  - civil servants and political advisers
- Content analysis of election manifestos from 1918 to 2010.

The report is structured as follows. Chapter 2 sets out a chronological overview of the period from 1918, drawing out major themes that emerge in relation to housing supply.

In Chapters 3, 4 and 5, the research explores three particular aspects of politics and policy-making that affect the motivation of politicians to address the housing supply issue and their ability to implement their policies. In particular, they seek to draw out broad trends where the importance of these factors may have changed over time.

Housing supply is affected by decisions taken by central government, which set the overall agenda for housing policy, provide legislation and determine the level of available funding. But throughout the last century, central government has generally relied on local authorities for the actual implementation of housing policy. So understanding local level decision-making is vital to explaining trends in housing supply.
Chapter 3 looks at the factors that have affected the political motivations of the major political parties in their housing policy and determined the high-level policy agenda that central governments have tried to achieve. Two important drivers of political motivations are the interests and aspirations of voters and political and economic ideology. Chapter 3 shows how these factors have interacted and changed over time. There have been dramatic changes in housing tenure since 1918 that have changed the face of the electorate as far as housing policy is concerned. At the same time, political and economic ideology has changed the shape of the housing market and the role of the state.

Chapter 4 assesses the role that additional, non-housing concerns and objectives have played in determining the housing supply policy agenda at the national level. As the recent recession demonstrated, the economy can motivate interest in housing as a means to stimulate demand in the economy.

In Chapter 5, the analysis turns to how central government’s vision of housing supply translates into practice at the local level, exploring local level decision-making and factors that may facilitate or impede the growth of housing supply.

The research methodology is set out in Annex 1.
Chapter 2: Housing policy through time

Introduction
This chapter outlines the key trends and shifts in housing and housing policy throughout the period from 1918 to the present day. It seeks to illustrate which governments succeeded or failed in addressing housing supply challenges.

The 1920s and 1930s saw growth in housing in part as a response to the absence of any building during the First World War – led by public and then the private sector. The period also saw the beginnings of the growth in home ownership that was to continue for the rest of the century. After the Second World War, Government resumed the role of ensuring sufficient house-building, competing on building targets. The 1960s saw the peak in house building – over 350,000 homes in 1968, a figure that has never since been surpassed. By the end of the 1960s, much of the previous housing need had been met, and fiscal and other considerations became of paramount importance.

Housing policy was again under the spotlight in the 1980s – but in the guise of home ownership, not housing supply. There was a shift towards greater reliance on the private sector, with the public sector maintaining a residual role for those who could not afford market prices. Concern about lack of housing supply only really came back to the fore in the middle and latter half of the New Labour Government, but the credit crunch reduced completions.
Lack of building during World War I contributed to a severe housing shortage by 1918. Economic conditions meant that private developers were not in a position to fill the gap, leaving Government as the key actor. The "homes fit for heroes" Addison Act gave local authorities responsibility and subsidies for building homes. Meanwhile, concerns about
affordability meant that rent restrictions introduced during the war continued into the early 1920s.\textsuperscript{23}

Local authorities were the main provider of new homes for the working class throughout the 1920s. These homes were generally offered for rent above those at the lower end of the private market and so catered to the better-off members of the working class. In an effort to push the private sector to build more, Government turned to subsidies. Under the second Baldwin Government (1924-29), approximately two thirds of all new housing and half of privately built housing was directly state-subsidised. Overall, housing policy in the 1920s focused on reducing general housing shortages, rather than focusing on particular sectors of the population.\textsuperscript{24}

This began to change in the 1930s. The Conservative-led National Government was keen for the private sector to finance, build and own homes. Local authorities were instructed instead to focus on slum clearance. The Government’s intention came off with a boom in private sector housing development, driven by low interest rates, little restriction on planning, low costs of land and labour and rising living standards that made housing more affordable.\textsuperscript{25}

By the time war broke out in 1939, there had been an additional net increase of over 2 million homes in the period since 1931. The majority of new houses built in the interwar period were sold to owner-occupiers, with a decline in the private rented sector. Whereas in 1914, 10\% of homes were owner-occupied, six years after the end of World War II, 31\% were owner-occupied, this starting a trend that was to continue over the rest of the century.\textsuperscript{26}

**Key points**

At the end of the First World War, shortages of housing pushed Government into taking action. Throughout the 1920s, local authorities worked to deliver homes to reduce the overall housing shortage.

In the 1930s, a shift towards greater reliance on the private sector took place, aided by favourable economic conditions, loose credit and little planning regulation. Rising living standards saw the beginning of a shift towards home ownership that was to continue for the rest of the century.


\textsuperscript{24} Maplass and Murie, *Housing Policy*; Morgan, ‘The Conservative Party and mass housing’

\textsuperscript{25} Morgan, ‘The Conservative Party and mass housing’; Nick Crafts, *Delivering growth while reducing deficits* (Centre Forum, 2011), Maplass and Murie, *Housing Policy*

\textsuperscript{26} Maplass and Murie, *Housing Policy*; Alan Holmans, *Historical Statistics of Housing in Britain*
1945 to 1979

Post war years

Figure 3: 1945 – 1960 timeline

- Large-scale destruction and damage of homes during WWII
- Subsidies increased to encourage LAs to build more general needs housing
- Town and Country Planning Act
- Election campaign: Lab commit to maintaining 200k new homes per year
- Election campaign: Con commit to 300k new homes per year
- Restarted slum clearance
- Subsidies for LA general needs housing reduced

Number of completions
England

Source: DCLG Live Tables 244

0 50,000 100,000 150,000 200,000 250,000 300,000 350,000

Private Enterprise
Local authorities and housing associations
All Dwellings
Long before the Second World War was over, Government recognised that a large scale house-building programme would be needed in its aftermath. Around 458,000 houses were destroyed in the war and 250,000 badly damaged. The near-halt in building during the war meant that there were few new dwellings. Meanwhile, the growing birth rate and growing number of households also put pressure on housing supply, as did concern about large numbers of returning soldiers. A house-building programme was seen as a way of helping to secure employment as well as satisfying demand for housing.

Between 1945 and 1951 the Labour Government focused on encouraging local authorities to build. Before the end of the war, it had been recognised by both main parties that, at least in the short-term, the private sector would not be in a state to contribute significantly to satisfying the need for housing. This was based on the experience of the effect of war on industry in the aftermath of World War I. In 1945 to 1951, local authorities built over 80% of new dwellings.

The focus on building new houses continued into the 1950s, and was seen as a key electoral issue in the 1951 election. This started a “political numbers auction”, whereby parties made electoral commitments to build to particular levels that went on until the 1970s.

Whilst there was consensus on the need for additional supply, the parties placed differing emphasis on public versus private building. The 1951 incoming Conservative Government was keen to see the private sector carry out the majority of new house-building, with the role of the state mainly limited to tackling slum clearance and over-crowding. Local authority completions fell by more than half in the period 1954 to 1961.

The early post-war years were also notable for the 1947 Town and Country Planning Act. This meant that local authorities controlled and regulated the supply of private builds. The late 1940s also saw the New Towns Act, which enabled the establishment of new towns to relieve congestion in major cities.

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28 Peter Malpass, ‘Wartime planning for post-war housing in Britain: the Whitehall debate, 1941-5’, *Planning Perspectives*, 2003, 18(2), pp 177-196
29 Ibid
30 Malpass and Murie, *Housing Policy*
32 Lund, *Understanding Housing Policy*
33 Weiler, ‘Conservatives’ Search for a middle way’
34 Lund, *Understanding Housing Policy*; Malpass and Murie, *Housing Policy and Practice*
35 Lund, *Understanding Housing Policy*
1960s and 1970s

Figure 4: 1961 to 1980 timeline

- **1962**: General needs subsidies for LAs introduced again
- **1966**: Election campaign: Con and Lab both committed to increasing new home build to 500k a year
- **1968**: Sterling crisis. Public spending starts to fall
- **1970**: Home ownership reaches same proportion as those renting
- **1974**: "Fair rents" mandatory rebate schemes for council tenants introduced
- **1978**: Homeless Persons Act places duty on LAs to provide accommodation for priority groups
- **1980**: Election campaign: Con and Lab both commit to increasing new home build to 500k a year

Source: DCLG Live Tables 244
In the early 1960s, total completions stood at over 250,000 per year. Although private sector building increased throughout the 1950s and early 1960s, private renting declined as the private sector saw building for sale as more profitable than building to let. There was increasing concern that those who were left in the private rented sector were at risk of exploitation of unscrupulous landlords – epitomised by the Rachman scandal.

The political controversy around private renting was one rationale given for the Conservative Government’s reintroduction of general needs subsides for local authorities in 1961, diluting the previous intention for the private sector to lead in satisfying general demand for housing. In addition, new regulations were imposed on the private rented sector, and the Housing Corporation was established to work with and administer funds for housing societies and associations. The latter were seen as a way of stimulating the private rented market.

The bidding war reached its acme in the 1964 election campaign, with the incoming Labour government promising 500,000 houses against the Conservatives’ 400,000. A range of factors then shifted the debate away from housing supply: the 1967 sterling crisis triggered reductions in public spending; previous unmet housing needs were now being met, meaning that housing supply was less of a challenge; and public concern was switching to the potential damage caused by large developments and high-rise housing.

Completions continued to fall throughout the early 1970s, as rising inflation and interest rates put pressure on government spending on housing. The question of how public sector interventions in housing were financed, rather than the number of houses built, came to dominate the politics of housing.

The Labour Government increased housing expenditure in the early years of its term – both to boost construction, but also because high interest rates were driving up the cost of mortgage tax relief. However, following the 1976 sterling crisis and agreements with the IMF to cut public spending, capital spending on housing took a large cut. The number of completions continued to fall over the rest of the decade.

36 Weiler, ‘Conservatives’ Search for a middle way’
38 Lund, Understanding Housing Policy
39 Maplass and Murie, Housing Policy
40 Weiler, ‘Conservatives’ Search for a middle way’
41 Lund, Understanding Housing Policy
42 Maplass and Murie, Housing Policy
43 Maplass and Murie, Housing Policy
44 Maplass and Murie, Housing Policy; Lund, Understanding Housing Policy
Key points
The first two decades following World War II saw a drive to build more houses to make up for the backlog that built up during the war, ensure housing met an acceptable level of quality and meet demand from households. The two main political parties vied with each other to commit to higher house-building targets.

This “numbers game” came to an end in the late 1960s and 1970s as housing costs came under pressure. By this point, however, the housing supply question was becoming less of a challenge, with the current level supply broadly sufficient to meet needs.

The cut in public housing investment in the late 1970s marked the start of a decline in public capital spending on housing.
1979 – 1997

Figure 5: 1979 to 1997 timeline

- **1980**: Housing benefit system established
- **1982**: Right to Buy introduced
- **1984**: Building Societies allowed to own and invest in housing
- **1986**: Deregulation of private renting
- **1988**: House price peak. Interest rates start to rise.
- **1990**: Repossessions start to take off
- **1992**: House prices start to recover, but still below 1980s
- **1996**: Housing market rescue package. Housing associations able to buy and relet repossessed properties. Stamp duty suspended

**Number of completions**

*England*

- **1979**: Private Enterprise
- **1980**: Local authorities and housing associations
- **1981** to **1997**: All Dwellings

Source: DCLG Live Tables 244
The 1980s saw an increasing share of completions by private, rather than public sector developers. But overall completions remained comparatively low, close to around 200,000 per year. Housing continued to have a high profile in elections throughout the 1980s, but the debate was no longer around how many houses the two main parties would commit to building. Instead, the focus was on increasing home ownership.\textsuperscript{46}

The Right to Buy policy was introduced in 1980. Tenants were given the right to purchase their homes at a discount on its market value of at least 33%.\textsuperscript{47} At the same time, mortgage tax relief provided a subsidy to those who took out secured loans to buy property. Deregulation of financial services allowed greater competition and choice in mortgage provision, enabling a further boost to home ownership and house prices.\textsuperscript{48}

House prices boomed during the mid-1980s. This encouraged more people to enter the market, but also meant that housing was becoming increasingly unaffordable.\textsuperscript{49} Private sector house building starts increased from 180,000 in 1986 to 216,000 in 1988.\textsuperscript{50} However, when interest rates began to rise, the housing market faltered and prices began to dip in 1989. As recession began, falling confidence pushed house prices down further and many households fell behind with mortgage repayments. In response, Government launched a number of measures to support the housing market, including payments of social security made directly to lenders, suspending stamp duty and a scheme to allow housing associations to purchase repossessed property.

The 1979-1997 period was not just about home ownership. There was also a broader shift towards reconfiguring housing as a market. The 1980s saw deregulation of rents in the private rented sector as well as the social rented sector. The aim was to shift rental prices closer to that which would be seen in a functioning market, and therefore to encourage supply to respond to higher levels of demand. It was expected that benefits would take the strain of subsidising those who could not afford market rents.

The 1990s largely saw a continuation of policies in the vein of those introduced in the 1980s. Throughout the period, there was little explicit focus on house-building, especially compared to the preceding eras. However, as we will explore in Chapter 3, the shifts towards focusing on home ownership and reconfiguring housing as a market had marked effects on housing supply over time.

\textsuperscript{46} Peter Malpass, ‘Housing Policy: does it have a future?’, \textit{Policy & Politics}, Volume 27, Number 2, April 1999, pp. 217-228(12)
\textsuperscript{47} Lund, \textit{Understanding Housing Policy}
\textsuperscript{49} Watson, ‘Constituting monetary conservatives’
\textsuperscript{50} Maplass and Munie, \textit{Housing Policy}
Key points
Under the Conservative Government of 1979-1997, the debate shifted away from public sector house-building and onto how to increase home ownership.

The Government also deregulated the rented sector, providing incentives to develop housing to meet demand. This was part of a broader strategy to step away from funding building and towards providing benefits for those households who could not afford market rents.

1997 to present day

Figure 6: 1997 to 2012 timeline

- Decent homes prog. introduced
- Barker Review - Housing Supply published
- Sustainable communities plan - targets extra 200k homes in London & SE by 2016
- Credit crunch
- New Govt. Cut in capital spending. Planning reforms and affordable rents policy
- Govt brings forward social housing investment to help stimulate the economy.
- "Homes for the future" plan increases target to 240k homes per year by 2016.
- Starter home initiative for key workers launched

Lab Coalition
The early years of the New Labour Government largely saw a continuation of the previous Conservative Government’s housing policy goals, including promoting the role of the private rented market and the council home sell-offs.51 The main exception was the start of the Decent Homes Programme which aimed to ensure that social sector homes and private rented homes for vulnerable households met quality standards.52 Initially, lack of housing supply was not a dominant issue. In fact, in some areas, “low demand” was perceived to be a key problem, in unpopular and deprived estates. The Housing Market Renewal programme was intended to rebuild housing markets and communities in these areas with the aim of improving neighbourhoods and making them more attractive to live and work in.

Following the rise in house prices in 1997 – 2003, concerns around affordability and lack of supply became more important. The first sign of politicians’ concern was an initiative in 2001 designed to help key workers who were priced out of the areas of high housing demand – the Starter Home Initiative, which was replaced by the Key Worker Living Scheme in 2004.

But concerns became broader than just key workers. Worried about the volatility of the UK housing market, the Treasury commissioned the Barker Review of 2004 to look at why housing supply was not keeping up with housing demand.53 A key conclusion was that

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52 Lund, Understanding Housing Policy
53 Lund, Understanding Housing Policy
reforms were needed to make the planning system more responsive to demand and align local government incentives with the wider costs and benefits of housing to society.\textsuperscript{54}

The Labour Government focused increasingly on supply towards the middle and end of its term in office. In 2005, the ”Sustainable Communities: Homes for All” included targets for an extra 200,000 homes in London and the South East by 2016 on top of those previously planned in 2001.\textsuperscript{55} In 2007, “Homes for the Future: More Affordable, More Sustainable” further increased the target to 240,000 homes per year by 2016 and 70,000 affordable homes a year by 2010-11.\textsuperscript{56}

However, with the credit crunch and subsequent downturn, private sector completions fell sharply, from just over 160,000 completions in 2007 to under 130,000 in 2008. In response, Government brought forward planned social housing construction and by 2009, public sector completions had grown by a quarter compared to 2007.\textsuperscript{57} This was not enough to offset the overall decline in total completions. By the time Labour left office in 2010, total completions were around 112,000 a year, the lowest levels since the end of the Second World War.

The current coalition Government has proposed a number of reforms to planning. In the run-up to the 2010 election, the Conservative Party published a proposal on ”open source planning” to encourage communities to become more involved in local development plans.\textsuperscript{58} Other policies include the National Planning Policy Framework to simplify the planning process, and the New Homes Bonus to incentivise local authorities to approve more development. In the social housing sphere, capital spending on housing was cut in 2010. The Government accompanied this with the introduction of an ”affordable rent model” which involved requiring housing associations to offer tenancies at rates closer to market rent levels, enabling additional finance to be raised and reinvested in new social housing development. As affordability continues to be an on-going concern, it has also introduced schemes such as Help to Buy which involves government loans to homebuyers.

\textsuperscript{54} Kate Barker, Delivering stability: securing our future housing needs chapters and annexes (London: HMSO, 2004).
\textsuperscript{55} ODPM, Sustainable Communities: Homes for All (2005)
\textsuperscript{56} Lund, Understanding Housing Policy
\textsuperscript{57} Lund, Understanding Housing Policy
\textsuperscript{58} Conservative Party, Open Source Planning Green Paper (2010)
Key points

When Labour came into power in 1997, housing policy was predominantly focused on the quality of housing in the social sector. Overall housing supply was not a key concern.

This changed as house prices began to rise and affordability became an increasing problem. In response, the Government introduced more house-building targets, and overall completions began to rise over the 2000s, driven largely by the private sector. This came to an end with the credit crunch.

The current Government has introduced a number of measures to free up planning regulation, but whether this will translate into significant increases in supply remains to be seen.
Chapter 3: Factors that affect the political desire of parties to address the housing supply problem

Housing supply is affected by central Government’s overall agenda for housing. In this Chapter, we explore the factors that have driven central government’s housing policy objectives and aims.

Two important drivers of political motivations are the interests and aspirations of voters and political and economic ideology. So it is vital to understand how both these factors have interacted and indeed changed over time. There have been dramatic changes in housing tenure since 1918 that have changed the face of the electorate as far as housing policy is concerned. At the same time, political and economic ideology has changed the shape of the housing market and the role of the state. The interaction and impact of these factors on political motivations to expand housing supply are explored in this section.

Public apathy towards housing
The evidence suggests that housing has dropped off voters’ priorities over time. This is borne out by analysis of election manifestos and attitudinal data. (For a description of our methods please see Annex 1).

In 1918, when Conservative Central Office polled its constituency chairmen, housing featured as the second most important domestic policy for voters after adequate pensions for soldiers and their dependents.59 The same story emerged after the Second World War. A Gallup poll in 1945 asked respondents ‘what do you think is the most urgent home-front problem that the Government must solve in the next few months?’ The most frequent answer with 54% of respondents was ‘housing’; the next most popular was unemployment (with only 13%).60

Both these incidents could be characterised as exceptions due to their proximity to major conflicts: in both cases, house building had ground to a halt during the war years; in 1945, major bomb damage to the existing housing stock exacerbated the lack of building. However, as will be seen below they were not simply anomalies.

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60 Mark Liddiard, ‘Home Truths’ in Social Issues and Party Politics
Does housing matter? Evidence from election manifestos and public polling

Chart 3: Proportion of election manifestos dedicated to housing

As Chart 3 shows, the importance of housing issues in election manifestos has changed, sometimes dramatically, from election to election. There are some notable peaks in the years 1924, 1945 and 1966, where approximately one tenth of the manifestos were dedicated to housing. There are also a number of troughs in 1922, 1923 and 1931.

Certain factors explain these outliers. The year 1924 saw the introduction of the Housing Act, increasing housing subsidies for low cost housing to let to workers, in reaction to the massive shortage in affordable housing. The period after the Second World War was again marked by a severe shortage of housing, due to destruction during the war, and shortages in labour and materials in the construction sector. Both parties dedicated a significant amount of attention to housing issues in this period. In 1923 and 1931, the UK faced major economic crises, with mass unemployment crowding out consideration of housing.

Notwithstanding specific anomalies, there are some notable trends over time. The 1950s and 1960s saw housing at the centre of the political and policy debate. While, as will be seen below, the Conservative and Labour Party disputed the means (private and public building respectively), neither questioned the ends.
Housing is the first of the social services. It is also one of the keys to increased productivity. Work, family life, health and education are all undermined by overcrowded homes. Therefore a Conservative and Unionist Government will give housing a priority second only to national defence. Our target remains 300,000 houses a year.

Conservative Party manifesto, 1951

Since the war more than a million new homes have been provided. Yet in spite of this great achievement, the demand for new homes is pressing. We must move forward until every family has its own separate home, and until every slum is gone.

Labour Party manifesto, 1950

From the early 1960s until the late 1980s housing maintained a relatively prominent position within electoral programs overall. However, there has been a notable dip in the level of focus on housing in the last three decades. The proportion is roughly a third of what was dedicated to housing from the 1930s onwards. Academic analyses of wider general election campaigns bear out this story. An analysis concluded that the 1997 general election found there was an ‘almost complete absence of debate about housing’. The same was true of the 2001 general election campaign.

Public polls suggest that this mirrors a growing apathy among the public. A recent poll shows that only 5% believe that housing should be the highest priority for extra government spending – with priority given to health (41%), education (33%) and industry (6%). As Chart 4 shows, this comparative indifference is no blip. Since the 1970s, housing has languished around and below the ten percentage mark.

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61 Mark Liddiard, ‘Home Truths’ in Social Issues and Party Politics
Chart 4: Priority issues for the population

Percentage citing the concern in response to one or both of the following questions: ‘What would you say is the most important issue facing Britain today?’ and / or ‘What do you see as other important issues facing Britain today?’

Our analysis of party manifestos demonstrates that even when housing policy is discussed in party manifestos, housing supply is mentioned with growing irregularity over time.

Source: SMF analysis developed from IPSOS Mori data.

Housing supply versus other housing issues

Our analysis of party manifestos demonstrates that even when housing policy is discussed in party manifestos, housing supply is mentioned with growing irregularity over time.
Chart 5: Proportion of manifesto dedicated to housing divided into sub-categories

Chart 5 illustrates a number of significant changes in time. First, there was a remarkable shift of focus, away from increasing supply in the earlier part of the century (purple blocks at the top of graph) to promoting homeownership (green blocks at the base of the graph). Through this period policies to support and protect homeownership and homeowners included policies to stimulate demand such as mortgage interest relief, low deposit mortgages, the sale of council properties and policies targeted at restraining interest rates on mortgages starting in the 1950s, with a peak in the 1960s and 1970s.

Second, to some extent, straightforward focus on supply has been substituted with consideration for planning regulation. During the 2000s, besides home ownership the most important issues related to land availability and usage and planning regulations. Third, affordable housing and slum clearance were particularly important during the post-1918
period and regained importance during the 1990s, where almost the entirety of housing policy in manifestos was dedicated to these issues.

So the evidence suggests that voter aspirations and interests have changed over the century. Politicians have responded to this change, with the overall result of less focus on housing supply. As the following sections will demonstrate, the factors that ‘crowded out’ the supply question from political discourse in turn established dynamics that further reinforced this tendency.

The next three sections set out three broad trends that have taken place over the last century that go a considerable way to explain the demise of housing, and particularly expansion of housing supply as an important issue for voters. The sections will also demonstrate how political ideology has partly driven and reinforced these trends. These are: the visibility of the supply problem; the growth of homeownership; and a change in the nature of state support for housing. As will be seen, the latter two demonstrate a wider ‘privatisation’ of the housing question. These all affect the political motivation for parties to grapple with the underlying problems in the housing market.

1. Low visibility of the housing supply problem

Resolving an existing problem

Evidence suggests that housing supply is objectively less of a problem and perceived as less of a problem than at times in the past. As Peter Malpass has argued, in the early to mid-twentieth century, the problem and the policy were clearer and more straightforward.

The problem of inadequate and insufficient housing was considered a source of social discontent and even unrest from the Conservative benches: ‘much of the Bolshevik and Socialist menace in this country might be attributed directly to the influence of the housing problem’. The result of this was the 1919 “Homes for Heroes” Addison Act whereby local authorities were given subsidies to build homes.

In the post-war era there was a severe ‘backlog’ of housing need and a clear requirement to improve the dilapidated housing stock. As analysis of manifestos demonstrates, political parties generally marketed new house building as either a means to meet existing need or a means of improving slum clearing. By 1970, England and Wales had a crude housing surplus. Objectively, therefore, as Glen Bramley has argued, by the early 1980s, Britain had sufficient housing to meet the needs of a relatively slow-growing population.

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64 Morgan, ‘The Conservative Party and mass housing’
65 Malpass, ‘Housing Policy: does it have a future?’
Figures showing the balance between dwellings and households illustrate this trend clearly.

### Table 1: Balance between dwellings and households, 1945-81, England and Wales

<table>
<thead>
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<tbody>
<tr>
<td><strong>Total Dwellings (000s)</strong></td>
<td>11,100</td>
<td>12,330</td>
<td>14,545</td>
<td>17,024</td>
<td>19,086</td>
</tr>
<tr>
<td><strong>Potential households (000s)</strong></td>
<td>13,400</td>
<td>14,194</td>
<td>15,426</td>
<td>17,144</td>
<td>18,680</td>
</tr>
<tr>
<td><strong>Difference (000s)</strong></td>
<td>-2,300</td>
<td>-1,850</td>
<td>-900</td>
<td>-120</td>
<td>410</td>
</tr>
<tr>
<td><strong>Concealed and sharing households (000s)</strong></td>
<td>4,350</td>
<td>4,070</td>
<td>2,460</td>
<td>1,650</td>
<td>1,140</td>
</tr>
<tr>
<td><strong>Percentage of all potential households</strong></td>
<td>32</td>
<td>29</td>
<td>16</td>
<td>10</td>
<td>6</td>
</tr>
<tr>
<td><strong>Vacant dwellings (000s)</strong></td>
<td>na</td>
<td>138</td>
<td>314</td>
<td>676</td>
<td>795</td>
</tr>
</tbody>
</table>

Source: Bramley, ‘Housing policy: a case of terminal decline’

At the same time, there was a dramatic reduction in traditional indicators of what were deemed poor quality housing. Incidents of severe overcrowding and households lacking a bath were cut by 85% and 90% respectively. The proportion of ‘concealed households’ and of ‘sharing households’ declined by 75%. Objectively, therefore, problems of quantity and quality had been reduced markedly.

Housing problems have not been resolved fully – incidents of homelessness, problem estates and repossessions remain and deserve attention. However, there has been a general trend of falling visibility of housing problems – both from the perspective of the voting public and from the perspective of politicians responding to voter concerns. One exception to this trend was the rise in rough sleeping and homelessness in the late 1980s. This very visible problem created much political debate and resulted in the launch of the Rough Sleepers Initiative in 1990 – and it also partly explains the renewed interest in affordable housing and homelessness in the 1992 election manifestos discussed above. Sir George Young, commenting on his time as Minister of Housing in the early 1990s said:

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“Rough sleeping was a big issue in those days, which is why we introduced the Rough Sleeping Initiative in London. On homelessness, it’s difficult to remember this now, but every quarter we used to publish the figures for those threatened with losing their homes and there would be a major row in the House of Commons about the figures. It was a big political issue... Sheila McKechnie at Shelter at the time was a big driver of the debate.”

Sir George Young, former Minister of State for Housing and Planning

The rough sleeping debate is one example of how high visibility in recent history prompted political action. But overall, the housing problem has become a less visible one, and as such may be less likely to attract the attention and concern of many voters and therefore receive political attention.

**Resolving a future problem**

While the problems in the modern housing market are arguably less severe, they are definitely less perceptible. Housing need comprises the backlog (the need that has previously been considered not to have been met) and newly arising need (future projected need).\(^{68}\)

The motivation to build new dwellings in the mid-twentieth century was responding to an existing problem – such as poor quality dwellings or the backlog as manifested in existing housing need. Conversely, recommendations for additional supply are now increasingly predicated not only on backlog need but also on rapid growth in the number of households in the future. In fact, backlog need – including sharing households, concealed households, those in unsuitable or overcrowded properties, and those experiencing difficulty paying mortgage repayments or rent – is estimated at around 8% of all households. The percentage in shared or concealed housing has reduced from 32% in 1945 to about 3% in 2013.\(^{69}\)

Future need is likely to be less powerful as a motivation for politicians than current need. First, and rather obviously, projected need has limited tangible bearing on the current voter population (even though the market will theoretically price in its expectations of future supply and needs, and an expectation of insufficient supply will therefore increase house prices and undermine affordability). Action therefore is predicated on concern for future generations.

Second, while the numbers of new houses required in official projections are cited frequently, they are inherently complex and disputed.

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There are a number of principal methods for projecting future housing need: the ‘net stock’ approach which divides households into tenures, and controls for age and household types whilst building in adjustments for policies such as Right to Buy. An alternative is the ‘affordability model’, the latter which seeks to estimate the necessary supply of housing to ensure that at a given point in time housing costs meet a specified affordability threshold. They include assumptions about population mobility (to inform regional projections); mortality; birth rates; age of giving birth. They also include assumptions on social changes such as the drop in the incidence of marriage and an increase in the incidence of divorce.

Increases in the population are projected to account for three quarters of future growth of household numbers by 2033 in England. Other aspects worth noting include:

- Growth in the number of older people: More than half of the increase in households is projected for households headed by someone aged 65 or over.
- Lone parent households are set to increase by 40,000 per annum.

As the DCLG statisticians acknowledge, ‘like other forms of social need, housing need is intrinsically a normative concept. Judgements about the conditions in which someone can be considered as ‘in need’ are inherently based on assumed ‘acceptable standards’.’ This potentially creates space for different opinions amongst both voters and policy-makers and politicians.

Much of the change in projected housing need is now driven by behavioural change, predominantly by the increasing propensity of people living separately where previously they would have lived together. In the 1970s and 1980s this accounted for 35-45% of the increase in household numbers.

Conservative ex-Ministers who we interviewed viewed this growth as discretionary. They were sceptical of the housing need figures that civil servants provided them with. The process appeared abstract and technocratic. All three Conservative ex-Ministers pointed to the uncertainty and social assumptions inherent in forecasting demand for housing in reference to projections made during their respective periods in office.

“Speaking from memory it [forecasting future households] became quite subjective because you had to make an assumption about what age was it reasonable for a young person to leave home and become an independent household. And if you said eighteen you got one figure and if you said twenty-one you got another... And was it reasonable to expect that families would accommodate elderly parents...You also

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70 Stuart Lowe, *Housing policy analysis*, 105-112.
72 Bramley, ‘Housing Policy: a case of terminal decline?’
had to make heroic assumptions about net migration... And the forecasters produced figures and they provided an indicator; but they weren’t clinching arguments because underneath them were some social assumptions.”

Sir George Young, former Minister of State for Housing and Planning

“Our whole welfare system is based on the Beveridge concept of the family. We don’t know how to handle housing demand that is driven by changes in attitudes which challenge this concept, such as divorce for example. In this sense housing is wrapped up in a larger question around welfare provision, around people making decisions which they cannot afford.”

Lord Deben, former Secretary of State for the Environment

“The guy in charge of housing demand [at the Department of the Environment] produced for me absolutely irresistible statistics about having to concrete over the south of England... You just look at the numbers of old people... then you look at marriage failing, divorce rates up, for every marriage you’ve got to have two houses for when they split up and so you go on. Before you know it, you’ve got yourself one heck of a demand... It doesn’t stop.”

Lord Heseltine, former Secretary of State for the Environment

**A national policy for different local and regional problems**

There are few economic or social issues where there is not an element of regional variation. However, when compared with universal services such as education and health, housing policy must cater to very different levels of regional need. Devising a national policy that can meet the needs of very diverse parts of the country and different voter populations living in these areas is problematic. It is possible that this acts as a de-motivating force for politicians to articulate a clear narrative on housing supply.

For instance, excess supply of some types of dwellings in some areas was noted as a feature of the housing market in recent decades. Under the New Labour Government, abandonment became a problem in some neighbourhoods due to lack of opportunities and amenities. Poor housing conditions and a lack of employment opportunities contributed to a cycle of deprivation. Part of the policy response included reducing supply through demolition.73

“During the first two or three years of the government, one of the biggest problems we faced was abandonment and low demand in quite large parts of the country [...]”

Nick Raynsford, former Minister of State for Housing and Planning

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73 For low demand housing and unpopular neighbourhoods under Labour see [http://sticerd.lse.ac.uk/dps/case/spcc/rn006.pdf](http://sticerd.lse.ac.uk/dps/case/spcc/rn006.pdf)
“We are two countries when it comes to housing policies and housing strategies. But policies have always been London-based.”

Richard Kemp, former Leader of the Liberal Democrats in Local Government

“The New Labour priority was decent homes and regeneration, recognising that there was a regional dimension. Now the focus is on demand and homeownership around the supply side with hardly any regional dimension- it’s London and the South East driven, which is voter driven.”

Steve Douglas, former Housing Corporation Chief Executive

2. Privatisation of the housing problem: Homeownership

Second, there has been a general privatisation of housing. In many ways, housing is unusual compared with health and education as housing is predominantly supplied by the private sector. The trend to see housing as a private rather than a social problem has shifted since the middle of the twentieth century and, in turn, also affected the political relevance of housing.

Back in 1950, the Conservative Party described housing as ‘the first of the social services’ and the Labour Party employed similar language. Over time, this conception changed. Fewer people see housing as a responsibility for government.

‘There is not a general view, that may have been there 50 or 60 years ago, that connects a common interest of those who own their homes […] and those who want to buy their own homes, who are renting or in social housing. People’s circumstances and housing nature are different and they tend to be fragmented, so you don’t get that “We all have an interest in the NHS, or the state of the economy and jobs”.

John Healey, former Minister of State for Housing and Planning

This stems from two principal factors – the rise of homeownership and a shift away from public and social housing provision.

The rise of homeownership

Over the past 100 years there has been a dramatic change in housing tenure of the population. In 1918, homeownership levels stood at 23%. By 1981, this had increased to 57% and by 2001 to 69%. The proportion of homeowners peaked in 2003 at 71%. So the housing
circumstances of the electorate have changed, and this is likely to have shifted their interests and expectations relating to housing policy.

The rise in home ownership over the last century was driven by rising incomes, and Government support to help people meet their aspirations to own their own home. But the political motivation to increase home ownership was also linked to ideology – for example, the belief in the benefits of a property-owning democracy, as explored in the box below.

**Property owning democracy**

Homeownership has steadily grown in the UK until its peak five years ago.

Conservative Party ideology can lay the earliest claim to close alignment with the concept of homeownership. In the political context of mass enfranchisement, middle-class consumerism and anti-socialism, as well as more innate ideologies such as personal responsibility and self-reliance, Conservatives such as Noel Skelton, Neville Chamberlain and Stanley Baldwin took the first steps towards promoting a ‘property-owning democracy’ from the 1920s. However, the policy really took grip after 1945 in part as antithesis to Labour’s nationalisation programme.

“We wish to develop in our country the idea of a property-owning democracy. That means that people should be owners as well as earners. Our theme is that property, power and responsibility alike must not become absorbed into the State machine, but be widely spread throughout the whole of the community. To this end, we shall encourage home ownership.”

Conservative Party manifesto 1951

The growth in homeownership has encouraged policymakers to focus on boosting and protecting homeownership. The totemic policy of Right to Buy encapsulated social mobility, inclusivity and the small capitalist. Marketing of Right to Buy focused on wealth and inheritance.

As Annex 2 demonstrates, for much of the period the Labour Party put less emphasis on property ownership than the Conservative Party. For much of the Thatcher years, the national Labour Party was opposed to sale of council housing, but it retreated once faced with the popularity of the policy. In the last 25 years, the Labour Party has also advocated homeownership widely, extolling it as a means to redistribute private property and boost individual security.

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74 Morgan, ‘The Conservative Party and mass housing’
76 Forrest and Murie, ‘Marginalisation’
In recent years, levels of homeownership have dipped, with recent figures suggesting that just below two-thirds of households are owner-occupiers.78 A number of factors explain this, including: the rise in house prices; stricter lending terms imposed after the financial crash; demographic factors such as a faster growth of certain sections of the population less likely to own a home (such as single adults) than other groups (such as conventional families); high levels of migration; and, less job security. Other factors may continue to put downward pressure on the number of homeowners: such as tax concessions for investors in the private rented sector.79

However, it is easy to overstate the importance of the modest dip in homeownership levels. The popularity of homeownership shows little sign of waning despite the financial crisis. In recent decades there has been remarkable stability in people’s theoretical preference for home ownership above renting [86% in 2010 and 85% in 1996 said they would choose to buy rather than rent if they had the choice].80 Chart 6 suggests the same, with remarkable consistency in the overall emphasis on homeownership as a good thing in the last 25 years, with no more than 3% of the population advising against buying a home at all. 81

Chart 6: Advice for a young married couple

The impact of homeownership
This change in tenure has had a number of significant implications for housing policy and the politics of housing.

79 Andrew Heywood, The end of the affair: implications of declining home ownership (Smith Institute, 2011)
Homeownership as dominant housing policy
First, it has crowded out other potentially important housing problems. The growth in homeownership has vastly expanded the number of voters with a vested interest in the buoyancy of the housing market. It might be noted, for instance, that the significant spikes in public concern over housing policy depicted in Chart 4 correlate with financial crises and high inflation – demonstrating the power of the interest of homeowners and those who want to become homeowners.

This means that homeownership features heavily in political discourse.

“The preeminent public and policy and media debate that tended to dominate attention was about ownership, the chance to own, the chance to buy. That tended to dominate the political rhetoric. It found its way through [...] to a number of policy initiatives about key workers, about helping first time buyers [...] but at the same time there was also a continuing commitment to public housing, which drew on more traditional values that were Labour.”

John Healey, former Minister of State for Housing and Planning

Even in instances when the Government had some tangible results to promote, such as the Decent Homes Programme, more was made of the aspirations towards homeownership, rather than progress on improving the quality of social housing and private rented housing for vulnerable households. As John Healey argued: “There was a real disconnect between what we did and what we talked about.”

There has been a litany of policies directed at boosting and protecting homeownership, including Mortgage Interest Tax Relief, encouragement of building societies and capital gains tax relief on first a home. Most recently, these have included removing stamp duty for first-time buyers, the First Buy policy and Help to Buy. So, governments have attempted to meet the aspirations of those who want to own their own homes, but these attempts have often had perverse consequences for longer-term affordability.

Interdependence of homeownership and other Government objectives
Given the large number of ideological and practical justifications for homeownership, it is hardly surprising that a number of policies are closely intertwined with or predicated on widespread property ownership. In so far as these are ideologically or objectively desirable, they bind future governments to a homeownership policy.

- **Asset based welfare**: From both sides of the political spectrum homeownership has been advocated as a means of asset-based welfare. Policies to help the UK cope with an ageing population are often predicated on the fact that households will have significant housing equity to unlock to pay for their social care and retirement needs, potentially reducing their dependence on state provision.
The macro-economy and homeownership: As a consequence of the growth in homeownership, the Treasury has taken an increasing interest in the macro-economic impact of mortgage debt and consumption. Conversely, in times of crises, policy responses aim to stabilise the housing market due to its impact on the wider economy, and homeowners as voters, as explored in more detail in the box below.

The housing market as a threat to economic stability
Housing plays a role in the macro economy through the link between house prices, consumption and confidence. When house prices rise, home owners are able to spend more as they have greater access to credit. In the past there has been a strong correlation between changes in consumption and changes in house prices, with instability in the housing market playing a significant role in economic cycles.\(^82\)

A concrete example is the impact of the drop in house prices in the early 1990s, which drove up the number of households in negative equity from 230,000 in 1989 to over 1.7 million in 1992. Repossessions increased four-fold over the same period as the recession took hold.\(^83\) Falls in house prices weakened consumption even further, deepening the recession.\(^84\) Responding to the situation, Government took steps to encourage mortgage rescue schemes and to enable housing associations to purchase repossessed properties to let.

The concern over the trajectory of the housing market and house prices specifically has a political angle as well as an economic one. The potential economic and political cost of a fall in house price falls mean that even when concerned about affordability, governments are likely to prefer to see moderation in house price growth rather than falls in prices. Some have even argued that by excluding house price inflation from the Bank of England’s inflation target, the New Labour government took the view that house price inflation was “good” and other types of inflation “bad”.\(^85\)

But this desire not to see falls in house prices in turn means that solving the supply and affordability problem must be a long-term policy rather than a short-term one, creating difficult policy decisions.

“The problem is the extent of the asset bubble that’s been created around land in the UK and particularly in the South of England is such that it cannot easily or quickly be unwound – so much of it is linked to the health of our banks, and to individual’s long term financial security. There is no way of addressing this problem in the short run – housing officials and ministers are operating within almost impossible constraints, which pushes them into short termism. It’s easier to announce another package of ‘help for hard pressed homebuyers’ than to seriously address chronic issues of undersupply and affordability. They can’t deal with the long term strategic stuff”.

\(^{82}\) Barker, *Review of Housing Supply*
\(^{83}\) Malpass and Murie, *Housing Policy*
\(^{84}\) Watson, ‘Constituting monetary conservatives’
Matt Leach, former Director of Policy at the Housing Corporation and former Private Secretary to Nick Raynsford

Given the undesirable macro-economic and social – not to say political – consequences of a sharp adjustment to house prices, any meaningful reduction is a long-term goal. However, although politicians would face potential risks in triggering any even modest downward adjustment in prices, they would not themselves reap the reward of greater affordability due to the five-year electoral cycle.

These interdependent factors have contributed to a path-dependent policy based around homeownership. As the proportion of home owners has increased, the potential consequences of changes in the asset values of homes for the macro economy, savings and social security policy has become more important. As Harold Carter has argued, ‘each intervention [in the housing market] creates rights and expectations that complicate and limit subsequent choices.’

Effect of tenure change on attitudes to more housing
There are many positive benefits drawn at an individual level from homeownership. However, in an aggregate sense homeownership also creates housing policy dilemmas.

The investment instinct
Homeowners’ attitudes to housing policy responses are influenced by the fact that they own an asset. There is a widespread public perception that house prices will increase. When asked ‘If the government were going to do something to make homes more affordable, what do you think the most useful action would be?’, support for house buyers on the demand side are the two most popular responses. Both of these would be likely to push prices higher.

Table 2: Views on how government should make homes more affordable

<table>
<thead>
<tr>
<th>Suggestion</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Give some sort of financial assistance to first time buyers</td>
<td>29%</td>
</tr>
<tr>
<td>Get banks to increase access to mortgages</td>
<td>23%</td>
</tr>
<tr>
<td>Give more money to housing associations and local authorities to build social homes for those on low incomes</td>
<td>19%</td>
</tr>
<tr>
<td>Give more money to shared ownership schemes e.g Key worker/Homebuy part share in property</td>
<td>11%</td>
</tr>
<tr>
<td>Make it more expensive to purchase second homes</td>
<td>6%</td>
</tr>
<tr>
<td>Allow developers to build more homes</td>
<td>5%</td>
</tr>
<tr>
<td>Other</td>
<td>2%</td>
</tr>
<tr>
<td>Do nothing</td>
<td>2%</td>
</tr>
<tr>
<td>Don’t know/refusal</td>
<td>3%</td>
</tr>
</tbody>
</table>

86 Harold Carter, From Slums to slums in three generations: housing policy and the political economy of the welfare state, 1945-2005 (Discussions Papers in Economic and Social History, University of Oxford, 2012)
At the same time, the strongest motivation for buying a house is that it is a ‘good investment’: 26% of respondents in one study cited this as the main advantage of owning a home. This relates strongly to a further popular belief: that house prices will rise. As the table below demonstrates, except in times of great financial uncertainty, the public have been confident that house prices will go up. Research has shown that as house prices rise, this optimism bias is shared also by house builders who will pay more for land.

### Table 3: Expectations of future house prices

<table>
<thead>
<tr>
<th>Year</th>
<th>To have gone up</th>
<th>To have stayed the same</th>
<th>To have gone down</th>
<th>Net gone up [+/-]</th>
</tr>
</thead>
<tbody>
<tr>
<td>1991</td>
<td>63%</td>
<td>26%</td>
<td>8%</td>
<td>+55</td>
</tr>
<tr>
<td>1996</td>
<td>42%</td>
<td>45%</td>
<td>7%</td>
<td>+35</td>
</tr>
<tr>
<td>1997</td>
<td>59%</td>
<td>29%</td>
<td>5%</td>
<td>+54</td>
</tr>
<tr>
<td>1998</td>
<td>59%</td>
<td>30%</td>
<td>5%</td>
<td>+54</td>
</tr>
<tr>
<td>2008</td>
<td>22%</td>
<td>28%</td>
<td>46%</td>
<td>-24</td>
</tr>
<tr>
<td>2010</td>
<td>45%</td>
<td>40%</td>
<td>10%</td>
<td>+35</td>
</tr>
</tbody>
</table>


Note: The net positive figure applies to all local areas, although it is much stronger in Outer London.

**Conclusions**

As homeownership has increased amongst the electorate, Government policies in more recent decades have sought to continue to meet homeownership aspirations and support homeowners. These measures have included providing protection to homeowners (through macro-economic policy), subsidies (through MITR and capital gains tax relief) and assistance to those trying to get on the housing ladder (through stamp duty exemptions and subsidised deposits).

As Chapter 5 goes on to show, growth in demand for homeownership has conspired with other factors (such as constraint on supply) to drive higher prices. The trend for housing to be viewed and treated as an asset means that price falls are likely to result in significant economic and social consequences, as well as coming with significant political costs.

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88 Matt Griffith, *We must fix it: Delivering reform of the building sector to meet the UK’s housing and economic challenges* (IPPR, 2011)
3. From public to private: The Government’s role in housing
The past century has seen governments re-target state expenditure on housing. A shift from more mainstream public provision to a welfare safety net has marginalised the social stock in the public consciousness, and reduced the voting blocks in social housing.

The changing role of public sector housing
Both before and after the Second World War, as council house rents were generally too high for poorer families, social housing catered for the better-paid members of the working class. Council housing tended to be high quality compared to other available housing. Since then, both pricing structures and allocation systems have changed, triggering a switch to less mainstream housing provision. The section of the population that benefits from council housing has become increasingly narrow, reducing the typical voter’s interest in this sector.

First, the 1950s saw the introduction of the 1956 Housing Subsidies Act, the rationale of which was to encourage councils to raise rents to “realistic” levels whilst at the same time providing rent rebates for poorer households. This resulted in a redistribution of subsidies away from better-off families and towards poorer households. It was intended that those who could afford to do so would be encouraged to move out of the council housing sector. The scheme was voluntary, but in the 1970s, such schemes became compulsory, with the Department of the Environment describing its policy at the time as “subsidising people, not bricks and mortar”. The consequence was a diaspora of working households from the social housing stock.

Local authorities were also encouraged to allocate council housing on need rather than “desert” following the 1969 Cullingworth report. This was further reinforced by the 1977 Housing Act under which local authorities were obliged to secure accommodation for “unintentionally homeless” households and those in “priority need”, i.e. families with dependent children and vulnerable adults. This resulted inevitably in an increased focus on those on lower incomes who were unable to afford adequate housing in the private rented sector.

Therefore, during the second half of the century governments began to change the focus of council housing. The Right to Buy policy had an exacerbating effect, reducing the amount of council stock available. As we saw above, the policy reduced significantly the numbers of council houses available to rent, resulting in a fall in the proportion of people renting in the social sector as shown in the chart below.

However, there was a further consequence: purchases of council housing were not spread evenly across different types of property and regions. The years following the policy’s introduction saw proportionately fewer purchases of less popular types of housing such as high-rise flats, resulting in an increasing contrast between the types of property in the

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89 Malpass and Murie, Understanding Housing Policy
90 Lund, Understanding Housing Policy; Malpass and Murie, Understanding Housing Policy
91 Fitzpatrick and Pawson, ‘Welfare Safety Net’
owner-occupied sector versus the council housing sector. Generally, local authorities were left with homes of lower quality (although initiatives such as the Decent Homes programme introduced in 2000 have improved the quality of stock over the past decade). What is more, wealthier tenants were better-placed to take up the Right to Buy, leaving a larger concentration proportionally of poorer households in a smaller council housing sector. Whilst the role of housing associations as providers of affordable housing has expanded, this has not been sufficient to halt the overall decline in the numbers of people in council or social housing.

“[Right to buy] had a perfectly reasonable element to it, which was giving opportunities for people who aspired to owner occupation […], but it had one serious malign consequence, which was the refusal of the government to allow the local authorities to use the receipts for reinvestment.”

Nick Raynsford, former Minister of State for Housing and Planning

Over time all these factors contributed to a fall in the proportion of people who benefit from council housing, and so have an interest in maintaining the sector.

Chart 7: Households by tenure

They have also contributed to a change in the types of individuals in social housing. In 1979, 20% of households in the top decile of the income distribution lived in social housing, compared to close to zero by 2004-05. Those in the social rented sector are now much

92 Forrest and Murie, ‘Marginalisation’
93 Local authority housing statistics 2011-12, DCLG
95 Stephens, Whitehead, Munro, An evaluation of English housing policy 1975 – 2000, OPDM
96 http://www.paulhodgson.net/Architectre/SocialHousing/An%20evaluation%20of%20English%20housing%20policy%201975-2000/English%20housing%20policy%201975-2000%20summary.pdf
97 John Hills, Ends and means: The future roles of social housing in England (CASE, 2007)
more likely to be on low incomes – specifically incomes under £9,500 a year - compared to the general population and those in the private rented sector.96

**From subsidising bricks to subsidising people**

There has also been a shift in the way housing is delivered and financed. Previously, there was a much stronger focus on solving housing problems through investment in bricks and mortar. But over time, the private sector has been pushed to play a greater role, with government increasingly channelling funding through benefits rather than directly funding the building of new social homes.

As described in Chapter 2, Labour governments after World War II were more committed to state provision of housing compared to Conservatives.97 However, by the late 1970s, even Labour was stepping away from investment in public housing, under pressure from economic and fiscal circumstances.98 The 1979-1997 Conservative government undertook a number of policies that were designed to boost the private sector role in housing, and reduce the role of the public sector. The private rented market was deregulated, and measures were introduced to raise the value of local authority and housing association rents.99

This shift was designed to increase market incentives in the private rented sector, and so expand it and make it more responsive to demand. Affordability problems amongst low income households were perceived as better dealt with through social security.100

> “In 1979 we wanted to do something quite different [...] , and that was to re-create the private renting sector...To recreate the private sector meant, of course, instead of subsidising a house you subsidise a person, and rising rents to reflect inflation [...]”

Lord Heseltine, former Secretary of State for the Environment

> “The higher the rents, the more capital stock you can build with a given amount of public money. [...] Increasing the supply of the social housing stock was one of the most important things to do. [...] Keeping the rent down [...] did not address the shortage of supply. Housing benefit was of course available to help those on low incomes.”

Sir George Young, former Minister of State for Housing and Planning

The broad result of this approach was a shift away from subsidising the building of houses, towards relying on private sector development and expenditure on housing benefit for those who were unable to afford market rents, as shown in the graphs below. Public capital

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96 DCLG, *Attitudes to housing: findings from Ipsos MORI* (2009),
97 Weiler, ‘Conservatives’ Search for a middle way’
98 Lund, *Understanding Housing Policy*
99 Maplass, ‘Housing policy, does it have a future?’
100 Bramley, ‘Housing policy a case of terminal decline’
spending on housing fell throughout the 1980s and 1990s. It recovered to some extent in the 2000s, but high prices meant that this did not translate into a large increase in actual numbers of public sector homes built compared to historic trends.

“...a lot of money was poured into building homes. The problem was that because land values were accelerating at the rate they were through the [pre-crash] 2000s, more and more money was being applied, even with increased pressure on grant rates that wasn’t being reflected in similar growth in housing numbers”.

Matt Leach, former Director of Policy at the Housing Corporation and former Private Secretary to Nick Raynsford

After the attempt to use housing as a macroeconomic stimulus in the last years of the Labour Government (explored in more detail in Chapter 4), capital spending has resumed a downwards trend. Meanwhile, the benefits bill has continued to grow since the 1980s.

Chart 8: Public spending on housing (£m, 2012-13 prices)

The effect on political motivations
The changing composition of the social housing sector and the shift to means-tested support in place of capital outlay has had several effects on the politics of housing. The retreat of the
public sector from housing is likely to have reinforced views that housing is a private “good” for which Government has little responsibility.

“People may perceive a housing crisis, but the idea that there is an obvious lead role of the government is gone. It might have been there after the Second World War, and accepted as such they had a big part to play. [...] The problems are widespread but the solutions are individual. That is another element that holds back the ability to frame that bigger argument.”

John Healey, former Minister of State for Housing and Planning

First, the constituency of voters in social housing has declined markedly. Less than one in five households is now a tenant of a council or housing association. In 1980, this figure stood at one in three. This potentially matters because social tenants are by some distance the most likely to support new development.\textsuperscript{101} The residualisation of housing has also meant that the typical voter is less likely to have a direct interest in social housing as they are less likely to benefit from this type of public spending. A survey of current Conservative MPs reflects the view that social housing should focus on those in most need, and should not continue to support tenants who can later afford to live in more expensive housing.\textsuperscript{102} This indicates that this narrower role for social housing is unlikely to be reversed imminently.

Second, there has been a general hardening of social attitudes to welfare spending. The proportion of people who think that the government should spend more on welfare even if it means higher taxes has fallen over the last three decades, from 58% in 1991 to 34% in 2012.\textsuperscript{103} Over the same period, an increasing proportion of people thought that benefits for the unemployed were too high and discouraged work – despite the fact that such benefits have fallen relative to incomes since the 1970s.\textsuperscript{104}

These attitudes are also reflected in perceptions around housing benefit. Attitudes towards housing benefit suggest public concern that housing benefit is directed towards those who are “less deserving” or have made poor choices. Survey data also indicates concern that housing benefit introduces incentives to live in richer areas and discourages people from trying to improve their situation.\textsuperscript{105} So electorally, the pressure is to reduce benefit spending rather than increase it.

This matters because much provision by housing associations – which have come to take over the role previously occupied by local authorities in providing new social housing - is funded through private borrowing, with rents of up to 80% of market levels. Around 65% of

\textsuperscript{101} See polling data above.
\textsuperscript{102} Hanover, \textit{Stakeholder insight and the perceptions audit for the NHF} (2013)
\textsuperscript{103} Natcen, \textit{British Social Attitudes Survey, 30\textsuperscript{th} Edition} (2013).
\textsuperscript{104} Ian Mulheirn, \textit{Beveridge Rebooted} (SMF, 2013)
\textsuperscript{105} Fabian Society, \textit{Home Truths} (2013)
housing associations’ core rental stream is funded through housing benefit. Therefore, the generosity and design of the benefit system is now a strong determinant of housing association investment. Theoretically, this is true also of the local government sector. Although there have recently been calls for local authorities to be allowed to borrow more to invest in housing, potentially at preferential rates via the Public Works Loans Board, councils will still be reliant on benefit income to service their debts.

The shift from “bricks to benefits” which has been taking place for over thirty years has been given additional momentum by the Coalition Government’s Affordable Rent policy. As capital grant has fallen, central government has lost a significant lever for boosting supply. Instead, supply is predicated on the level (and implicit future certainty) of housing benefit and the regulation of affordable rents. The supply of affordable housing is vulnerable to policy shifts in DWP – such as reduction in housing-related benefits, the overall benefit cap and the decision to pay housing benefit to social landlords.

“How you pay for social housing is largely a question of how much DWP is prepared to pay at any one time... And there has been no attempt to link DWP spend intelligently with housing spend.”

Richard Kemp, former Leader of the Liberal Democrats in Local Government

So the transition to relying on benefit streams is likely to create more uncertainty for potential social housing investors and further impede supply.

Chart 9: Housing associations and local authority dwelling completions as a proportion of total completions

Source: UK Housing Review
Finally, as can be seen from Chart 2, history suggests that private sector development can only take supply so far. The response of private sector supply to higher prices is relatively slow, with time taken to plan, build and sell. In contrast, housing supply by developers is highly responsive to price falls – with construction being quickly cut back. This means that over the course of a house price cycle, total supply is unlikely to keep up with demand.\textsuperscript{110} Therefore, the shift to relying more on the private sector to deliver homes is likely to lead to less supply over time than is needed.

\textsuperscript{110} FTI Consulting, \textit{Understanding supply constraints in the housing market} (2012)
Chapter 4: Wider policy influences on housing

Introduction
As Chapter 3 illustrated, housing policy at the central government level has been significantly affected by its political environment and changes in this environment in the last hundred years. However, over this period, housing policy has rarely been developed in isolation, but has been strongly affected by wider public policy concerns.

Housing is linked to the wider macro economy – infrastructure investment, impact of house prices and labour mobility. As with most other types of public spending, it can come under pressure during times of public spending cutbacks. From a social perspective, housing conditions are linked to health and well-being, and so house-building has historically often been part of slum clearance programs. This was true from its first inception, with public health concerns, for instance over cholera, motivating interventions by philanthropists and local authorities in the nineteenth century. More recently, housing has increasingly been seen as an integral part of building cohesive communities and neighbourhoods.

Housing as a tool to boost the economy
At various times in the last hundred years, housing has been used as a tool to boost the macro-economy.

As set out in Chapter 2, coming out of the Second World War, there was an evident need to re-build damaged housing stock and to compensate for the years of virtual paralysis in house-building during the conflict. But just as important a motivating force was the role that governments saw large-scale housing programmes playing in providing employment. So much so, that the wartime Minister of Labour, Ernest Bevin, was a major proponent of a large-scale building programme, arguing in 1942 that to avoid unemployment among demobilised men after the war, it would be necessary to absorb many of them into the building industry. A target of 1.25 million building jobs to be reached over three years and a commitment to building 3-4 million homes was agreed in 1943.\footnote{Peter Malpass, ‘Wartime planning for post-war housing in Britain: the Whitehall debate, 1941-5’, Planning Perspectives, 2003, 18(2), pp 177-196} In keeping with this, the 1945 – 1950 Attlee Government trebled the subsidies available for local authority building and saw total completions of over 800,000 over the period.\footnote{Maplass and Murie, Housing Policy}

The potential impact of house building on employment and growth has been recognised by governments at different points in more recent times. The most recent example was the period that followed the 2007-08 financial crisis and subsequent recession. Here, again, stimulation of the construction industry was seen as one way of providing a short-term boost to the economy. The economic situation strengthened the rationale for Government to encourage house-building programmes.
The stimulus effect of new housing on the economy is an argument extolled by all current parties. Introducing the Housing Strategy for England, the current Government said:

"The Government is clear that we need to get the housing market – and in particular new house building – moving again. This is central for our plans for economic growth."

The recent Help to Buy scheme was also introduced by the current Government as a way of increasing new supply and contributing to economic growth. This demonstrates how new housing has continued to be seen as a potential mechanism for stimulating the economy.

**Housing as a solution to unintended consequences of other policies: wage regulation**

Inflexibility in wage policy may motivate policy makers to use housing policy to offset the difficulties created by regulated wages. National public sector pay settlements have meant less flexibility for wages to rise in response to higher housing costs for workers. In the 2000s, affordability of housing for public sector workers began to be a concern.

The Labour Government introduced the Starter Home Initiative in 2001-02, and the Key Worker Living Scheme in 2004. The latter widened the targets of the earlier initiative to include other public sector workers as well as health workers and teachers. The aim was to "tackle recruitment and retention problems" by helping key workers into shared home ownership and setting rents at levels below the market rate. Part of the scheme involved funding to help build new homes, so expanding supply, with targets set for the number of completions.

The initiative was announced by the Office of the Deputy Prime Minister, which at the time had responsibility for housing. But evidence from our interviews suggests that much of the policy originated with Treasury, no doubt because of the wider public policy problem caused by recruitment and retention problems in high demand areas. It is likely there was a political driver too, in wanting to appeal to certain sections of the public sector workforce who were facing affordability problems due to the mismatch between wages and housing costs.

"The section announcing the Starter Homes Initiative for key workers was inserted at the request of Treasury just as the Green Paper went to print. The timing meant it wasn’t subject to any significant policy debate or assessment of short or long term impacts. Rather it appeared to be driven entirely by short term positioning considerations and a wish on the part of the then Chancellor Gordon Brown to position himself as a friend of key workers and hard working families. The biggest driver seemed to be the Chancellor wanting to be able to say in a speech later that

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115 ODPM Press Notice 2003/0214, 21 October 2003
116 NAO and Audit Commission, *Building more affordable homes: improving the delivery of affordable housing in areas of high demand* (London: HMSO, 2005)
week that he was doing something about key workers being able to afford homes [at that time seen as a major political issue].”117

Matt Leach, former Director of Policy at the Housing Corporation and former Private Secretary to Nick Raynsford

**Fiscal constraints**

As set out above, Treasury often has an interest in housing because of its impact on the economy and public services. In this capacity, it can move government towards increasing supply or intervening to address affordability. However, it also has the role of managing public expenditure. At times, fiscal concerns can outweigh broader economic objectives and mean that Treasury is a dragging force on housing supply.

> “The Treasury? They were against. The whole machinery is geared to spend more money, and the treasury hasn’t got any more money.”

Lord Heseltine, former Secretary of State for the Environment

This highlights the fact that whilst Treasury has an interest in the economic impacts of housing policy, these will be weighed up against other fiscal concerns. In some periods, fiscal constraints may mean that the pressure to keep spending down will outweigh potential future economic benefits of building more housing.

As with many other areas of spending, government expenditure on housing is likely to come under significant pressure during these periods. The extent to which spending is made up of capital rather than current expenditure can play a role in determining the extent to which housing budgets come under pressure. Capital spending is usually seen as easier to cut in the short-term as the effects are not felt immediately.

Two key periods of public spending cutbacks in the UK include the late 1970s and the ongoing cuts to spending being made by the current coalition Government. The 1976 loan from the IMF came with requirements for deep cuts in public expenditure.118 From 1975-76 to 1979-80, the axe fell much more heavily on capital spending [a cut of 27%] than current spending [a cut of 4%].119 At the time, housing constituted a large share of capital spending, leaving it as a prime candidate for capital cuts. This is likely to go some way to explaining – among other reasons such as those explored in Chapter 3 - why housing took a disproportionate share of the cuts, falling from 8.8% of public spending in 1976 to 5.9% in 1979. In contrast, spending on areas such as health and social security continued to rise.120

117 Matt Leach also noted that in practice the package was on a scale which limited its impact, and that it was not a large programme compared to other housing initiatives.
119 As measured by public sector gross investment. Based on OBR public finances databank
120 Bramley, ‘Housing policy a case of terminal decline’
Since the 1970s, public spending on housing has shifted away from capital funding and towards housing benefit as shown in Chart 8.\textsuperscript{121} Therefore, going into the current period of fiscal constraint, housing had a different make-up of capital and current spending.

As in the late 1970s, the current Government has also cut capital spending by more than current spending. Total current spending over the period 2010-11 to 2014-15 is almost flat. Over the same period, total capital spending is expected to fall by 21%, although as part of the recent Spending Round, the Government has announced further funding for affordable homes in the years ahead.\textsuperscript{122} As shown in Chart 8, although public investment in social housing was cut by around 37% between 2009-10 and 2011-12, it is now a much smaller proportion of overall housing spending. The larger proportion - housing benefit - has continued to rise partly because it is linked to income and employment, both of which have suffered in the recent period of recession and low growth. This has kept open a stream of revenue for housing associations, now the predominant provider of social housing.

Ironically, to some extent, the shift from capital to benefits may have protected housing spending in recent years, resulting in a less steep drop in public sector house building. However, this has not meant that housing has been immune to cuts in the current drive to reduce spending to meet the Treasury’s deficit reduction targets. Cuts to housing benefit include reduced payments to those who live in larger accommodation than they need, and an overall cap on household benefits to keep benefit payments in line with median earnings.\textsuperscript{123} The overall hardening of attitudes to welfare described in Chapter 3 may also mean that it is politically more acceptable to cut welfare now than it was a few decades ago.

**Regeneration and communities**

A major part of large house-building programmes in the past were to clear slums, improve housing quality and reduce over-crowding. In other words, they were about pushing up the quality of housing units. Now, there is greater awareness of the broader economic and social consequences of the way in which neighbourhoods are designed which has made housing policy and planning more complex.

Post-war house-building programmes did not always deliver the types of housing that people wanted. For example, surveys suggested flats were not popular with people they were designed to house. But during the 1950s and 1960s, central government’s wish to see housing units built quickly, technological advancement and pressure from local authorities to build homes within existing urban areas meant that these types of housing became

\textsuperscript{121} Steve Wilcox, UK Housing Review. Housing benefits include rent rebates, rent allowances and income support payments related to mortgage costs.


increasingly common. By 1966-67, 25% of dwellings constructed were high-rise, with up to 70% in Greater London.¹²⁴

But even by the 1970s, there was growing public resentment towards the damage that large-scale redevelopment was inflicting on urban communities.¹²⁵ The most recent period has seen a growing consensus that a strategy for building communities is vital in planning new homes, because the way in which neighbourhoods are designed affect inhabitants’ quality of life through easy access to shops and infrastructure, as well as social networks.

“Post war, in places like Liverpool, ghastly developments were built: with no pubs and families with no connection to each other simply dumped together – communities were destroyed and community takes a long time to build.”

Lord Deben, former Secretary of State for the Environment

“I don’t really like the idea of a policy as being ‘house driven’; I want policy to be ‘place-driven’. If you take Liverpool for example, they have a massive oversupply of housing, and queues of people wanting houses […] there is something odd going on there.”

Lord Heseltine, former Secretary of State for the Environment

The Conservative Government of the 1980s and 1990s embarked on a number of schemes to improve the quality of estates and regenerate areas. These included Housing Action Trusts to tackle run-down estates through repair and improvement, but also by encouraging local enterprise and employment. The City Challenge schemes were designed to encourage local authorities to regenerate urban areas in partnership with the private sector and local community organisations.¹²⁶

This trend towards considering housing as part of a broader approach to social policy was continued by New Labour.

“…two big pennies dropped in the late 70s and 80s: One was that a lot of the new homes being built were not actually providing ideal long term solutions, you were creating concentrations of deprivation; and secondly, that society was increasingly polarizing between owner-occupiers living in certain areas, and social tenants living in other areas, and a very strong belief that we needed to break that down.”

Nick Raynsford, former Minister of State for Housing and Planning

¹²⁴ Lund, Understanding Housing Policy
¹²⁵ Maplass and Murie, Housing policy
¹²⁶ Malpass and Murie, Housing policy
The New Labour Government’s housing programme in the 2000s was part of its “sustainable communities” programme. In the Sustainable Communities: building for the Future White Paper, the Government sought to create “successful, thriving and inclusive communities, urban and rural, across England. Communities that will stand the test of time and in which people want to live”.

Over time, there has been an increasing consensus that the way in which housing is planned and designed is important from an economic, social and environmental point of view. Whilst this is objectively a positive step in ensuring that housing meets people’s needs and supports wider public policy goals, it also inevitably means that housing policy and planning has become more complex, requiring more time to plan and execute new building. This is likely to mean less focus on the actual numbers of houses to be delivered, and much more on the quality of the houses and communities being created.

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127 ODPM, Sustainable Communities: Building for the Future, Foreword by John Prescott, Deputy Prime Minister
Chapter 5: Implementing housing policy

Introduction
The previous chapters have illustrated the factors that have affected central government’s aims and objectives relating to housing policy agenda-setting, in particular, focusing on housing supply. This chapter explores the barriers that governments have faced at the implementation and delivery phase once they have tried to pursue policies to increase housing supply.

The actual implementation of housing policy – in terms of building public housing and planning regulation – has largely been delegated to local agencies throughout much of the twentieth century.

The implementation of housing supply objectives relates to the regulation of the private sector development market and to planning regulation.

1. Planning and land availability

Inelasticity of supply

There is a significant body of literature showing that housing supply is very unresponsive to changes in prices in the UK. An OECD analysis shows the UK responsiveness to be about half that of Japan and a quarter that of the USA.128 This stems from crude scarcity of land, barriers to development and the fact that response is asymmetric: ‘When house prices increase, supply does not necessarily increase as a result, or, if it does, the response may be sluggish.’129

Externalities created by new house building

Building new homes generates both private and wider societal effects and externalities. In particular, there are a number of potentially undesirable outcomes that could occur in an entirely unconstrained market such as high environmental costs, the potential for overloading existing infrastructure and the construction of low quality housing.130 These trade-offs introduce a rationale for a planning process that coordinates development and makes trade-offs between the need for housing development and other factors.

The counterfactual: what would happen if there were no planners? – the 1930s

In the absence of much formal planning regulation, it is easier for private sector housing supply to respond to demand – although the outcome may not necessarily be the best one for society. In the 1930s, the virtual absence of planning regulations was one of the principal contributory factors – alongside loose credit – to the high levels of private sector building

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128 Matt Griffith, We must fix it: Delivering reform of the building sector to meet the UK’s housing and economic challenges (IPPR, 2011)
129 FTI, Understanding supply constraints in the housing market (2012)
130 Barker, Review of Housing supply.
that occurred.\textsuperscript{131} As Professor Nick Crafts has concluded, ‘there were virtually no planning restrictions at this time and the period was notable for ‘uncontrolled’ development notably of suburbs in southern Britain’. The number of private sector completions reached a peak of 293,000 homes in 1934, a level that has been unsurpassed since. In so doing, this major spurt of house building gave a stimulus to the economy.

However, since then, - and indeed partly as a consequence of the sprawl that occurred in the 1930s – the externalities associated with building have become of greater concern to society and policy makers. This pressure to withhold land from development has continued with the amount of land released for development decreasing significantly over the last twenty years.

\textbf{The growth of planning in the last 65 years}

By the 1940s, the lack of planning in growth in cities such as London was becoming apparent in its effects on congestion.\textsuperscript{132} The 1947 Town and Country Planning Act was a key milestone, introducing the requirement for most developments to have planning permission, giving local authorities the ability to control and regulate building plans in their areas.\textsuperscript{133}

The growing influence of planning is predicated on three main points. First, even though urban development covers less than 7\% of the UK,\textsuperscript{134} at a crude level, it is still true that there is less available land on which to house the future population given the rise in population and previous development.

Second, concerns for the externalities that have to be traded off against the need for new housing have increased over time. Common infrastructure needs have expanded as the role of the state in providing public goods such as education, health and transport has become more widespread. However, over time these have been managed increasingly by putting a cost of these externalities into development of new housing through charges such as Section 106. Environmental concerns have proliferated. Concerns about climate change, preservation of the natural environment and over limited natural resources such as water have served to restrict land availability in some areas.

Third, as we saw in Chapter 4, there has been increasing interest in the interaction between the design of new housing developments and wider social and economic goals. These are likely to further complicate the design and planning process.

In seeking to reconcile additional competing concerns, planning has therefore become a more complex process and new housing supply has had to compete with a proliferation of other objectives. The former has injected delays and costs into house building; it was also

\textsuperscript{131} Nick Crafts, \textit{Delivering growth while reducing deficits} (Centre Forum, 2011)
\textsuperscript{132} Jones, \textit{The Report of the Royal Commission on the Distribution of the Industrial Population} (HMG, 1940)
\textsuperscript{133} Lund, \textit{Understanding Housing policy}
\textsuperscript{134} UK National Ecosystem Assessment (2011) \textit{The UK National Ecosystem Assessment: Synthesis of the Key Findings}. UNEP-WCMC, Cambridge.
generated uncertainty, which undermines investment in new housing. The latter has constrained availability of land further.

The insider-outsider problem and how it affects planning

At the same time, forces driving local opposition to development have grown over time. Local opposition to planning is often strong, with concerns around environmental issues, the character of the area, pressure on infrastructure and fear of existing property being devalued.135 As one interviewee noted:

“The biggest fear ... is that new housing will reduce the value of the existing houses.”

Alex Thomson, former Specialist Policy Adviser on decentralisation and local government, Conservative Party

Underlying this is an “insider-outsider” problem, whereby those who already own homes in an area have a much lower interest in new housing, compared to outsiders who do not own homes in the area. Outsiders include social housing tenants, tenants in the private rented sector and those who may constitute the future “need” (i.e. young people who do not yet head up a household and those not currently living in the area).

Protecting an investment?

Unsurprisingly, as the latest British Social Attitudes Survey demonstrates, tenure has a significant effect on whether people would support or oppose the building of more homes in their local area. One study found that 47% of those who rented from a housing association supported more homes being built in their local area compared to only 23% of home owners.136 When combined with variation in turnout at elections according to tenure, this has an important effect at both the agenda setting level and in delivering more housing locally. In 2010, 74% of those own homes outright and 67% of mortgage holders voted compared to only 55% in the private rented and social housing sectors.137 A demographic factor is also likely to be at play here: homeownership is concentrated proportionally in the older population, the latter who are more likely to vote: in the 2010 76% of the over-65s voted, compared with just 44% of the 18-24s.138

Tenure policy at a national level also has a significant effect locally as owner occupiers can be expected to have stronger political power than rental tenants. This complements academic evidence suggesting that owners have the greatest stake in the local community and the most active political voice.139

135 Barker Review of Housing Supply
136 DCLG, Public attitudes to housing in England (HMSO, 2011)
138 Alex Morton, Housing and Intergenerational Fairness (Policy Exchange, 2013)
139 Bo Bengtsson, “Political Science, Politics and Housing Studies”; http://www.gla.ac.uk/media/media_129760_en.pdf
Table 4: Impact of tenure on attitudes to development: support and opposition for more homes being built in local area

<table>
<thead>
<tr>
<th></th>
<th>Owners</th>
<th>Social renters</th>
<th>Private renters</th>
<th>All</th>
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</thead>
<tbody>
<tr>
<td>Support</td>
<td>24%</td>
<td>48%</td>
<td>36%</td>
<td>30%</td>
</tr>
<tr>
<td>Neither support</td>
<td>23%</td>
<td>18%</td>
<td>25%</td>
<td>22%</td>
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<td>nor oppose</td>
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<tr>
<td>Oppose</td>
<td>51%</td>
<td>32%</td>
<td>35%</td>
<td>45%</td>
</tr>
</tbody>
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Opposition to new housing is strongest in Outer London and the south of England where house prices are high and supply problems are most severe.¹⁴₀

Two factors make this problematic. First, “insiders” are likely to have more power over decisions. In part this is because, by definition, they are residents and voters for local councillors. Homeowners tend to have permanent rather than transient interests in their community. Second, as shown in Chapter 3, the number of homeowner ‘insiders’ has grown as a proportion of the number of households. In these circumstances, the pressure for local politicians to suppress new housing development has grown over time. As Kate Barker commented, there is “always someone up for election on councils”. The insider-outsider effect is likely to be especially pronounced in areas with high levels of home ownership. But even in areas where home ownership is lower, the insider-outsider effect is still likely to reduce new building below the optimal amount, simply because of the disproportionate balance of power between those who would benefit from new homes in an area and those who would not.

**Attempts to respond to the local insider-outsider problem**

The growth of these two factors (the growth in complexity in planning and the growth of the insider-outsider problem) over time has meant that overcoming or finding ways of circumventing local opposition to housing has been a perennial problem facing governments in recent decades. Central-decision-makers themselves have been sensitive to the political consequences of tilting the balance towards more house-building, and as we showed in Chapter 3, expanding housing supply may not be a political priority for governments.

“Ministers weren’t sorting planning, which they should have. They were treating it as a political pressure to be managed. They didn’t want to be accused of concreting over the countryside; and there was a sense in which they were allowing the debate (particularly in the South East) to be defined by the CPRE. They didn’t want to be seen as anti-rural or anti the south. When in reality it was families in the south [including many in rural communities] who were paying the price of under supply”

Matt Leach, former Director of Policy at the Housing Corporation and former Private Secretary to Nick Raynsford

“Successive governments have started to recognise that this housing story is something you cannot put on the backburner, but it’s complicated. You might know you need to build more but this can be quite difficult political territory because of attitudes to growth, how it impacts on local communities, and the impact on marginal seats …”

Richard McCarthy, former Director General, Places, Planning and Communities, Department for Communities and Local Government

Nevertheless, national governments have made some efforts to tilt the balance of decision-making using additional levers to enforce housing supply on reluctant local actors.

A range of tactics have been employed to overcome and circumvent this reticence. However, there is little evidence to suggest which if any of these interventions has been effective in surmounting local opposition.

Point of least resistance

A clutch of policies have focused on the point of least resistance. Therefore, there have been attempts to steer development towards brownfield rather than greenfield sites. However, other research has concluded that whilst brownfield sites can make a contribution, they can only ever make a partial contribution to future housing needs.141 This is particularly likely to be the case in high demand areas. This means that the trade-offs between building housing to meet demand and the wider costs and impacts of building are difficult to avoid.

The national-local encounter

Throughout the twentieth century and up to the present day, councils have played a central role in shaping local housing policy through planning regulation, as social landlord and local political leadership.142 In relating to councils, central governments have resorted to targets and financial incentives to incentivise local authorities to accept new housing. As supply became recognised as a growing problem in the middle of the Labour Government’s term in the mid-2000s, the Government established Regional Spatial Strategies as a means of top down direction to ensure that local areas contributed to the housing needs of their region. Housing targets were set for each regional planning authority, which would then divide the target between each local planning authority. It is unclear how effective this policy was in achieving its objectives given the financial crisis that happened soon after.

141 SMF, Should the green belt be privatised? (SMF, 2007)
142 See, for example, Peter Shapely, The politics of housing: power, consumers and urban culture (Manchester University Press, 2007)
The current Coalition Government has been keen to increase local involvement in decision-making. The trend towards strengthening local determination has the potential to make the implementation of central government housing policy more difficult. However, it is possible that some initiatives, such as Neighbourhood Planning, may reduce opposition if local residents have more influence in the early stages of planned development. The aim is to gain buy-in from local residents to the principle of new housing development rather than trigger opposition by imposing development:

“You got the feeling that planning was done to people rather than with people, and that led to an antagonistic system in which everyone spent a lot of time, energy and mental effort etc. fighting things rather than actually delivering stuff. ... the idea is [for local communities to be] involved at the early stage so that they feel they have a say in [the planning process].’

Alex Thomson, former Specialist Policy Adviser on decentralisation and local government, Conservative Party

The current Government has also introduced much stronger financial incentives for house building. These should in theory encourage local authorities to allow more development. The New Homes Bonus is a financial incentive for local authorities for every home added to their council tax register. The Bonus was introduced in 2011, and given the lead times for building, it is still too early to assess it conclusively. A recent NAO report found little evidence so far on the scheme’s ability to increase the number of new homes and concluded that DCLG should do more to monitor and evaluate the scheme. More recently, the Single Local Growth Fund also has the potential to steer local authority choices towards more development, as it encourages a more holistic view of how housing can play a part in sub-regional economies. The Government is now proposing that a proportion of the New Homes Bonus will only be available to local authorities that agree at a sub-regional level through their Local Enterprise Partnership to new housing supply.

Finally, the Coalition Government’s attempt to tip the regulatory balance in favour of ‘sustainable development’ was diluted due to public opposition even before it was introduced. Civil service interviewees also questioned whether it was possible to have a significant impact on planning through amendments to guidance.

Lack of coordination between public agencies and departments on publicly-owned land

Theoretically, the public sector as a major landowner could itself release significant land for development. However, coordination problems hamper delivery.

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“Within Government you have different departments with different interests. They want to release the land they own to the market in order to fund their own priorities. If you had Government thinking more holistically about housing and its contribution to the whole economy, you might take a different view on when you release that land and at what price you release it”.

Steve Douglas, former Housing Corporation Chief Executive

2. Market structure, conduct and competition

Housing supply implementation can also be thwarted by inefficiencies in the developer market. As Matthew Griffiths has concluded, ‘the UK planning system is the skeleton around which the body of the UK building sector has grown,’ and many of these imperfections are created or exacerbated by the planning function.

Land banking

The bare numbers indicate that there is significant acreage under the ownership of developers who decide not to build on it. As land prices have risen, it becomes sensible policy for commercial builders to focus to a greater extent on capturing land value uplift than simply on building homes. There is no doubt that the industry banks land – both short-term land banks and strategic land banks (through options on land without full planning consent).147

Rather the question is whether the stock of undeveloped land held back at any one time is reasonable. Firms must phase development; and the uncertainty in the planning system may encourage builders to retain a reserve in case planning for subsequent sites is unforthcoming. Notwithstanding this justification, there is a strong commercial rationale, especially when available land is scarce, to wait and release homes when house prices escalate further. Estimates of the scale of land banking range between three and seven years’ worth of housing supply.148 This has meant that in some areas, planning permission did not appear to be the main constraint on development.

“If I remember correctly... there’s four years’ supply of land with planning permission... in the system and they [developers] bring it out to suit their own needs.”

Richard Kemp, former Leader of the Liberal Democrats in Local Government

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146 Matt Griffith, We must fix it: Delivering reform of the building sector to meet the UK’s housing and economic challenges (IPPR, 2011)
147 FTI, Understanding supply constraints in the housing market (2012)
148 Matt Griffith, We must fix it: Delivering reform of the building sector to meet the UK’s housing and economic challenges (IPPR, 2011)
“We’ve not yet exhausted all the land banks that there are to get to the point where building is stifled. For example in London at the moment, research suggests we’ve got something like 300,000 plots that are there sitting there, available to be built out and it’s not happening - we have to ask the question why? It’s not about the planning system, it’s about the economics and viability of sites. Land owners are taking a view on the viability of sites. That’s why we need counter-cyclical public investment, the public sector to intervene when the market is not delivering.”

Steve Douglas, former Housing Corporation Chief Executive

Developers’ incentive to hoard can also be increased by the way in which planners allocate fixed amounts of land. This means that once developers have used their allocation, more land will not be immediately forthcoming.

However, a 2008 market study by the OFT found no evidence to suggest that a large amount of land was being hoarded by developers, and that having a stock of land helped homebuilders cope with fluctuations in the market and reduce risk.149 So overall, the evidence on land banking is mixed, although developers indisputably have a theoretical incentive to hoard land when land values are appreciating strongly.

149 OFT, Homebuilding in the UK (2008)
Chapter 6: Conclusions

Introduction
This report set out to answer two key questions: to what extent have successive governments since 1918 succeeded in addressing housing supply challenges? And, what factors explain whether governments have pursued and achieved these objectives?

The answer to the first is that some governments unequivocally have succeeded. Successful governments included those of the 1930s and those from 1945 through to the 1960s. Although these were predominantly Conservative governments, both parties were committed to increasing housing supply during this period in time, driven by a range of factors, including the high visibility of the housing problem in the post-war period. Many other administrations of the past certainly did not categorically fail: by the early 1970s, objective analysis suggests that the backlog of housing need had been cut dramatically and there was slow growth in household numbers.

Changes in the last hundred years
The interests and aspirations of voters and political and economic ideology are fundamental to explaining political motivations that then determine agenda-setting at central government level. The delivery of housing policy decisions – often through local government – is also important to understanding the success in achieving government ambitions. In the search for factors that have affected the motivation and ability of governments to address the housing supply challenge of their time, some drivers have grown or diminished in importance; others have remained largely static.

For instance, non-housing factors have driven an interest in housing supply from a non-housing perspective at times throughout the last hundred years. On occasion, concern about housing supply was driven by concerns for other objectives – most importantly the economy. The financial crisis and the recession propelled housing policy up the political agenda under both the late Labour Government and the Coalition Government. These policies have generally had multiple purposes – to bolster the building business, to boost homeownership and keep prices buoyant. The economy appears to be a motivating force that continues to emerge at certain times as a powerful stimulus for politicians to boost the supply of housing from the 1930s through the 1980s to the present day.

However, other factors that have affected the willingness and ability of governments to address the housing supply challenge have changed more dramatically over time.

One explanation for why past governments succeeded is in some ways simple: housing and housing supply was a clearer problem at many times in the past – both to voters and to politicians responding to voters’ concerns. Especially since 1950, there has been remarkable headway in reducing indicators of poor housing and housing need. Now the challenge is
more the future growth in household numbers – a less tangible motivating force. Society is wrestling with a different housing problem now compared to the past.

The evidence and analysis also show clearly a number of dominant trends. Political, market and regulatory conditions have altered markedly over the last century. These have combined to reduce the motivation of political parties to address the housing supply problem. Many of the same factors have also affected the ability of those governments that are motivated to address housing supply challenges of their day to achieve these objectives. The political debate is driven by voter concerns, as well as political and economic ideology. Over time, the typical voter has changed, more likely to be a homeowner, and less likely to live in the social rented sector. At the same time, ideology has reinforced these trends, placing emphasis on home ownership and the role of the private, rather than the public sector in providing homes.

Visibility

As Chapter 3 illustrated, it is clear that housing has dipped significantly in the public consciousness. The fall appears to have taken place between the 1960s and the 1990s. It is likely that the significant reduction in the visibility of housing problems contributed to this. Not only have politicians focused less on housing, but when they have addressed it, housing supply has become a weaker motivation compared to other housing issues. In large part this has been substituted for a focus on homeownership, although planning regulation has constituted a greater proportion of focus of policymakers.

Homeownership

Due to the dramatic changes to housing tenure since 1918, the average voter has now far less interest in supply. At the same time, a large number of policies are directed at homeowners – whether protecting them in times of economic uncertainty or boosting the chances of the next cohort of would-be homeowners (such as stamp duty exemptions and ‘Help to Buy’). As Figure 7 shows, the growth in homeownership and its retardant effect on new supply has led to a negative feedback loop. This path dependency is further reinforced by additional policy outcomes that have been attached over time to the hook of homeownership: asset-based welfare and the income of retirees; stability in the macro-economy. In this way, the growth of homeownership has led to what can be described as a low-supply equilibrium. Stimulating demand further [such as through the Help to Buy] scheme merely contributes to this negative cycle.
The social sector

Parallel and sometimes complementary factors have reinforced this path. Irrespective of the advantages to the individual of homeownership, the sale of council houses removed many of the more attractive properties from the social sector. Over thirty years, the policy was a contributory factor at the same time to altering radically the residential composition of the social sector. Whereas the sector had once appealed to the established working classes, the sector now includes a far higher proportion of out-of-work households.

Therefore, as well as seeing a major reduction in the number of social housing voters (who are typically more pro-development), the last forty years have also seen social housing need perceived more negatively, whilst the physical stock has been seen as less attractive compared to other housing options.

This has coincided with a shift from direct supply-side subsidy to demand-side subsidy through benefits. Hardening attitudes to welfare among voters have put pressure on this type of spending.

Planning and the developer market

As Figure 7 indicates, tenure and the cycle of policymaking and regulation interact so as to act against impetus for greater housing supply. Planning regulation has become an increasing constraint on policymakers over the decades – although there is a strong
argument that a mediating function is necessary. History offers few lessons for what could overcome this constraint (international evidence provides some options),\(^{150}\) with the effects of central targets and incentives thus far unproven. More apparent is the fact that the design of the planning system creates perverse incentives for the developer market to hoard land, which aggravate the constraints on land availability.

At the central government “agenda-setting” level, political motivations are likely to continue to be shaped by voter interests and aspirations. Despite the recent dip in home ownership levels, they remain high, and home ownership is still an aspiration for many. The hardening of attitudes to welfare shows no sign of relenting. At the same time, household growth projections suggest that a substantial increase in new builds will be needed to fulfil future demand. The next section explores possible policy options to help align the housing supply decision-making process to better reflect the net benefit to society of new housing supply.

**What are the solutions?**

Shifting the balance of power from insiders to outsiders is an important part of ensuring that planning decisions reflect wider societal needs for housing. In areas of high demand, local opposition to further development tends to be even higher, further compounding the problem of supply not keeping up. The trend in home ownership set described above has created a larger group of people for whom development would not be in their interests.

Potential ways of dealing with this include reducing the number of insiders and diluting the influence of insiders in decision-making.

In the social housing sphere specifically, solutions are needed to resolve the disjuncture in decision-making between welfare and housing policy that creates uncertainty for those looking to invest in social housing.

**Reducing the number of insiders**

A longer-term solution could focus on making the private rented sector more attractive as a form of tenure. If this reduced the proportion of home-owners, this would most likely reduce local opposition to development, due to the dynamic described above.

Currently, there are a number of features that reduce the attractiveness of private rented accommodation. These include low quality and standards in some types of housing and a lack of provision for those who require the security of longer-term tenancies. To some extent, increasing housing supply will relieve these problems, as greater choice will force landlords to be more responsive to households’ needs – and recent Government drives in encouraging more new building for rent may go some way towards doing this.\(^{151}\)

\(^{150}\) Christian Hilber and Wouter Vermeulen, *The impact of restricting supply on house prices and affordability* (DCLG, 2010)

But there are also structural features of the market that drive a higher proportion of short-term tenancies, including the interests of letting agents in securing higher volumes of transactions, mortgage lenders’ buy-to-let terms, and the length and cost of eviction procedures. Reforms to address some of these problems may enable the private rented sector to better serve households in need of accommodation and compete with home ownership as a tenure.

**Diluting the influence of “insiders”**

Potential ways to shift the balance include greater central government intervention in local decision-making via central targets, financial incentives, or creating incentives for local decision-makers to look at the wider costs and benefits of housing development.

While the Labour Government favoured targets, the Coalition Government has favoured financial incentives in the form of the New Homes Bonus. This acts as a financial incentive to local authorities to encourage more homes to be built. This tilts the decision, but still allows local decision-makers to trade-off the cost and benefits of development, taking into account local conditions. Given regional variation in demand, it is important that the bonus is linked to local house prices, and it is in fact linked to council tax bands. It is also important that it does not reward development that would have happened anyway. Recent analysis by the NAO suggests that the New Homes Bonus will deliver fewer homes than the 8-13% increase in supply originally calculated by DCLG. The NAO report also concluded that it was too early to tell how effective the scheme would be.

The introduction of Local Enterprise Partnerships (LEPs) and City Deals is pushing decision-making involving industrial policy and job creation further down to local levels. There are two potential policy options that could be attached to these initiatives. First, a proportion of New Homes Bonus funding is to be absorbed into the Single Local Growth Fund, which will distribute money to LEPs. The central role of LEPs is to decide on priorities for infrastructure investment in their areas and thereby promote growth. Distributing money to LEPs rather than councils theoretically means that local economic costs and benefits of development – in terms of jobs and growth – are now more likely to influence local decision-makers. This is likely to have some benefits in promoting a more holistic view of the costs and benefits of housing, and may go some of the way to diluting the insider-outside dynamic. Second, City Deals open up a new way in which national and local government can negotiate what objectives to pursue and how to pursue them. If national government is ready to prioritise new housing as a key objective then City Deals offer a potential lever to encourage localities to build. Such measures could go some way to ensuring that planning decisions are not overly influenced by insider interests. Increasing the amount of land available for development is likely in turn to reduce the incentive for developers to hoard land.

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However, other measures could also be taken to alleviate this problem. First, tax on land values or on undeveloped land with planning consent would act as a strong disincentive for developers to hoard land whilst it appreciates in value, and would also have the advantage of naturally reflecting local variations in demand, and therefore value, of land. Second, ‘community land auctions’ have been proposed as a method of enabling the local authority (and through it the local community) to capture the uplift in value that comes from planning consent. Under this policy, a council would offer to buy land from any sellers, purchase sites which were appropriate and good value, provide planning consent for the land, before re-auctioning the land for development.\(^{154}\)

**Social housing**

The shift in public financing of housing from capital to benefit spending has inevitably changed the nature of Government decision-making relating to housing. There is a rationale for the switch, in that in a well-functioning market, it should encourage greater responsiveness of supply to the needs and demands of households. But supply constraints have limited this potential benefit. It has also diluted responsibility, with DWP effectively providing funding through benefits for housing for low-income households. But at the same time, responsibility for housing policy officially remains with DCLG.

Housing benefit decisions are now part of wider decision-making on welfare policy that do not necessarily take into account consequences for the housing market. This can create uncertainty for housing providers such as housing associations, which are often highly reliant on financing through benefit payments, reducing their incentive to invest in new homes. Recent examples of welfare policy decisions that have knock-on effects for the housing market include capping total household benefits, including housing benefit, at median household earning levels and cuts in housing benefit for those deemed to have a spare bedroom.

Assuming this switch from capital to benefits will not be reversed, it is important to limit the potential damage caused by uncertainty in revenues to housing associations. Government has already given some guarantees over the levels of social rent.\(^{155}\) But this does not address the problem of uncertainty in the benefit stream. Options could include longer-term Government guarantees over housing benefit levels that would create a greater climate of certainty and promote investment.

\(^{154}\) Tim Leunig, *Community land auctions: working towards implementation* (CentreForum, 2011)

Annexes

Annex 1: Methodology for content analysis of election manifestos

The analysis of the manifestos of the Conservative Party and the Labour Party looked at the past 25 general elections held in the UK. This covers the period from 1918 to 2010. The analysis focuses on two issues:

- The proportion of the manifesto dedicated to housing compared to non-housing issues.
- Within housing, the proportion of the manifesto dedicated to specific housing policies and issues.

Method of analysis
This analysis is designed as a descriptive method of looking at broad trends on the politics of housing over the last hundred years. Manifestos as a source have specific advantages and disadvantages. On the positive side, parties put a manifesto forward at each election as a means of persuading voters that they would be able to address the problems that voters are worried about. However, there are also limitations: the size of manifestos has changed over time (hence why a proportional approach is taken) – becoming much longer in more recent decades; description of different problems may change over time (hence why we have divided the content of housing issues into sub-categories that can capture change in language). In conjunction with attitudinal data, and secondary literature on election campaigns, this gives a vivid picture of the relative importance placed on housing over time and the issues that politicians focused on.

In order to quantify the relative importance of specific issues, we have computed the share of the words dedicated to specific topics as a share of the total words dedicated to housing. For each manifesto, the analysis:

- Classified the proportion of the manifesto dedicated to housing issues and policy rather than other non-housing issues.
- Defined a set of sub-categories within housing policy, so as to identify the specific issues that were dealt with by the respective parties.
Annex 2: Additional manifesto analysis

Chart 10: Percentage of housing discourse dedicated to selected issues – Labour Party

The chart shows the percentage of the manifesto dedicated to various housing-related issues from 1918 to 2010. The issues include:
- Home ownership / interest, mortgage, tax help
- Building sector
- Employment/Economic Stimulus
- Private rental sector/regulation/rent control
- Public/Social/Affordable Housing/Homelessness
- Rural development
- Slum clearance / Estate Improvement
- Planning and building regulation
- Increasing supply/targets

The chart uses a color-coded legend to indicate the percentage of each issue in the manifesto for each year.
Chart 11: Percentage of housing discourse dedicated to selected issues – Conservative Party
Annex 3: List of interviewees

Alex Thomson
Chief Executive, Localis, former Specialist Policy Adviser on decentralisation and local government, Conservative Party

Andrew Wells
Former Director of Planning, Department for Communities and Local Government (2009 - 2011)

John Gummer (Lord Deben)
Secretary of State for the Environment (1993 - 1997)

John Healey
Minister of State for Housing and Planning (2009-2010), Shadow Minister of State for Housing and Planning (2010)

Kate Barker
Author of 2004 Review of Housing Supply and 2006 Review of Land Use Planning

Matt Leach
Chief Executive, HACT, former Director of Policy and Communications at Housing Corporation (2005 – 2008) and former Private Secretary to Nick Raynsford (1999 – 2000)

Michael Heseltine (Lord Heseltine)

Nick Raynsford
Minister of State for Housing and Planning (1999 – 2001)

Richard Kemp
Former Leader of the Liberal Democrats in Local Government and Vice Chair of the Local Government Association of England and Wales (2005 – 2011)
Richard McCarthy  
Director General, Places, Planning and Communities, Department for Communities and Local Government (2006 -2011)

Sir George Young  
Minister of State for Housing and Planning (1990 – 1994)

Steve Douglas  
Former Chief Executive (previously Deputy Chief Executive), Housing Corporation (1998 – 2008)