NATIONAL HOUSING POLICIES SINCE WORLD WAR II

A COMPARISON OF SWEDEN, WEST GERMANY, UNITED KINGDOM, AND THE UNITED STATES

By

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PREFACE

This volume reviews and evaluates national housing programs and policies in four countries, the United Kingdom, West Germany, Sweden, and the United States since World War II.

The basic research for this study was carried on in Western Europe in 1958 during the author's sabbatical leave from the University of California. Financial assistance from the Institute of International Studies, University of California, Berkeley, made it possible for the author to extend his 1958 visit to West Germany and Sweden into the summer of 1958.

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The views expressed do not reflect those of any individuals named above or those of the University of California or the Real Estate Research Program, Institute of Business and Economic Research. The author assumes the sole responsibility for errors, omissions, conclusions, and evaluations.

No critical analyst of national economic policies can achieve complete objectivity. Hopefully, the author's personal prejudices have not intruded too greatly upon this attempt to describe and evaluate postwar national housing policies factually and dispassionately.

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NATIONAL HOUSING POLICIES SINCE WORLD WAR II

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CHAPTER I

INTRODUCTION

Following World War II most western European nations faced critical housing shortages as a result of war destruction, obsolescence, cessation of building during the war years, high marriage rates, and the rapid expansion of urban population and incomes. Improvement in housing standards became a major social objective of most European governments after the war, and relatively high levels of residential construction were achieved in the subsequent decade. Studies indicate that as much as 75 percent of the new residential construction in western Europe since 1945 has benefited from some form of government subsidy.[1]

The increasing financial burden of government housing programs, the wide variations in the types of subsidies employed, and the relative success of national housing policies have led to a critical re-examination of housing policies in the United States and in many European countries in recent years. The comparative success of national housing programs is of immediate consequence to many nations seeking to formulate policies for improving housing standards for their rapidly expanding urban populations.

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[1] United Nations Economic Commission for Europe, European Housing Progress and Policies in 1953, E/ECE/189 (Geneva: August 1954), pp. 29-33.

The purpose of this study is to review the origin and development of post-World War II housing policies in the United Kingdom, Sweden, West Germany, and the United States. A comparison will be made between postwar housing policies, production, and the relative improvement in housing standards in order to evaluate the effectiveness of these active policies.

The post World War II housing situation in selected western European nations and in the United States will be reviewed in Chapter II. In succeeding chapters for each of the four countries to be studied, the evolution of national housing policies, the record of housing production, and the impact of housing policies upon housing standards will be examined. A final chapter will provide a review and analysis of postwar housing objectives, policies and programs and their effect upon housing costs, standards and upon the ownership of the individual housing units studied.

The task is admittedly [illegible], since it is [illegible] difficult problem of data collection and interpretation, and, more important, complex economic, political, and social influences in the establishment task has been greatly aided by a number of background reports on European housing programs and policies prepared by the United Nations' Economic Commission for Europe, upon which the author has relied extensively.

Several factors make the evaluation of housing policies difficult. [illegible] housing [illegible] views against the backgrounds of [illegible] economic policies [illegible] housing [illegible]

such features of national housing policy as rent controls, tax exemptions, loan subsidies, or public housing involves basic questions of economic and political philosophy which are compounded by differences in attitudes and customs among nations.

As a framework for evaluating national housing policies in the final chapter, the author considers the following:

1. The relationship between housing needs and national housing objectives.
2. The degree of consistency over time between housing objectives and housing policies.
3. The record of national housing production in altering housing standards, controlling building costs and maintaining stability in housing production.
4. The relationship between national housing programs and policies and general economic growth and development.

The relationship between national housing policies and general economic policies presents problems of particular difficulty. If national housing policies appear to have been relatively unsuccessful in terms of the third criterion above, is it the fault of these policies or is it because general economic policies were inconsistent with them? Should it be assumed, in other words, that the provision of housing has top priority and that all other national economic programs

should be subject to the key importance of maintaining housing production and raising housing standards? It is the author's view, with which some others are in agreement, that national housing programs can and should be employed to encourage a somewhat greater allocation of resources to the improvement of national housing standards. However, by the same token, housing programs must be subject to the overriding importance of maintaining general economic growth and stability.[2]

It is concluded that national housing policies should be designed to operate within the constraints of national economic policy. Therefore, national housing policy will be subject to criticism when it appears inconsistent with general economic policy. It will still be arguable, of course, in making evaluations on these terms, whether a given housing policy might have worked quite well given different general national economic policies.

The conclusions drawn from the evaluative framework outlined above involve a mixture of subjective evaluations and objective observations. An economist in a nation which has relied extensively upon private investment in a competitive market economy for the provision of housing can be expected to view somewhat critically direct government intervention in housing. Unfortunately, this inate bias may appear all too evident to readers with a different social and economic philosophy.

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[2]See for example, Leo Grebler, "Criteria for Appraising Governmental Housing Programs," American Economic Review, L:2 (May 1960), 321-32.

The conclusion appears inescapable from the data analyzed that several alternative combinations of housing policies and programs can prove effective in raising national housing standards. The selection of that particular combination of housing policies to be followed in any nation, must, in the last analysis, be a political decision. That decision will be based upon historical tradition and accident, the relative strength of public demand for housing, the degree to which housing is viewed as an appropriate sphere for governmental action, and on the degree to which past experience dictates reliance upon public or private enterprise to fill these demands.

CHAPTER II

THE NEED FOR STATE ACTION AND POSTWAR HOUSING PRODUCTION

World War II had devastating effects upon the housing stock of many of the European nations. The effects of war destruction in France, Germany, Poland, Greece, and Italy are reflected in the over-all decline in the number of dwellings in those nations from 1937 to 1952, shown in Table II-1. England and Belgium also suffered considerable damage as a result of the war, but were in a position to commence postwar reconstruction earlier and on a larger scale than were the before-mentioned nations. Switzerland and the Scandinavian countries, in contrast, are illustrative of nations which suffered relatively little damage during the war years. These and the following data and observations are designed to provide an overview and perspective of the postwar housing problem in Europe at the end of World War II. They will provide an introduction to a more detailed consideration of the postwar housing problems and policies in the United Kingdom, Sweden, West Germany, and the United States.

The imbalance between the supply and demand for housing created by the depletion of the housing stock was further amplified by the surge of population growth that took place in some countries in the 15-year period following the outbreak of World War II. While there were wide differences in population growth in various European countries,[1] the population of Europe as a whole increased 8.4 percent during that period. The broad changes in population and in the housing stock of European nations from mid-1937 to mid-1952 are shown in Table II-1.

[1]Due to such factors as war losses, systematic elimination of whole population groups by Germany, postwar migration, traditional differences in birthrates, etc.

Table II-1

Changes in Population, and Housebuilding Less War Losses, 1937 to 1952

Country	Total Population			Number of Dwellings		
	Mid-1937 000's	Mid-1952 000's	Percentage Changes Mid-1937 - Mid-1952	Estimated Stock Mid-1937 000's	Change Mid-1937 to Mid-1952 a/ 000's	Percentage
Albania	1,030	1,246	21.0	....	....	....
Austria	6,755	6,949	2.9	2,000	87	4.4
Belgium	8,346	8,725	4.5	2,458	556	22.6
Bulgaria	6,500*	7,390	13.7	....	....	....
Czechoslovakia	14,432	12,600*	-12.7	3,500	409	11.7
Denmark	3,749	4,334	15.6	1,088	249	22.9
Finland	3,150	4,091	29.9	708	277	39.1
France	41,200	42,600	3.4	13,140	-305	-2.3
Germany:						
East Germany	15,000*	17,599	17.3	....	....	....
West Germany	38,500*	48,478	25.9	10,331	124	1.2
Berlin	4,300*	3,344	-22.2	....	....	....
Greece	7,113	7,776	9.3	1,816	-170	-9.4
Hungary	9,100	9,460	4.0	2,342	140	6.0
Ireland	2,948	2,948	0.0	622	78	12.5
Italy	42,372	46,865	10.6	10,522	0	0.0
Netherlands	8,598	10,377	20.7	2,036	284	13.9
Norway	2,919	3,327	14.0	681	214	31.4
Poland	31,200	26,000*	-16.7	6,860	-967	-14.1
Portugal	7,416	8,549	15.3	....	....	....
Romania	15,512	16,300	5.1	....	....	....
Spain	25,043	28,306	13.0	....	....	....
Sweden	6,276	7,126	13.5	1,785	635	35.6
Switzerland	4,180	4,815	15.2	1,083	235	21.7
Turkey	16,725	21,983	31.0	....	....	....
United Kingdom	47,289	50,429	6.6	12,500	1,600	12.8
Yugoslavia	15,600*	16,729	7.2	....	....	....
Total	385,253	418,346	8.4			
USSR	190,000*	206,000*	8.4			

Source: United Nations Economic Commission for Europe, European Housing Progress and Policies in 1953, E/ECE/189 (Geneva: August 1954), p. 4.

a/ Construction less war losses, except for Western Germany where the housing stock at the end of 1952 has been taken as a basis for calculations.

.... Figure not available.

* Secretariat estimate.

Note: Data for 1937 relate to present territories. The change in the number of dwellings is estimated on the basis of new construction less war losses, no account being taken of other losses.

A better indication of the extent of the postwar housing shortage can be gained from the data in Table II-2, which shows the number of dwellings and rooms per thousand of population and married women in selected Western and Central European nations in 1953. This was the first year for which such comparative data were available. It can be noted from Table II-2 that the ratios of dwellings per thousand inhabitants were relatively high in Austria, Belgium, Denmark, and Sweden, about average in the United Kingdom, France, Switzerland, Finland, and Norway, and low in Western Germany, Ireland, and the Netherlands. However, the small size of the dwellings in Austria, Sweden, and Finland results in below average ratios of rooms per 1,000 inhabitants and per dwelling for these countries. The United Kingdom, the Netherlands, and Switzerland, on the other hand, are characterized by their relatively large ratio of rooms per dwelling. Another, and in certain respects more descriptive measure of the housing situation in a given country is shown by the ratio of dwellings per 1,000 married women, as shown in Table II-2. Measures of dwelling availability by this criterion emphasize the severity of the housing shortage in West Germany, the Netherlands, and the United Kingdom. West Germany is by all criteria below average, and her position was clearly the worst of all the nations considered.

Taken as a whole, Belgium, Denmark, Austria, and Sweden were seemingly in the best balanced position regarding housing. The United Kingdom and Switzerland were probably, by the same criteria, at or above average, while West Germany, having experienced relatively greater war damage, was critically below the average for Western and central Europe.

Table II-2

Housing Densities in Selected Western and Central European Nations in 1953-54

Country	Population		Dwellings 000's	Rooms 000's	Dwellings Per 1,000		Rooms Per	
	Period (Dec. 31)	000's			Married Women	Inhabitants	1,000 Inhabitants	Dwelling
Austria	1953	6,264	2,100	7,350	1,310c	320	1,055	3.5
Belgium	1953	8,786a/	3,050	11,271c	1,355c	347	1,324c	3.9c
Denmark	1953	4,392a/	1,360	5,200c b/	1,308	312	1,184	4.0
Finland	1953	4,163	1,094	2,700	1,248	260	640	2.5
France	May 1954	42,775	12,300	44,900	1,287c	288	1,050	3.6
West Germany	1953	49,278	10,966	44,271	854c	223	898	4.0
Ireland	July 1953	2,942	700	2,729	1,468c	238	924c	4.2c
Netherlands	1953	10,551	2,400	11,600	1,061	230	1,099	4.8
Norway	1953	3,375a/	941	4,000	1,239	278	1,207	4.8
Sweden	1953	7,205	2,464	7,700	1,468	342	1,069	3.1
Switzerland	1953	4,904	1,384	6,677	1,316	282	1,362	4.8
United Kingdom	1953	50,954a/	14,386	66,000	1,085	282	1,296	4.6
Total		196,200	53,052	215,500		270	1,098	4.1

Source: United Nations Economic Commission for Europe, The European Housing Situation, E/ECE/221 (Geneva: January 1956), p. 46.

a/ De jure population.

b/ The number of rooms in rural districts has been estimated by the Secretariat.

c/ Last census figure (the date of which would generally be earlier than that indicated in the first column).

Notes: As far as possible, figures have been adjusted to make the statistical basis uniform, but nevertheless the results are comparable only to a limited extent. In principle, emergency accommodation is not included, but practices vary considerably. Vacant dwellings are in principle included. As far as possible, figures are adjusted to comply with the League of Nations definition of a room and of a dwelling, exceptions are given in footnotes. Population figures are generally of de facto population. Relative figures are based on the total population, i.e., not only the number of persons or married couples living in the dwellings registered, but also those living in emergency quarters, institutional households, etc.

Index numbers of the value of dwelling construction in selected western European nations and the United States, adjusted for changes in the price level, are given in Table II-3. They provide a measure of the relative rates of expansion in residential building among these countries since 1949. It can be noted that, relative to the 1950 level of construction, the level of residential construction during the three years from 1956 to 1958 has been greatest in West Germany, the Netherlands, Sweden, Austria, and Greece, ~~and~~ Switzerland, while the United Kingdom, Norway, and Belgium have expanded dwelling construction at a somewhat lower rate during the period. The expansion in the value of dwelling construction in the United States in 1954 constant prices was below that in ~~most~~ many western European countries. Denmark and Ireland show stagnation or absolute decline, which is a reflection of the less severe housing problem and a relatively suppressed economic growth in these countries. The level of production in 1950 is, of course, of key importance in the interpretation of the data in Table II-3. Nations which had already achieved high levels of residential construction by 1950, such as the United States, Greece, Norway, and Sweden, necessarily showed a smaller percentage increase using 1950 as a base period.

Table II-3

Index Numbers of the Value of Dwelling Construction by Countries, 1950 to 1959 (Expressed in 1954 Constant Prices, 1950 = 100)

Country	1950	1951	1952	1953	1954	1955	1956	1957	1958	1959
Austria	100	100	103	110	130	140	147	143	147	n.a.
Belgium	100	83	77	89	106	99	103	123	116	n.a.
Denmark[a]	100	89	93	110	122	101	97	115	108	138
West Germany	100	99	105	129	140	160	172	174	178	196
Greece	100	75	81	110	121	131	148	146	180	n.a.
Ireland	100	100	95	82	77	78	77	51	41	n.a.
Netherlands	100	92	96	119	122	114	138	156	149	153
Norway	100	107	122	130	127	125	109	122	111	109
Sweden	100	87	88	106	121	122	128	136	142	148
Switzerland	100	122	100	122	156	167	167	144	122	n.a.
United Kingdom	100	98	117	152	158	142	138	132	124	140
United States	100	85	85	89	98	115	104	100	106	138

Source: Index numbers calculated by author from value data in sources below. Organization for European Economic Cooperation, General Statistics (Paris: January 1960).
United States: U.S. Department of Labor and U.S. Department of Commerce, Construction Volume and Costs, 1915-1956, A Statistical Supplement to Construction Review, p. 2, p. 6, p. 40, p. 42; Construction Review, 6:9 (September 1960), pp. 55-59.

The estimated number of dwellings completed annually in European nations during the post-World War II period shown in Table II-4 provides a more complete basis for comparisons.[2] The relative growth in dwelling construction shown in Table II-3 is influenced, as can be seen from Table II-4, by the selection of the year 1950 as the base year. Table II-4 shows that the lower rates of growth for some countries from 1950 to 1958 were primarily a reflection of the high level of production in the year 1950 (e.g., United States, Austria, and Belgium).

Conversely, the rate of growth from 1950 to 1958 was apparently made to appear relatively greater in Sweden and in the United Kingdom by the selection of 1950 as a base year in Table II-3.

Although comparable housing production figures are not available for many countries for the year 1938, it is of interest to note the very substantial gains in annual postwar housing production relative to prewar levels. The gains, of course, are most notable in countries which experienced extensive war damage and high rates of population growth such as the Netherlands and West Germany. The influence of aggressive postwar national housing programs is also evident in countries such as Spain, Italy, and Greece which have had chronic housing shortages for many years. By contrast, comparisons with prewar levels of housing production are less impressive in the United Kingdom and Sweden which had relatively high rates of housing production in 1938.

The very large recent gains in housing production in Hungary, Poland, Romania, Yugoslavia, and the USSR reflect greater attention to the provision of housing in the economic programs of these countries since 1956.

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[2]For comparison, the last "normal" prewar year (1938) is included in this table.

Table II-4

Dwellings Completed in Selected Countries, 1938 and 1948 to 1959
(in 000's)

Country	1938	1948	1949	1950	1951	1952	1953	1954	1955	1956	1957	1958	1959
Austria	....	26.1	29.0	46.2	13.0 e/	37.5 f/	38.2	40.5	41.6	42.0*	34.6	36.2	35.5
Belgium	19.6	24.4	36.2	44.7	35.5	33.3	39.2	44.9	44.6	43.8	49.9	46.8	46.4
Czechoslovkia	22.0 c/d/	21.7	29.1	38.2	30.9	39.3	39.0	38.2	50.6	63.7	64.3	53.4	68.3
Denmark	14.6	19.6	24.6	20.4	21.5	19.0	21.3	23.3	24.0	19.8	26.5	21.0	26.2
Eastern Germany	115.0 b/	....	....	....	....	....	32.3	34.7	32.8	32.8	41.0	48.0	....
Finland	7.7 a/	23.0	29.0	26.0	28.5	31.2	29.6	32.2	33.2	30.5	32.7	30.0	30.0
France	....	40.2	60.6	70.6	76.7	83.9	115.5	162.0	210.1	236.3	273.7	291.7	320.4
Greece	....	18.8	21.7	48.7	43.9	59.9	51.1	44.5	56.1	62.2	51.2	54.4	....
Hungary	....	....	....	24.7	17.7	16.7	16.8	27.2	31.5	25.5	51.3	41.8	46.6
Ireland	11.3	2.4	7.0	12.8	13.1	14.5	13.1	11.7	10.3	11.6*	9.2*	6.1*	7.2*
Italy	49.8	37.0	46.1	74.1	93.5	117.2	150.4	177.4	215.9	231.6	273.5	276.0	295.0
Netherlands	38.4 a/	38.8	48.7	54.8	64.8	57.4	62.6	70.5	61.9	69.2	89.3	90.0	84.3
Norway	5.1 a/	16.6	18.3	22.4	20.9	32.7	35.1	35.4	32.1	27.3	26.5	26.4	26.5
Poland	....	....	....	68.0	66.0	65.0	79.0	79.0	94.0	94.5	122.4	129.0	137.6
Portugal	....	....	(14.9)	17.6	17.8	15.2	22.0	22.1	24.4	28.2	29.9*	34.2	33.8
Romania	....	....	....	....	49.4	45.0	45.6	54.9	55.9	78.5	78.4	84.2	....
Spain	....	62.1	55.1	53.4	56.5	63.3	67.2	87.2	112.2	121.8	98.0	101.5	114.0
Sweden	53.5	48.0	41.6	43.9	39.8	44.7	51.9	58.2	57.0	56.9	65.8	63.0	70.0*
Switzerland	8.2 a/	(23.0)	(17.9)	25.0	30.0	27.5	29.4	36.1	39.3	39.3*	38.7*	26.1	35.7
Turkey	....	....	....	....	....	....	....	(54.2)	(58.5)	(53.4)	(52.6)	(53.4)	(51.1)
USSR	225.0 e/	....	....	....	....	....	1,245.0	1,351.0	1,512.0	1,636.0	2,197.0	2,602.0	3,042.0
United Kingdom	360.2	232.4	205.5	214.7	209.4	254.5	330.4	356.7	328.6	310.0	310.0	281.4	284.4
United States	406.0	931.6	1,025.1	1,396.0	1,091.3	1,127.0	1,103.8	1,220.4	1,328.9	1,118.1	1,041.9	1,209.4	1,378.0
Western Germany	170.0 b/	....	215.0	360.0	430.0	452.0	514.6	542.8	538.1	560.5	527.8	488.4	554.9
Yugoslavia	....	....	....	....	26.6	34.9	38.2	34.2	29.8	37.0	44.7	61.7	60.4

Sources: 1938: United Nations Statistical Committee, Statistical Yearbook 1957 (New York: 1957), Table 122. (Exceptions, see footnotes b/ and c/ below.)
1948-49: United Nations Economic Commission for Europe, Quarterly Bulletin of Housing and Building Statistics for Europe, V (Geneva: First Quarter 1957).
1950-58: Ibid., VII, Second Quarter 1959.
1959: Ibid., VIII, No. 2, 1960.
United States, 1938-57: U.S. Housing and Home Finance Agency, Housing Statistics, Historical Supplement (December 1958), p. 1.
United States, 1958: U.S. Housing and Home Finance Agency, Housing Statistics (September 1958), p. 1.
Sweden, 1948-56: Socialstyrelsen, Sociala Meddelanden 1957 (Stockholm: 1957), Tables 4, 7, 8, and 10.
Sweden, 1957-58: United Nations Economic Commission for Europe, Quarterly Bulletin of Housing and Building Statistics for Europe, VII (Geneva: Second Quarter 1959).

Note: Data refer in the main to new and reconstructed units and those units made available by extension and conversion, located in residential and nonresidential buildings.

* Estimate.

.... Data not available. Figures placed between parentheses are based on an incomplete coverage.

a/ Not comparable with postwar data.

b/ Source: Länderrat des Amerikanischen Besatzungsgebiets; Statistisches Handbuch von Deutschland 1928-1944 (München: 1949), p. 340. (West Berlin estimated by author.)

c/ Source: United States Works Progress Administration for the City of New York, Housing, What's It Worth? (New York: 1939).

d/ Year 1937.

e/ 1 January 1951 to 31 May 1951.

f/ 1 June 1951 to 31 December 1951.

High levels of postwar economic activity combined with an extensive commitment of resources to housing production to produce record European dwelling construction in the post-World War II years. Differences in the record of housing production reflect the relative severity of the postwar housing shortages in various countries as well as national housing and general economic policies.

Table II-5 shows the dollar equivalent of the per capita net national product in selected European countries from 1952 to 1954, and the relationship of housing investment to the gross national product and to gross fixed investment. The level of the per capita net national product in the United States relative to European countries is of primary significance. Even though the percentages of the national product devoted to gross fixed investment are smaller for the United States, the dollar investment devoted to fixed investment and dwelling construction is substantially higher than for European countries.

Table II-5 shows that Finland [redacted], Norway, and Germany [redacted] allocated higher proportions of total resources to residential construction in the period from 1950 to 1954 and that this was reflected in high per capita housing construction. Percentages of gross national product devoted to fixed investment and dwelling construction were lower for the United Kingdom during this period than for countries with comparable per capita incomes and this was reflected in relatively low per capita dwelling completions.

Table II-5

Patterns of Investment in Western European Countries, 1950 to 1955

Country	Net National Product Per Capita in U.S. Dollars--Average 1952-54	Gross Fixed Investment as Percent of GNP 1950-54	Dwelling Construction as Percent of: Gross Fixed Investment 1950-54	Dwelling Construction as Percent of: Gross National Product 1950-54	Number of Dwellings Completed Per 1,000 Inhabitants 1955
Austria	370	21	21	4.41	6.0
Belgium	800	14	23	3.22	4.7
Denmark	750	18	17	3.06	5.4
Finland	670	25	27 a/	6.75	7.9
France	740	17	23 b/	3.91	4.9
Greece	220	13	32	4.16	n.a.
Italy	310	19	20	3.80	4.6
Netherlands	500	21	17	3.57	5.8
Norway	740	29	18	5.22	9.5
Sweden	950	19	23	4.37	7.8
Switzerland	1,010	-	-	-	7.7
United Kingdom	780	13	22	2.86	6.5
United States	1,870	16 c/	24 c/	4.32	8.1 c/
West Germany	510	20	25	5.00	10.3

Sources: Net National Product: United Nations Statistical Office, Per Capita National Product of Fifty-Five Countries, ST/STAT/SER.E/4 (New York: 1957).
Investment: United Nations Economic Commission for Europe, Economic Survey of Europe in 1955, E/ECE/235 (Geneva: February 1956), pp. 57-63.

a/ Years 1951-54.

b/ Years 1952-54.

c/ U. S. Department of Commerce, Office of Business Economics, U. S. Income and Output, Supplement to the Survey of Current Business (Washington: November 1958). Percentages calculated by the author.

Particular attention can be given to the relative patterns of housing investment in Sweden, the United Kingdom, West Germany, and the United States. West Germany, the country with the lowest per capita net national product from 1952 to 1954, devoted the highest percentage of gross national product to dwelling construction and completed the largest number of dwellings per 1,000 inhabitants in 1955. Sweden, with higher per capita incomes than the United Kingdom, devoted a larger proportion of resources to dwelling construction and recorded a somewhat higher rate of completions in 1955 per 1,000 inhabitants. The relatively high rate of completions in the United States appears to be primarily a reflection of the very high per capita net national product in the United States relative to other countries.

In comparing the number of dwellings completed per 1,000 inhabitants in Table II-5, it is important to observe that the number of dwellings per capita in no way reflects differences in the size and quality of dwellings constructed in the various countries. As will be noted in greater detail subsequently, postwar dwellings constructed during the period from 1950 to 1954 were of smaller average size in West Germany and Sweden than in the United States and the United Kingdom. It will also be seen that standards of convenience in dwellings vary widely between the four countries.

The four countries selected for study illustrate the wide diversity in housing policies employed during the post-World War II years. Sweden and the United Kingdom relied extensively

upon housing subsidies, rent controls, and large-scale public housebuilding. In the period since 1953, housing policies in the United Kingdom were shifted toward relaxation of rent controls, greater reliance upon free markets, and the provision of owner-occupied housing by private housebuilders. West Germany employed direct government low-interest rate loans and tax incentives to encourage private investment in housebuilding. Special tax subsidies were developed to encourage private ownership of housing, and rent restrictions were gradually removed. Following the removal of wartime rent controls and emergency war housing programs, Federal housing programs in the United States were confined almost exclusively to measures designed to encourage the flow of mortgage funds for production of owner-occupied and privately-owned rental housing. Publicly-owned, low-rent housing and urban renewal activities have thus far had relatively limited impact upon the national housing market in the United States.

It appears evident that the critical nature of the postwar housing shortages in western Europe resulted in more extensive government participation in housing markets. In view of the wide differences in national housing policies, it is of considerable significance to describe and measure the results of these programs. Chapters III to VI will consider in more detail the background of national housing policies, the extent of the post-World War II housing problem in each of these four countries, the record of housing production, the evaluation of national housing policies, and the manner and effectiveness with which diverse housing policies operated in an attempted solution

CHAPTER III

THE UNITED KINGDOM

Background of Housing Policy in the United Kingdom

As a basis for a review of the post-World War II housing problem and policies in the United Kingdom, it is proposed to review briefly the background of British housing policies and programs. The origins of national concern with housing policy in the United Kingdom as in the United States and many other countries had their roots in the problems of public health and the irradication of slums.

While the housing problem in England received much public attention in the latter nineteenth and in the twentieth century, the problem goes back far earlier. It was present in London and other large cities during the Elizabethan Period. Queen Elizabeth I noted in 1593 that:

> Great mischiefs daily grow and increase by reason of pestering the houses with divers families, harbouring of inmates, and converting great houses into several tenements and the erection of new buildings in London and Westminster.[1]

Housing Policy in the Nineteenth Century

With the passing of agriculture as England's premier industry from 1800 to 1840, and the movement of population from the field to the factory, housebuilding increased rapidly in British cities. It was in the second half of the nineteenth century, however, when

[1] P. L. Leigh-Breese, "A Housing Review," in The Institute of Housing, Report of the Proceedings at the Twenty-Fifth Annual Conference (Scarborough: September 1956), p. 89.

the industrial revolution had come of age in England, that the housing problem became most acute and commanded public attention.

The first Act of Parliament in the field of housing, the Shaftesbury Act of 1851, had as its aim the provision of working class homes by the local authorities. The next important step was the Torrens Act of 1868, which was concerned with the improvement and demolition of unfit houses. The third housing act, the Cross Act, passed in 1875, charged the local authorities with the provision of new housing as well as with the maintenance and elimination of old housing. Public concern over housing conditions led to the appointment of a Royal Commission on Housing in 1884, which in 1885 recommended amendments to previous legislation. These were finally enacted in the Housing and Working Classes Act of 1890. Among other features, this act facilitated the giving of land by local authorities for working class dwellings in cities.[1a]

Housing policy of the nineteenth century emphasized the role of private philanthropic bodies or "the five percent philanthropists," as they have been called.[2] Government housing legislation initiated between 1850 and 1880 made it legally possible for

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[1a] Harry Barnes, Housing the Facts and the Futures (London: Ernest Benn Ltd., 1923), Ch. VI.

[2] Marian Bowley, Housing and the State, 1919-1944 (London: George Allen and Unwin Ltd., 1947), p. 3. The author has drawn heavily from Miss Bowley's work in this section.

The local sanitary authorities to deal with slums, but without financial help from the central government. Provision of houses by local authorities under the Housing of the Working Classes Act of 1890 was considered only as a last resort in the elimination of slums. Although further powers were given local authorities in the Housing Acts of 1894, 1900, and 1903 and by the Housing and Town Planning Act of 1909, the government assumed little direct initiative in the provision or subsidy of housing prior to World War I. World War I transformed the previously negative government role in housing to a major political issue of national importance as the government assumed enlarged responsibility for the provision of housing with the slogan "Homes fit for Heroes."[3]

Housing Policy as Influenced by World War I

The fundamental factors which led to the abrupt transition in government policy were the rapid growth in family formation during and immediately following World War I and the practical cessation of residential building from 1911 to 1918. It was estimated that the housing "shortage" in England and Wales exceeded 600,000 units as of the beginning of 1919 as a result of an increase of 848,000 families from 1911 to 1918, offset by an increase of only 238,000 dwellings during the same period.[4] When it is considered that these estimates made no allowances for

[3] Ibid., p. 4.

[4] Ibid., p. 12. See also John Roland Jarmain, Housing Subsidies and Rents (London: Stevens & Sons, Ltd., 1948), p. 31.

[illegible] of [illegible] housing [illegible] for the continuing rapid increase in the number of families after 1919, the political [illegible] over national housing policies can be well comprehended.

Basic conflicts in British housing policy which have continued to this day were evident in 1919. The Conservative view was that the housing problem was a temporary result of the war and that private enterprise would be able to assume the major task of removing the deficiency in housing accommodations. The opposite point of view was reflected in the 1917 Report of the Royal Commission on the Housing of the Industrial Population of Scotland Urban and Rural:

> We are driven to the conclusion that the sources and forces that were available for the provision of working-class houses had--and this is quite apart from the difficulties brought about by the war--failed to provide anything like a sufficiency of houses, and that in particular they had failed to provide houses of a reasonable standard of accommodation and habitability... Private enterprise was practically the only agency that undertook the building of houses, and most of the troubles we have been investigating are due to the failure of private enterprise to provide and maintain the necessary houses sufficient in quantity and quality.[5]

In part, this report reflected the wide differences in housing standards in Scotland as compared with England and Wales. Only 26.5 percent of the houses in Scotland in 1911 had more than three rooms, while 73.8 percent of the houses in England and Wales had four rooms or more. Overcrowding was widespread and acute and a large proportion of Scottish housing lacked any

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[5] Report of the Royal Commission on the Housing of [redacted] the Industrial Population of Scotland Urban and Rural (1917), p. 292, as quoted in Bowley, op. cit., Appendix I, p. 262.

[illegible] movements are not now in dispute. The differences in the severity of the housing problem in Scotland as compared with England and Wales have resulted in widely differing housing policies over the past several decades. These differences are reflected in rent policies, subsidies, and in the relative responsibilities of public and private enterprise in Scottish housing. For these reasons many of the statistical comparisons will show England and Wales separately from Scotland.

The immediate result of the critical housing shortages following World War I was the passage of the Housing and Town Planning Act of 1919 and the extension of the life of the Rent and Mortgage Interest Restriction Act. The former Act required that local authorities survey the housing needs in their districts and take steps to provide the houses needed for the "working classes." Housing policy was no longer geared to slum clearance or to the encouragement of private philanthropic rental housing, but rather to the outright assumption by the local government of responsibility for the provision of "working class" housing. Local authorities were guaranteed against any serious losses on housing schemes, for the national government accepted financial responsibility for any subsidies needed to provide housing for the "working classes" beyond certain minimum costs to be borne by the local government. Rents for local authority housing built under this legislation were fixed independently of costs and the prewar level of controlled rents in working-class housing was used as a general guide. Local authorities had no inducement

to maintain rents at reasonable levels and the result was that politically desirable low rents were generally fixed, with the national government footing most of the bill for the difference between costs and rents.[6]

The original 1915 Rent Control Act was replaced in 1920 by a new act which prolonged rent controls until 1923 and extended controls to houses of higher rateable values. The act permitted increases in rents of 15 percent by July 1921, and permitted further increases if the landlord was responsible for all repairs and to offset increases in the rates payable since 1915.[7]

The subsidy policy under the Housing Act of 1919 was at first limited by establishing maximum quotas in July 1921 and finally abandoned altogether by the Act of 1923. The primary reason for the abandonment of the subsidy scheme under the 1919 Act was the concern over the cost to the Treasury, which rose from £20,500 in 1919/20 to a maximum of £7,951,600 in 1924/25. It was estimated that the average annual cost to the Treasury from the time the subsidy came to an end in 1924/25 until 1938/39 was £6,796,100, equivalent to about £40 per house per year.[8] Rapidly increasing building wages and material costs from 1919 to 1921 were also attributed in part to the lack of incentives for the local authorities to economise, for the Treasury bore most of the cost, and to the lack of controls by the Ministry of Health.

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[6]Jarmain, op. cit., p. 43.

[7]Bowley, op. cit., p. 22. ~~[illegible]~~

[8]Ibid., p. 26, footnote 2. This compares with typical house rents of £25 to £40 per year.

Table [illegible] shows that approximately 170,000 dwellings were built under the Act of 1919 by local authorities and an additional 43,700 by private enterprise. In addition, 53,800 houses were built with no subsidy by private enterprise from 1920 to 1923. The Act was amended and finally repealed, not because it had been ineffective in stimulating housing construction, but because it encouraged local communities to initiate large-scale housing projects bearing low rents and requiring large national financial subsidies which were not shared in to any important degree by the local governments.

Housing Policies, 1922 to 1939

The Conservative Government, which came into power in 1922, enacted the Housing Act in July 1923 (Chamberlain Act), which limited subsidies to be paid by the Treasury to a maximum of £6 a house annually for twenty years, and provided for participation by private enterprise or by local authorities.[9] No subsidy from local rates (taxes) was required and houses could be sold or rented, provided only that they met defined minimum standards and were built by October 1, 1925. Local authorities were given powers to advance money to persons wishing to buy new houses or to guarantee payments to building societies. Landlords were also eligible for local government advances to finance improvements in rental dwellings. Although local authorities were still permitted to build housing, the Act placed the burden of proof on the local authorities to establish to the

[9] Ibid., p. 36.

Table III-1

NUMBERS OF HOUSES BUILT IN ENGLAND AND WALES
between January 1, 1919 and March 31, 1939. (*Thousands*)†

In year ending March 31st	BY LOCAL AUTHORITIES (a)									TOTAL Local Authorities	BY PRIVATE ENTERPRISE (c)								GRAND TOTAL Local Authorities and Private Enterprise
	1st Experiment	2nd Experiment			3rd Experiment						Subsidised						Unsubsidised	TOTAL Private Enterprise	
		Housing Acts			Housing Acts						1st Experiment	2nd Experiment			3rd Experiment				
											Housing etc. and Addit. Powers Acts, 1919(d)	Housing Acts			Housing Acts 1930 to 1938	TOTAL			
	Housing etc., Act, 1919	1923	1924	TOTAL	1930, 1935 and 1938 Slum Clearance	1933, 1936 and 1938 De-crowding	1923, 1936 and 1938 General	TOTAL				1923	1924	TOTAL					
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)	(15)	(16)	(17)	(18)	(19)
1920(a)	0·6	—	—	—	—	—	—	—	0·6	0·1	—	—	—	—	0·1			
1921	15·6	—	—	—	—	—	—	—	15·6	13·0	—	—	—	—	13·0	53·8	97·3	[illegible]
1922	80·0	—	—	—	—	—	—	—	80·8	20·3	—	—	—	—	20·3	(f)	(f)	(f)
1923	57·5	—	—	—	—	—	—	—	57·5	10·3	—	—	—	—	10·3			
1924	10·5	3·8	—	3·8	—	—	—	—	14·3	—	4·3	—	4·3	—	4·3	67·5	71·8	86·1
1925	2·9	15·3	2·5	17·8	—	—	—	—	20·7	—	47·0	—	47·0	—	47·0	69·2	116·2	[illegible]
1926	1·1	16·2	26·9	43·1	—	—	—	—	44·2	—	62·4	0·4	62·8	—	62·8	66·4	129·2	[illegible]
1927	0·9	14·1	59·1	73·2	—	—	—	—	74·1	—	78·4	1·2	79·6	—	79·6	63·9	143·5	[illegible]
1928	0·2	13·8	90·1	103·9	—	—	—	—	104·1	—	73·1	1·5	74·6	—	74·6	60·3	134·9	[illegible]
1929	—	5·1	50·6	55·7	—	—	—	—	55·7	—	48·4	0·7	49·1	—	49·1	64·7	113·8	[illegible]
1930	—	5·6	54·6	60·2	—	—	1·6	1·6	61·8	—	49·1	1·1	50·2	—	50·2	90·1	140·3	202·1
1931	—	—	52·5	52·5	—	—	3·4	3·4	55·9	—	—	2·6	2·6	—	2·6	125·4	128·0	[illegible]
1932	—	—	65·2	65·2	2·4	—	2·5	4·9	70·1	—	—	2·3	2·3	—	2·3	128·4	130·7	[illegible]
1933	—	1·4(b)	47·1	48·5	6·0	—	1·4	7·4	55·9	—	—	2·4	2·4	0·1	2·5	142·0	144·5	200·4
1934	—	—	44·8	44·8	9·0	—	2·2	11·2	56·0	—	—	2·8	2·8	—	2·8	207·9	210·7	266·7
1935	—	—	11·1	11·1	23·4	—	5·7	29·1	40·2	—	—	0·8	0·8	0·3	1·1	286·4	287·5	327·7
1936	—	—	—	—	39·1	—	14·4	53·5	53·5	—	—	—	—	0·2	0·2	271·7	271·9	[illegible]
1937	—	—	—	—	54·7	2·0	15·1	71·8	71·8	—	—	—	—	0·8	0·8	274·4	275·2	347·[illegible]
1938	—	—	—	—	56·8	7·3	13·9	78·0	78·0	—	—	—	—	2·6	2·6	257·1	259·7	337·7
1939	—	—	—	—	74·1	14·3	12·5	100·9	100·9	—	—	—	—	4·2	4·2	226·4	230·6	331·5
TOTAL Armistice to March 31st, 1939	170·1	75·3	504·5	579·8	265·5	23·6	72·7	361·8	1111·7	43·7(d)	362·7	15·8	378·5	8·2	430·4	2455·6 (g)	2886·0	3997·7

† Sources: *Ministry of Health Annual Reports* and the six-monthly report *Housing*.
(a) Including three months January to March, 1919.
(b) Houses transferred from the Housing Act, 1924.
(c) Excluding 15,365 houses built to house persons displaced under reconstruction and improvement schemes under the 1890 and 1925 Acts.
(d) All the houses included in this column were built under the *Additional Powers Act*, except for 4·5 thousand.
(e) Excluding houses with rateable values exceeding £78 (£105 in the Metropolitan Police Area).
(f) Including houses built by unsubsidised private enterprise up to October, 1922, estimated by the Ministry of Health as 30 thousand.
(g) Including 21·5 thousand houses built by private enterprise with Local Authority guarantees under the *Housing (Financial Provisions) Act*, 1933, not shown separately for individual years.

Source: Marian Bowley, Housing and the State, 1919-1944 (London: George Allen & Unwin Ltd., 1947), p. 271.

reiteration of the Minister of Health that they could perform the task better than if it were left to private enterprise. Miss Bowley characterized the Act as one "to encourage private enterprise to build small houses either for sale or for letting."[10]

The Rent and Mortgage Interest Restriction Act of 1923, although it extended rent controls until 1925, provided that housing becoming vacant would be freed from further rent restrictions. Although the Act envisaged the gradual freeing of the house market from government controls, rent restrictions were extended first to 1927 and then annually until a general revision of rent controls in 1933.

When the Labour Party took office in 1924, the local authorities were once more granted the power to provide "working class" housing without first having to establish that it could not be provided by private enterprise. The local authorities were thus established in the housing field, and, as will be seen, their powers and obligations were further broadened in the housing field during the post-World War II years. The Housing Act of 1924 passed by the Labour Government increased the amount of annual subsidies available to local authorities and so-called public utility societies to £9 per house annually for 40 years in urban parishes, and to £12 10s. per house annually for 40

[10] Ibid., p. 39.

years for houses in rural parishes. The Act provided that average rents for the houses built with the new subsidy were to be fixed in relation to the prevailing controlled rents of houses built before World War I, but provided that higher rents could be charged if housing authorities incurred a loss in excess of £4 10s. per house annually on houses built under the Act. In effect, the total subsidy was thus shared by the national and local governments, but the share of the local government could be limited to a maximum of £4 10s. per annum per house for 40 years. In fixing of rents, the local authorities were free to fix rents of individual houses as they pleased, although few introduced differential rent schemes. (These were schemes to vary rents paid with financial abilities of the occupants.)

With the advent of the depression of 1930, the national government urged local authorities to take advantage of the fall in building costs to charge lower rents. It was argued that since it was possible in 1931 to build houses without subsidy to rent at levels comparable with subsidized houses built in 1927, there was no reason for continuing the subsidy and it was abandoned as of the end of the year 1932. Marian Bowley estimated that the so-called Chamberlain subsidies, under the Act of 1923, cost the Treasury £2,600,000 per year after 1929, or just under £7 per house per year. The Treasury contributions under the higher Labour Government subsidies from 1924 to 1934 cost

£3,000 annually after 1924, and averaged approximately £6 5s. per year per house.[11]

The relative effects of the Conservative Government's Act of 1923 and of the Labour Government's Act of 1924 can be clearly noted in Table III-1. Private enterprise accounted for a high level of subsidized and unsubsidized house production from 1925 to 1929, when the Chamberlain Housing Act was in effect. During this period, building by the local authorities was at a very low level. As the Labour Government's Act of 1924 gradually took effect in 1927 and following years, local authorities again increased their housing production to levels exceeding those of 1922 and 1923. Subsidized private housing dwindled off to little or nothing, but unsubsidized private enterprise housing continued at rising levels, particularly following the reversal in national government policy referred to above beginning in 1930/31.

In the aggregate 2,207,000 houses were built by private and public enterprise from 1923 to 1933/34. Of this total approximately 1-1/2 million were built by private enterprise, of which two-thirds were unsubsidized. Private enterprise housing constructed during this period was primarily for owner occupancy, rather than rental. Local authorities accounted for approximate- 16 600,000 units, most of which were built under the Labour Government's Act of 1924.

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[11] Ibid., p. 47. Miss Bowley estimated that the cost to the rate-payers of the two subsidies was only £1 9s. in 1935/36 equivalent to 0.9 percent of the total rate expenditure.

The [illegible] revival of private enterprise housing from 1924 to 1934 not only modified the severity of Britain's housing shortage, but resulted in the adoption of a national housing policy from 1934 to 1939 which relied primarily upon private enterprise to provide new housing and generally restricted the scope of local government activities to slum clearance. The estimated housing shortage was reduced from 822,000 dwelling units in 1923 to 127,000 by September 1934.[12] The Housing Act of 1933 embodied the recommendations of a Report of the Departmental Committee on Housing of 1933, which set forth the government's policy in these terms:

> ....to concentrate public effort and money on the clearance and improvement of slum conditions, and to rely in the main on competitive private enterprise to provide a new supply of accommodation for the working classes--the provision by private enterprise to be supplemented where necessary by means of unsubsidized building by the Local Authorities.[13]
>
> ....it is anticipated that, with the re-establishment of more normal conditions, economic forces, operating in a free field, will secure a large volume and variety of production at competitive rents, and private builders, housing companies, public utility companies, finance societies, and private investors will, it is hoped, all take a share in the ownership of working-class houses.[14]

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[12] [redacted] Ibid., p. 49.

[13] Ibid., p. 138, quoting from Cmd. 4397, p. 4. It has been previously recommended by the 1932 Report on Local Expenditure that housing subsidies should only be given to those who were unable to buy or rent houses built by private enterprise.

[14] Ministry of Health Circular to Housing Authorities, 1334 (May 1933), as quoted in Bowley, op. cit., p. 139.

In order to stimulate private investment in working-class housing, the local authorities were authorized to guarantee the additional interest and capital involved if building societies advanced 90 percent of the value of a new house instead of the customary 70 percent, and the period for repayment of loans was raised from 20 to 30 years. National subsidies were paid (1) to offset the cost to local authorities of acquiring sites for slum clearance, (2) if the burden imposed on the rates as a result of slum clearance schemes would be unreasonable and then only up to £5 per house per year, and (3) from £2 to £8 per house per year over 40 years to decrease overcrowding in rural areas. The subsidies were later consolidated by the Housing Act of 1938 to provide a uniform subsidy of £5 10s. per annum per house for 40 years for local authority slum clearance and decrowding schemes. The local authority was required to pay £2 15s. of this total subsidy. Subsidies on high cost sites and for rehousing agricultural workers were at the same time increased.[15]

The Housing Act of 1936 provided that local authorities should pool their housing accounts for all housing built under the Housing Act of 1919 and subsequent legislation. In effect the costs, revenues, and subsidies under various Acts were to be pooled and the rents of individual houses adjusted at will. It was thus made possible for the local authorities to move toward the equalization of rents for houses of similar standards bearing different subsidies.

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[15] Bowley, op. cit., pp. 141-42.

After 1930 the program of slum clearance did not gain any momentum until 1934. A total of 272,836 houses were closed or demolished from 1930 to 1939 and an equal number built for replacement by local authorities.[16] Meanwhile, as can be seen from Table III-1, a private building boom of record proportions was experienced in England and Wales. This resulted in an average annual production of approximately 250,000 units from 1934 to 1939. Miss Bowley points out that 40 percent of the total produced by private enterprise were typical working-class houses (i.e., rated at less than £13), and that since half of these were for sale only, working-class families without the necessary downpayments were required to rely on filtering to improve their housing standards. However, the Inter-Departmental Committee on the Rent Restriction Acts concluded that by 1937 the shortage of houses of any class had ceased to exist as a national problem.[17]

Post-World War II Situation

The virtual cessation of housebuilding during hostilities, war destruction, and the deterioration of existing housing because of the lack of maintenance during World War II combined with high rates of family formation to create a severe postwar housing shortage in the United Kingdom by 1945. The estimated

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[16] Ibid., p. 153.

[17] Jarmain, op. cit., p. 17.

[illegible] at the end of the war totaled approximately 11,000,000 dwellings, as shown in Table III-2.

The Minister of Health had estimated in December 1943 that 1,500,000 new houses would be required in order to provide each family with a separate dwelling and eliminate overcrowding.[18] A total of over two million wartime marriages and continued high marriage and birth rates added to the prospects for magnifying the housing shortage in the immediate postwar period. Further, over half of Britain's housing stock was in excess of 55 years old so that a high replacement demand was forecast for the future.[19]

The great public concern with the immediate and prospective post-World War II housing shortage in England is reflected in the Parliamentary Debates on the White Paper on Housing presented by the Minister of Reconstruction in March 1945.[20] It

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[18] House of Commons Debates, 5th series, 409 (1945-46), 1057-58. Estimates of housing needs in England and Wales varied widely. The Economics Committee of the Royal Commission on Population estimated that a shortage of only 25,000 units existed in October 1950, assuming one house for all married women, for all widows below 65, and for 20 percent of single women between 20 and 45. At the other extreme, Alexander Block (Estimating Housing Needs (1947)) estimated that a housing shortage of 2,905,000 existed on the same date assuming 47 houses were needed for each 100 adults, as cited in Political and Economic Planning, Housing Report (unpublished report, London, December 3, 1951).

[19] Heinz Umrath, Activities of the European Labor Movement in the Housing Field (unpublished report, Amsterdam, December 1952), p. 69.

[20] Housing, Government's Policy and Organization for Carrying It Into Effect, Cmd. 6609, presented by the Minister of Reconstruction (London: H.M.S.O., 1945).

Table [illegible]

Housing Stock, 1931 to 1945 -
United Kingdom

Housing Census 1931	9,399,000
Dwellings built 1931-39	2,506,000
Dwellings built 1939-45	162,000
Total	12,067,000
Less	
Dwellings demolished (15% 1931-39 building rate)	382,000
Slum Clearance to March 1939 (Ministry of Health Report 1938-39)	242,000
War destroyed (Cmd. 6609, 1945)	200,000
Severely war damaged (uninhabitable)	250,000
Total	1,074,000
Total remaining, 1945	10,993,000

Source: Political and Economic Planning, Housing Report (unpublished report, London, December 3, 1951).

was estimated by the government that 750,000 houses were required for people with no separate dwelling and an additional 500,000 were required for slum clearance and to eliminate overcrowding. The government set forth its objective in March 1945 as the production of 220,000 units in the first year after the war and at the rate of 300,000 units of permanent housing by the second year. This was to be supplemented by the delivery of 30,000 temporary houses from the United States Government on Lend Lease, starting in 1945. The Minister of Health in the Churchill Cabinet, Rt. Hon. Henry Urmston Willink, stated in the House of Commons on March 22, 1945:

> The people need houses, they need them as soon as possible, and it is up to the government to leave no stone unturned to supply the maximum number of houses in the minimum period of time. This is just what we intend to do. But this period ahead of us is, it must be, and it must continue to be, a time of the greatest difficulty we have ever confronted in housing.... I submit--that in these inescapable circumstances, the government programme is, in fact, a tremendous commitment if we are to fulfill it--a programme of 220,000 houses, completed in the first two years after the defeat of Germany plus temporary houses plus repair of war damage.... The Government will provide subsidies for local authorities and for private enterprise, the government must control the volume of contracts let in a way that was not done after the last war, the government must control the private work--building and repair and decorative work done on private account, the government must control the prices of materials.... I believe the great majority of permanent houses during this period will be built by local housing authorities, most of them under contract with builders, large or small. The Government do not for one moment fail to appreciate the widespread desire for house ownership or its social advantages. Private enterprise was responsible for nearly three-quarters of the houses built between the wars, and will soon, I hope, be making a great contribution again. It is almost universally acknowledged to be essential that a start with private enterprise building should be made.[21]

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[21] House of Commons Debates, 5th series, 409 (1945-46), 1099ff.

Opposition members viewed the government's program as much too conservative and estimated that "we must have a long-term housing program of building 7,000,000 new houses over the next 15 years."[22] The Labour Party's officially announced program in 1943, Housing and Planning After the War, had called for the erection of at least 4,000,000 houses during the decade following the end of the war. Local authorities were to assume the primary responsibility for the provision of postwar housing, while the activities of the building societies and the speculative builder were to be subject to rigid governmental control. It was proposed that the central government advance capital to the local authorities for housing construction at "substantially lower rates than normal." The Labour Party's statement was critical of the fact that "the wrong families frequently got the benefit of the (housing) subsidy," and recommended that wages be increased and land and building costs reduced to the lowest possible level in order to remove the need for housing subsidies. In order to control land costs, it was recommended that there should be a periodic levy of 75 percent of the increases in annual site values of land in urban or built-up areas.

The Labour Minister of Health, Mr. Bevan, expanded on the Government's housing policy in the House of Commons on October 17, 1945.

> Before the war the housing problems of the middle classes were, roughly, solved. The higher income groups had their houses, the lower income groups had not. Speculative builders, supported enthusiastically, and even voraciously, by money lending organizations, solved the

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[22] Ibid., p. 1060.

> [illegible] higher income groups in the matter of housing. We propose to start at the other end. We propose to attempt to solve, first, the housing difficulties of the lower income groups. In other words, we propose to lay the main emphasis of our programme upon building houses to let. That means that we shall ask Local Authorities to be the main instruments for the housing program.[23]

Housing Policies of Labour Government, 1945 to 1952

The housing policies of the Labour Government were in effect from August 1945 until the passage of the Housing Act of 1952, following the Conservative victory in October 1951. The primary features of the Labour Government's housing policy were:

1. Reliance upon publicly owned rental housing with executive responsibility for local housing programs vested in the local housing authorities.
2. Review and approval of local authority housing proposals by the Minister of Health.
3. Licensing of all private building by the Ministry of Works, with a complicated materials control priority system.
4. Low-interest rate loans to local authorities through the Public Works Loan Board.
5. Annual Exchequer subsidies, for periods of 60 years, supplemented by compulsory local rate fund contributions varying in amounts according to the type and location of newly constructed or improved housing.

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[23] House of Commons Debates, 5th series, 414 (1945-46).

6. Control of rents and sales prices of houses.

7. Interaction of the "Development Charge" and other provisions of the Town and Country Planning Act of 1947 with controls over residential building.[23a]

Rent control was a key element in the housing policy of the labour government. An Inter-Departmental Committee on Rent Control reported in 1945 the following extraordinary variety of rent levels for similar types of dwellings depending on when they were first let.[24]

1. About four million houses of a rateable value not above £35 in London and Scotland, and £20 in the provinces, which had been built before 1919 and continuously controlled on the basis of 1914 rents plus a 40 percent permitted increase on the net rent. The average net rent of these was about 6s. a week (9s. in London).
2. About 4-1/2 million similar houses which had been decontrolled. The average net rent of these was about 30 percent more than before de-control (50 percent in London), although rents varied widely.
3. A further 1-1/2 million local authority houses (mostly post-1918), not controlled, whose average net rents were 7s. a week (10s. 6d. in London).
4. Finally, three million post-1919 private enterprise houses, mostly owner-occupied. Those to let had average

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[23a]The Development Charge was a special fee levied at the time of development upon the developer or builder. For a discussion of this and its effect upon housebuilding see Paul F. Wendt, "The Effects of the British Town and Country Planning Act, 1947," Land Economics, XXV:4 (November 1949), 427-32.

[24]Report of the Inter-Departmental Committee on Rent Control, Cmd. 6621 (London: H.M.S.O., 1945).

[illegible] generally [illegible] than private houses. Private rents were not controlled until 1939.

The Committee recommended that rent control should be continued for at least 10 years, that existing limits of rateable value within which houses were controlled should remain unchanged, but that houses built after the war and local authority houses should not be controlled. The Committee recommended further that local authorities maintain a register of all rents in each area and that a system of Rent Tribunals be established to effect adjustments in rent levels.[25]

The Rent Act of 1946, as amended by the Act of 1949, provided for the establishment of Rent Tribunals, for the maintenance of register of rents by the local authorities, and for security of tenure by tenants in rental properties in rental disputes.

That rents were generally low in England and Scotland in 1947 is shown by Table III-3, indicating that 70 percent of all rented dwellings had rents of 15s per week or less. Somewhat higher proportions of privately owned houses were found to be included in the lowest and in the highest rental ranges, while Council houses were typically rented in the range of 10 to 15s per week.[26]

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[25] Ibid.

[26] The British Household, Social Survey, 1947, as cited in Political and Economic Planning, Housing Report (unpublished report, London, December 3, 1951).

Table III-3

Percentage Distribution of Gross Rents Between Council and Privately Owned Rented Dwellings
United Kingdom, 1947

Weekly Rent	Total	Council	Privately Owned and Other
Up to and including 10s.	38	26	41
10s. to 15s.	32	46	29
15s. to 20s.	14	22	13
Over 20s.	16	6	17
Total	100	100	100

Source: The British Household, Social Survey, 1947, as cited in Political and Economic Planning, Housing Report (unpublished report, London, December 3, 1951).

Note: Gross rents include allowances for local rates.

Great capital variation occurred in the proportion of income spent for housing in the United Kingdom before and after World War II. Families living in prewar houses in 1950 were generally paying 1939 rents plus rate increases, while those who had moved into new houses or converted flats were paying considerably more. It was estimated that the average working-class family before the war spent 12 percent of its income on rent and that this proportion had declined to eight or nine percent by 1950.[27] The Department of Health for Scotland reported the following increases in rents and earnings in Scotland from 1938 to 1955.

	1938	1949	1955
Average local authority rent	100	118	140
Average weekly earnings	100	207	323

It was estimated that the average weekly rent in Scotland in 1938 amounted to 10.5 percent of average weekly earnings; that it was six percent in 1949 and 4.5 percent in 1955.[28]

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[27] Ministry of Labour, Weekly Expenditure of Working-Class Households in the U. K., 1937-38, as cited in Political and Economic Planning, Housing Report (unpublished report, London, December 3, 1951).

[28] Department of Health for Scotland, D.H.S. Circular No. 23/1956 (Edinburgh: H.M.S.O., June 30, 1956). The Rent Return published in 1939 (Cmd. 5913) showed that at 16th May, 1938, the average rent charged by local authorities for their houses was £18 17s. 7d. The Return for 1949 showed that in November 1949 it was £22 5s. 9d. (Cmd. 8046). In November 1955 it was £26 6s. 10d. In the same period the rise in average incomes has been relatively very much greater; as an indication of this the average weekly earnings of male manual workers in main industries may be quoted. In October 1938 the figure was £3 9s. 0d., in October 1949 it was £7 2s. 8d., and in October 1955 it was £11 2s. 11d.

During the period from 1945 to 1951 the following additions were made to the supply of rental housing in the United Kingdom:

1. About 650,000 local authority houses (not controlled) with net rents ranging from 5s. to 30s.
2. About 150,000 private enterprise houses, of which about one-ninth were for letting. These were subject to some measure of rent and price regulation as a condition of the license to build and came under formal control as they were referred to the Rent Tribunals.
3. Some ninety thousand dwellings made available by conversion or adaptation, an unknown number of which were offered for letting for the first time and were subject to control by the Rent Tribunals.

In England, as in other countries, there was considerable public dissatisfaction with rent controls following World War II on three major counts: First, prevailing rents provided no inducement for private owners to build houses to let; second, glaring disparities existed in rent between similar houses; and third, current rents did not provide enough for the landlords to keep property in good condition. This dissatisfaction provided the basis for the modifications in rent controls by the Conservative Government beginning in 1952, which are discussed below.

Extensive controls over housing were exercised under the Labour Government by several government departments with considerable overlapping and conflict in jurisdiction. Up to 1951 the Ministry of Town and Country Planning was responsible for the

approval of local plans, compulsory acquisition of land. The planning and development of the new towns, and through the Central Land Board, for the assessment of "Development Charges" assessed against land developers. The Ministry of Health was responsible for the development of national housing policies and oversight of local authority housebuilding. The Ministry of Works was responsible for the licensing of all building as well as the control over sale and rental prices of new dwellings (under the Building Materials and Housing Act of 1945). The Ministry of Labour and National Service was concerned with the supply of labor to the building industry, while the Ministry of Agriculture was responsible for advice on the use of agricultural land for housing purposes. The above agencies with responsibility in England and Wales were paralleled by similar or sometimes different agencies in Scotland. All in all, the administration of housing policy under the Labour Government was enmeshed in a complex system of bureaucratic controls. It was somewhat simplified when, under the Conservative Government, the Ministry of Housing and Local Government in 1951 took over the town planning, housing, and local government functions formerly vested in the Ministry of Town and Country Planning and the Ministry of Health in England and Wales, and regional offices with broad authority were established to provide liaison with local authorities on housing matters.[29]

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[29] Central Office of Information, Reference Division, Housing in Britain (London: H.M.S.O., August 1954), p. 7.

The housing programs of the Labour Government were under fire within two months of the Labour Party victory in August 1945, primarily on the grounds that government restrictions, rising costs, and the elimination of private enterprise housing were throttling the housing industry. Actual production of housing in the United Kingdom rose gradually from 55,400 units in 1946 and 139,690 in 1947 to 227,616 in 1948 and to 197,627 in 1949. It can be noted that private enterprise building actually exceeded local authority construction in 1946. This reflected the greater speed in initiating private construction as well as the more favorable private investment climate. In mid-1949, the Minister of Health stated in the House of Commons that the objective of the housing program had been cut to an annual output of 200,000 houses, as compared with the earlier production objective of 400,000 per annum.[30] Following his statement, the new dollar crisis led to the devaluation of the pound and further cuts in the program were suggested by the government. Housing production remained slightly under 200,000 units annually in 1950 and 1951 and rose to 239,922 in 1952.[31]

One of the more serious developments under the Labour Government's administration was that the relatively low levels of house production were accompanied by rapid increases in

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[30] House of Commons Debates, 5th series, 466 (1948-49), 1833.

[31] Housing in Britain, p. 5.

[illegible] report of a Committee of Inquiry appointed by the Minister of Health to look into the cost of housebuilding reported in 1948 that a typical local authority house which had been built at a cost of £400 in 1939 cost £1,200 in 1947.[32] Although a large share of the rise in costs was attributed to the general inflation in the economy, declines in worker productivity, the lack of personal incentives, shortages, dislocations in labor and material supplies, organizational inefficiency, technical backwardness, and monopolistic practices were important factors influencing the rapid cost increases following the war. A British productivity team which came to the United States in 1949 to observe American methods of building found that although the American building worker did not work any harder than his British counterpart, "the average production per man-hour in America was 50 percent more than in Britain."[33]

Sabatino concluded that the reduced productivity of the British housebuilding industry under the Labour Government was due to the fact that the program failed to limit the total demand for labor and materials, and thus failed to maintain a smooth flow of labor and materials to housebuilding sites. He attributes major importance to the sudden cuts made in capital

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[32] Richard A. Sabatino, Housing in Great Britain: 1945-49. Arnold Foundation Studies, New Series, Vol. VI (Dallas: Southern Methodist University Press, 1956). See also U.K., M.O.H., First Report of the Committee of Inquiry appointed by the Minister of Health, The Cost of House-Building (London: H.M.S.O., 1948), as cited in Sabatino, op. cit., p. 9.

[33] Sabatino, op. cit., p. 43.

investment in December 1947 which resulted from the necessity to reduce imports and reallocate scarce labor and materials to the export industries which could earn dollars. Cuts in the housing program were made at that time because of the heavy drain on the limited dollar supply caused by imports of lumber and by the need to transfer labor and materials to work in the export industries.

Comparison of the actual accomplishments of the Labour Government's housing program with the pledge to produce 400,000 units annually in the decade following the war leads to the inevitable conclusion that the promised program was utopian from the start and had not been thought out in terms of the total requirements of the economy. Sabatino and others have viewed the failure of the housing program as the result of loose and makeshift central planning, rather than as a failure of planning as such.[34] Others assumed that the failure of the Labour Government's housing program was the result of too much planning and too great interference in housing by the National Government. As will be noted in Chapter VII, many of the problems in administering national programs during the immediate postwar years can be attributed in important measure to the continued severity of the foreign exchange shortage in the United Kingdom, which necessitated cutbacks in national economic programs.

Housing Policies of Conservatives, 1952

The Conservative Government, on assuming office in October 1951 established a production target of 300,000 new houses a year. During the subsequent five-year period the Conservative

[34] Ibid., p. 36.

Government gradually effected a major re-orientation in housing policy in the direction of greater reliance upon free markets, private enterprise, and the building of houses for owner occupancy. As an initial step in stimulating house production, the Housing Act of 1952 increased the standard or "general needs" housing subsidies, as shown in Table III-4. As will be seen presently, these subsidies were subsequently lowered by the Housing Act of 1954 and the Housing Subsidies Act of 1956, and eventually abolished entirely. The "development charge," a payment assessed against any developer of land, was removed by the Town and Country Planning Act of 1953. The government expressed its intention to "promote, by all possible means, building of houses for owner occupancy."[35] To this end the local authorities, who had in 1950 and 1951 issued licenses on behalf of the Minister of Works in the ratio of one privately owned house to each four built by the local authority, were given the discretion to license private housebuilding up to the same number of houses as they were building themselves after January 1, 1952. After January 1, 1953, they were asked to license without question the building of private houses with a maximum of 1,000 square feet in blocks of up to 12 and to consider on their merits applications for houses between 1,000 and 1,500 square feet and in blocks of more than 12. After January 1954, the

[35] Ministry of Housing and Local Government, Houses, The Next Step, Cmd. 8996 (London: H.M.S.O., November 1953), p. 1.

Table III-4

Rates of Annual Contributions Payable Under Housing Subsidies in England and Wales: Postwar Legislation

Type of Subsidy	Housing (Financial and Miscellaneous Provisions) Act, 1946		Housing Act, 1952		[illegible] amended by [illegible] Review of [illegible] Order, 1954	
	Exchequer contribution	Rate fund contribution	Exchequer contribution	Rate fund contribution	Exchequer contribution	Rate fund Contribution
	£ s.	£ s.	£ s.	£ s.	£ s.	£ s.
General standard subsidy for ordinary house	16 10	5 10	26 14	8 18	[illegible]	7 7
Special standard subsidy at Minister's discretion for houses for the agricultural population, or for areas of low rents and substantial housing responsibilities ...	25 10	1 10*	35 14	2 10*	[illegible]	2 10*
Extra subsidy at Minister's discretion in heavily burdened areas	Not exceeding 2 15	5 10, less amount in previous column	Not exceeding 4 9	8 18, less amount in previous column	Not exceeding [illegible] 6d.	7 7, less amount in previous column
For houses on expensive sites, where the developed site costs more than £3,000 per acre: extra subsidy for each £1,000 or part thereof in excess, disregarding excess over £10,000	1 4†	8†	2 5	15	2 [illegible]	15
Subsidy for flats on expensive sites:						
Escalator provision according to cost per acre of developed site:						
Ordinary subsidy on sites costing—						
More than £1,500 but not more than £4,000	28 10	9 10	52 16	17 12	45 18	15 6
rising to—						
More than £10,000 but not more than £12,000‡	35 5	11 15	60 18	20 6	53 5	17 15
Special subsidy for flats in blocks of 4 storeys or more with lifts, on sites costing—						
More than £1,500 but not more than £4,000	35 10	13 0	63 6	22 17	56 8	20 11
rising to—						
More than £10,000 but not more than £12,000‡	42 5	15 5	71 8	25 11	63 15	23 0
Extra subsidies in areas subject to mining subsidence...	Up to £2	Up to £1	Up to £2	Up to £1	Up to £2	Up to £1
Extra subsidies for preservation of character of surroundings	Up to £5†	Up to £2 10s.†	Up to £5	Up to £2 10s.	Up to £5	Up to £2 10s.
Grants to persons other than local authorities for the building of new houses for the agricultural population	Up to £15	—	Up to £15	—	Up to £15	—
Grants to local authorities for Hostels ...	£5 per bedroom†	—	£5 per bedroom	—	£5 per bedroom	—
Grants to local authorities for reconditioning	Three quarters of estimated loss†	One quarter of estimated loss†	Three quarters of estimated loss	One quarter of estimated loss	Three quarters of estimated loss	One quarter of estimated loss
Grants for building experiments	At discretion†	—	At discretion	—	At discretion	—

* In this category the county council also makes a contribution, equivalent to that from the rate fund.

† The rates of contribution shown here were authorised by the Housing Act, 1949.

‡ Over £12,000 the subsidy (both ordinary and special) is increased, for each additional £2,000 or part of £2,000 in the cost per acre of the site as developed, by £1 10s. (Exchequer) and 10s. (rate fund) under the 1946 Act, by £1 19s. (Exchequer) and 13s. (rate fund) under the 1952 Act, and by £1 16s. (Exchequer) and 12s. (rate fund) under the 1946 Act as amended.

Source: Report of the Ministry of Housing and Local Government for the Year 1955, Cmd. 9876 (London: H.M.S.O., October 1956), Appendix I, Table C.

licensing of privately built houses up to 1,500 square feet and on blocks of up to 50 became automatic, while proposals for larger houses or blocks over 50 were to be referred to the Regional Office of the Ministry for approval. After November 10, 1954, private enterprise housebuilding became free of licensing. Further, the fixing of maximum resale prices and rents for dwellings built or converted under license, which had been required by the Building Materials and Housing Act, 1945 (as amended by the Housing Act, 1949), was permitted to lapse in December 1953 and was not renewed.[36]

As a result of these changes, the share of private enterprise in total housing production rose from 12.5 percent in 1951 to 21.7 percent in 1953, 28.5 percent in 1954, and to 47 percent by 1958.[37]

A Report of the Interdepartmental Committee on Rent Control had recommended in 1945 that rent controls be continued for at least 10 years, but that postwar newly built or converted houses should not be controlled, and that rents should be adjusted upward to allow for increased cost of repairs and for increased ability to pay in local areas.[38] It was noted earlier that the

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[36] Report of the Ministry of Housing and Local Government for the Period 1950/51 to 1954, Cmd. 9559 (London: H.M.S.O., August 1955), p. 12.

[37] It is estimated that private enterprise accounted for in excess of 50 percent of housing production in 1959.

[38] Report of the Inter-Departmental Committee on Rent Control, Cmd. 6621 (London: H.M.S.O., 1945).

policy of the Labour Government was to control rents and selling prices for existing as well as newly built houses. The Minister of Housing and Local Government called attention in 1953 to the fact that, "There is at present in England and Wales a hopelessly illogical system of rents."[39] He pointed to the wide variation in rents for similar quarters and to the fact that rents were too low to enable landlords to maintain the inventory of 7-1/4 million privately rented houses, of which over 4-3/4 million were over 65 years of age. He recommended substantial

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[39] Ministry of Housing and Local Government, Houses, The Next Step, Cmd. 8996 (London: H.M.S.O., November 1953).
The following newspaper report from the Sunday Express Reporter (London), August 3, 1958, illustrates the Minister's contention:

MINER'S WIFE MUST SWOP WITH TENANT
Two-house Woman Loses Council Home

A £15-a-week miner has got to swop his council home for the house his wife owns--because she put 7s. 6d. a week on the rent.
Miner William Fox, 45, pays 21s. 5d. rent for the council house in Ingshead-avenue, Rawmarsh, South Yorkshire.
His wife's tenant, 51-year-old Mr. Sydney Goulty, a father of eight, pays 19s. 9d. for a three-bedroomed house in Broad-street.
Mr. Goulty earns £8. His rent was raised from 12s. 3d. last December.
And, the Socialist-controlled Rawmarsh Council was told, Mrs. Fox said, it would go up again this week.
Mr. Goulty lives with his wife Minnie and three of their children.
Said Mr. Goulty yesterday: "I protested to the council that my landlady lived in a council house. It seems wrong that I should be subsidising her house through my rates and yet she should put up my rent.

Longing

"My wife and I have been longing for a council house for years. This place has no bathroom or hot-water system."
Said Mr. Fox: "I have lived here 12 years and spent more than £200 on improvements
It is unfair that I should be turned out because of what my wife owns. I am appealing to the council against the decision."
And his wife: "I put up the rent because of the high cost of repairs."

[illegible] fact that rents have increased three times since 1939, the base year for many rental properties.

The Minister of Housing and Local Government drew attention to the integral relationship between rent controls and housing subsidies and to the impact of housing subsidies on the national budget in a speech in the House of Commons in October 1954.

> Local authorities own about 1-1/4 million houses built before the war, and a further 1-1/2 million built since the war. The Exchequer subsidies which they are receiving on those existing houses amount in all to nearly £47 million a year. There is no doubt that, in general, council house rents are today being subsidised to a greater extent than the financial circumstances of the individual tenants require. This shows that the amount of the subsidy which the Exchequer is now paying out in respect of existing houses is unnecessarily large, and provides a margin which could properly be used for financing some part of the future housebuilding programme.
>
> For a number of years there will continue to be a large demand for new houses and in many areas the shortage is still serious. But most, if not all, the authorities which have long waiting lists possess a big pool of existing houses upon which they are receiving large amounts of subsidy. These usually include many prewar houses, built at much lower cost. Provided, therefore, that they subsidise only those tenants who require subsidising, and only to the extent of their need, local authorities should be well able to continue building the new houses they require with appreciably less Exchequer assistance than hitherto.
>
> We are not proposing that the rates of subsidy on houses already built or building should be altered; but we have come to the conclusion that the subsidy on future houses, built for general needs, should be abolished altogether. In order not to make the transition too abrupt, we propose, for a year or so, to pay a much reduced annual subsidy of £40 per house.

What I have said about the position of local authorities as a whole does not apply to the corporations of the New Towns. They do not possess any pool of low-cost prewar

houses, and consequently, their rents are substantially above the general average. A special problem arises also in the case of authorities of small towns or districts which are being expanded to accommodate overspill population from congested cities. We propose, therefore, in these special circumstances, to provide a basic Exchequer subsidy of £24, an increase of £2 over the existing rate.

Unless local authorities will exercize more discrimination in giving rent relief to their tenants, there is bound to be a continued misuse of public money. At present, councils are discouraged from introducing differential rent schemes by reason of the fact that, no matter how much they increase their revenue from rents, they still have a statutory obligation to pay into the Housing Revenue Account a fixed contribution from the rates. We therefore propose to abolish this obligation. This will allow local authorities, if they so desire, to use any savings they may make to reduce the rate burden, and will give them for the first time an incentive to adopt realistic rent policies....

The proposed changes in the subsidy rates will have the effect of slowing down the annual growth of Exchequer expenditure on housing. But, since they will not affect the subsidies payable on houses already built, they cannot, of course, reduce the present total of the subsidy bill. Nevertheless, I believe that it will be generally recognized that the policy which I have announced represents an important step in the direction of restoring some measure of reality to housing finance.[40]

In line with the above proposals, the Housing Act of 1956 provided for a reduction in the general needs housing subsidy to £10 per annum and for its eventual abolition. Beginning in November 1956 the subsidy on houses for general needs was abolished, except for one-bedroom dwellings, which were in particular demand for old people and small families. Subsidies for dwellings in New Towns and to meet urgent industrial needs

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[40] Statement of the Minister of Housing and Local Government to the House of Commons, October 27, 1955, as quoted in Report of the Ministry of Housing and Local Government for the Year 1955, Cmd. 9876 (London: H.M.S.O., October 1956), pp. 4-5.

[illegible] consideration [illegible] per annum, while a slightly smaller subsidy of £22 [illegible] per annum was continued for slum clearance or redevelopment projects as shown in Table III-5. The Act of 1956 also provided that local authorities were no longer required to make a contribution from the rates to the Housing Revenue Account for every house on which they receive an Exchequer subsidy. The objective of this was to provide greater flexibility in the granting of local government housing subsidies. The Act gave the Minister the power by order to abolish or reduce all or any of the Exchequer subsidies payable under the Act or to reduce the period for which the subsidies are payable. Before making such an order, the Minister must consult with the associations of local authorities.

Under the Rent Control Act of 1949, Rent Tribunals were unable to increase the standard rents. This restriction was removed by the Housing Repairs and Rents Act of 1954, with the result that the proportion of applications for rent increases which received favorable action by Rent Tribunals in England and Wales rose substantially in 1954, 1955, and 1956.[41]

Initial steps toward the abolition of rent controls in England and Wales were taken by the enactment of the Rent Act, 1957. This law removed over 4-1/2 million owner-occupied houses and any other houses which subsequently are vacated, from rent

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[41] Report of the Ministry of Housing and Local Government for the Year 1956, Cmnd. 193 (London: H.M.S.O., June 1957), Appendix II.

Table III-5

Rates of Annual Contributions Payable Under Housing Subsidies Act 1956

Purpose	Subsidy			
	Houses, and Flats, in less than 4 storeys	Flats in 4 storeys	Flats in 5 storeys	Flats in 6 storeys or more
1. Provided for general needs, i.e. any purposes other than those specified in 2–7 of this table (Section 3(2)). a/	£10 per annum	£20 per annum	£26 per annum	£38* per annum
2. Provided by a local authority for the purposes of slum clearance or redevelopment as defined in Section 11(1). 3. Provided by a local authority for the purpose of rehousing persons coming from camps or other unsatisfactory temporary housing accommodation designated as such by the Minister.	£22 1s. per annum	£32 per annum	£38 per annum	£50* per annum
4. Provided by a receiving authority under a town development scheme. 5. Provided by a local authority for persons coming into their area to meet the urgent needs of industry in accordance with arrangements approved by the Minister. 6. Provided by the local authority of a congested or overpopulated area in some other area as part of a scheme of development of "new town" character. 7. Provided by a development corporation of a new town.	£24 per annum	£32 per annum	£38 per annum	£50* per annum

* The subsidy is increased by £1 15s. 0d. for each storey in excess of six.

a/ Abolished by Order November 2, 1956, except for 1-bedroom dwellings, a nominal subsidy of 1s, and upon application by an Authority to meet unusual problems.

Source: Ministry of Housing and Local Government, Circular No. 33/56, July 17, 1956 (London: H.M.S.O., 1956), p. 5.

controls. In addition, the limits of rateable (assessed) value below which rents were controlled, were lowered, resulting in the release of an additional 800,000 dwellings from rent controls.[42] The Minister of Housing and Local Government (in Scotland the Secretary of State) was further authorized by the Act to reduce the rateable value limits further by statutory order subject to approval by each House of Parliament. The Act of 1957 substituted a uniform new rent limit based on the 1956 gross value of dwellings for the intricate and multiple bases previously applicable. The Act provided for increases in rents on account of increases in services, rates, or improvements and for gradual permissive rent increases upon the expiration of contractual tenancies.[43]

Housing Finance

Local authorities had been authorized by the Public Works Loans Act of 1875 to borrow for capital expenditures including housing from the Public Works Loan Board and this was the only source from which local authorities could normally borrow under the Labour Government from 1945 to 1951. After 1952, local authorities were permitted to borrow from other sources and, as

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[42] Robert Steel, The Rent Act 1957 (London: The Royal Institution of Chartered Surveyors, July 1957), p. 14. Section 11 (1) of the Act of 1957 provides that the Rent Acts shall cease to apply to any dwelling-house with a rateable value exceeding £40 in the City of London, £30 elsewhere in England and Wales, £40 in Scotland. Rateable value means the value on November 7, 1956.

[43] Ibid., pp. 59-60.

a crucial advance from the Public Works Loan Board gradually declined from 65 percent of borrowing by local authorities to 22 percent in 1956-57.[44] The rates of interest charged by the Public Works Loan Board are fixed by the Treasury and in general are based upon open market rates, which in turn are affected by the Bank Rate. The rise in interest rates beginning in late 1951 was reflected in a gradual rise in interest costs for long-term loans to the local authorities for housing and other purposes from three percent in 1948 to a high of 6-3/4 percent in September 1957 as shown by Chart III-1. The Conservative Government took steps to defer local authority borrowing from the Public Works Loan Board during the period of monetary stringency from 1954 to 1957. This restraint was offset, however, by direct borrowing by local authorities in the open market, and, as a result, the volume of public housing investment was maintained at relatively high levels despite the monetary stringency.

The influence of rising interest costs was supplemented by direct measures by the Ministry of Housing and Local Government to restrict public expenditures on new housing in 1957, when the Minister announced that as a part of the government's anti-inflation policy it would endeavor to reduce new public housebuilding by approximately 20 percent by the financial year

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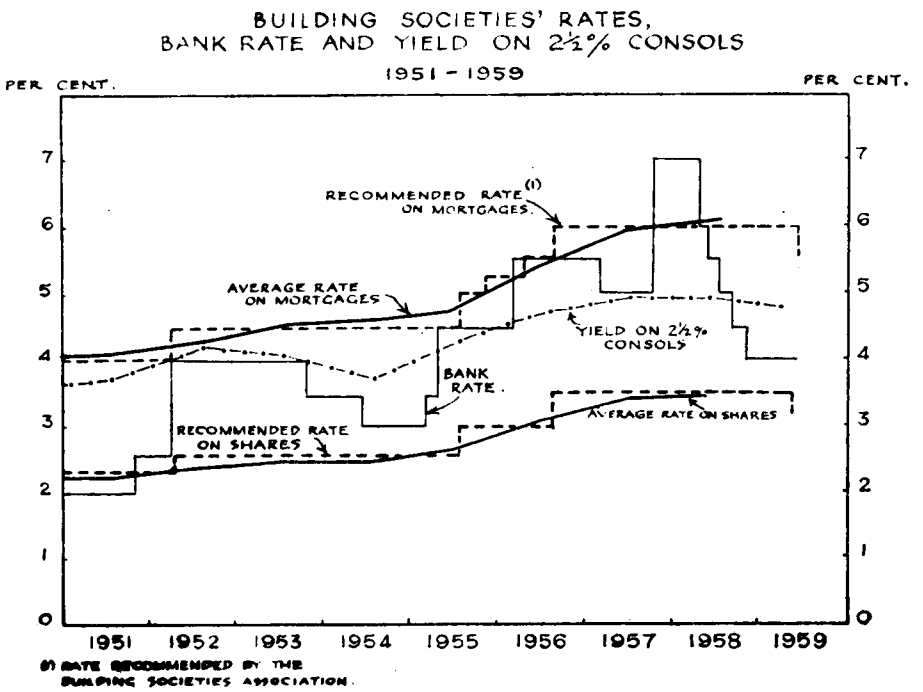
[44] Report of the Ministry of Housing and Local Government for the Period 1950/51 to 1954, Cmd. 9559 (London: H.M.S.O., August 1955); Ibid., for the Year 1955, Cmd. 9876 (October 1956); Ibid., 1956, Cmnd. 193 (June 1957); Ibid., 1957, Cmnd. 419 (May 1958); Ibid., 1958, Cmnd. 737 (May 1959). The amount (in millions of £) of loans sanctioned by the Minister to Local Authorities for new housing was as follows: 1945-46, £36.1; 1946-47, £222.2; 1947-48, £167.7; 1948-49, £185.1; 1949-50, £226.5; 1950-51, £227.4; 1951-52, £252.5; 1952-53, £351.7; 1953-54, £325.8; 1954-55, £280.0; 1955-56, £236.5; 1956-57, £221.9; 1957-58, £235.5. (All figures obtained from Appendices on Local Government Finance in the foregoing Reports.)

Chart III-1



Source: Committee on the Working of the Monetary System Report, Cmnd. 827 (London: H.M.S.O., August 1959), p. 101.

1959-60. The rationale for this decision was stated as follows:

> As regards housing, some curtailment of expenditure on the building of new houses cannot be avoided. Since 1951 housing has been given a specially high priority, and expenditure on new housebuilding has absorbed a substantial proportion--between a quarter and a fifth--of all capital investment. As a result more than five million people have been rehoused in this period, and the housing situation in the country at large has been greatly improved. A decline in the building of houses by local authorities was therefore to be expected in any case, and has in fact already shown itself. Many local authorities have now built enough houses to meet the really urgent demands for more accommodation in their areas, and on that account have for some time been letting their building programmes run down. Many other authorities are approaching that position. Some urban authorities, furthermore, are starting to cut back their rate of building because of shortage of available sites. Against this background, the Government must envisage some reduction in the current rate of housebuilding by local authorities. In its anti-inflation policy the Government will proceed on the basis that total expenditure on the building of new houses by authorities will progressively slow down in such a manner that in the financial year 1959-60 it will not exceed 80 percent of the current level of expenditure.[45]

Table III-6 summarizes the total expenditures of local authorities on revenue and capital account for housing purposes. Expenditures on revenue account for housing rose from 12 percent of total revenue expenditures in 1950-51 to approximately 16 percent in 1955-56. Housing expenditures during this period were the second largest classification of local government expenditures, exceeded only by expenditures for education. Local government debt for housing purposes totaled £2,684 million as of March 31, 1955, and represented 71 percent of the total.

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[45] Ministry of Housing and Local Government, Circular No. 54/57, November 11, 1957 (London: H.M.S.O., 1957).

Table III-6

Local Government Expenditures for Housing: England and Wales
1946 to 1958, £000's

	Revenue Account						Capital Account		
	Expenditure			Specific Income		Balance of Exp. Not Met Out of Income			
	General	Loan Charges	Total	Fees - Rents	Govt. Grants		Receipts on Loans	Capital Exp.	Debt
1946-47	17,697	34,069	51,766	29,163	15,597	7,006	106,662	106,828	669,924
1947-48	37,336	38,203	75,539	40,145	26,573	8,821	192,154	210,612	849,357
1948-49	40,600	45,399	85,999	48,792	28,034	9,173	217,989	245,437	1,053,481
1949-50	42,960	53,200	96,160	56,932	29,132	10,096	217,155	222,794	1,253,912
1950-51	44,838	60,515	105,353	64,777	30,318	10,258	222,196	230,503	1,457,224
1951-52	47,958	69,080	117,038	73,853	32,021	11,164	249,536	254,697	1,687,224
1952-53	52,966	80,706	133,672	83,188	36,683	13,801	311,186	316,298	1,975,420
1953-54	57,496	95,892	153,388	95,798	42,316	15,274	332,481	338,621	2,282,235
1954-55	60,987	110,029	171,016	106,863	48,093	16,060	301,611	302,637	2,555,433
1955-56	66,781	124,074	190,855	118,039	54,048	18,768	268,454	269,074	2,791,838
1956-57	70,914	140,969	211,883	137,740	55,818	18,325	243,195	261,286	3,005,366
1957-58	74,279	158,053	232,332	155,494	57,825	19,013	235,693	244,756	3,201,176

Sources: 1946-47 to 1949-50: Ministry of Housing and Local Government. Special tabulation prepared for the Author.

1950-51 to 1957-58: Report of the Ministry of Housing and Local Government for the Period 1950/51 to 1954, Cmd. 9559 (London: H.M.S.O., August 1955); Ibid., for the Year 1955, Cmd. 9876 (October 1956); Ibid., 1956, Cmnd. 193 (June 1957); Ibid., 1957, Cmnd. 419 (May 1958); Ibid., 1958, Cmnd. 737 (May 1959).

Central Government housing subsidies to local authorities are also shown in Table III-6. It can be seen that the technique of making annual grants for 60-year periods resulted in a cumulative rise in the total expenditures to approximately £55 million in 1956-57. The annual rate of increase in central government subsidies was substantially reduced in recent years, however, as the Conservative Government acted to reduce housing subsidies. The receipts on capital loans represent total borrowings for housing purposes through the Public Works Loan Board and in the open market during this period. The combined effect of rising interest costs and control by the Ministry is reflected in the decline in both capital loan receipts and expenditures for housing after 1953-54.

Local authorities were also empowered to make 30-year loans at fixed interest rates up to 80 percent of value to private individuals for building or buying houses by the Small Dwellings Acquisition Act of 1899. Although originally limited to houses with a value not exceeding £400, the limit was raised to £800 in 1939 and was raised following World War II to £5,000. Meanwhile the percentage of loan to value was raised to 90 percent. Local authorities were also empowered by the Housing Act of 1949 to advance 90 percent loans to any person for the purpose of buying or building houses or acquiring buildings for alteration or conversion into houses. Local authorities were also authorized by the Housing Acts of 1936 and 1949 to guarantee building societies against loss on loans made at higher proportions of

purchase price on a basis that any losses would be shared by the Ministry.[46]

Table III-7 summarizes the advances and guarantees made by local authorities under the Small Dwellings Acquisition Acts and the Housing Acts during the period from 1945 to 1958. It can be noted that the magnitude of local authority advances for acquisition and construction was limited to an over-all total of approximately 45,000 dwellings for the six-year period ending in March 1951. The annual number and monetary value of advances increased substantially from 1952 to 1955 under stimulus by the Minister of Housing for local authorities to make full use of their powers under these Acts to further private ownership of housing.

Appeals to local authorities in mid-1955 to limit capital expenditures, accompanied by a sharp rise in the interest rates shown in Chart III-1 resulted in substantial reductions in advances and guarantees under these Acts from 1956 to 1959.

Building Societies

The building societies, which have existed in England since 1781 or earlier, are the most important source of financing for private house building. Chart III-2 shows the long-term growth in assets and mortgage loans for the member institutions of The

[46] Loans to local authorities under the Small Dwellings Acquisition Acts were reported separately as follows: (in millions of pounds), 1950-51, £16.1; 1951-52, £27.1; 1952-53, £21.9; £21.9; 1953-54, £29.2; 1954-55, £56.1; 1955-56, £82.5; 1956-57, £4.0; 1957-58, £6.0.

Table III-7
by Local Authorities Under the Small Dwellings
and the Housing Acts - England and Wales
1945 to 1959

April 1953 to March 1954		April 1954 to March 1955		April 1955 to March 1956		April 1956 to March 1957		April 1957 to March 1958		April 1958 to March 1959	
Number of Dwellings	Amount £000	Number of Dwellings	Amount £000	Number of Dwellings	Amount £000	Number of Dwellings	Amount £000	Number of Dwellings	Amount £000	Number of Dwellings	Amount £000
10,337	10,270.3	15,431	17,111-4	17,587	19,158.4	3,161	13,263.6	9,632	8,800.1	7,252	6,755.7
6,352	10,020.8	8,017	12,802.3	7,559	13,323.4	4,616	8,366.4	2,475	4,248.0	1,567	2,677.5
-	-	-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-	-	-
2,813	3,018.8	2,043	3,857.2	1,540	2,740.2	1,355	2,103.1	600	1,859.0	549	879.8
4,685	4,740.0	10,854	12,579.4	20,187	23,964.8	25,605	29,343.7	26,270	26,648.3	27,678	31,920.8
2,531	3,825.1	4,257	6,594.8	7,849	12,724.1	7,670	13,420.3	6,156	10,902.4	5,428	9,581.3
45	41.6	85	82.9	194	124.1	213	183.8	215	202.4	149	98.0
579	142.7	1,089	239.8	2,507	629.1	2,911	797.2	2,815	802.8	2,547	710.2
26	-	74	-	119	-	7	-	-	-	-	-
2	-	10,698	-	16,041	-	10,509	1,283.8	10,118	-	7,952	-

/51 to 1954, Cmd. 9559 (London: H.M.S.O., August 1955) Ibid., for the Year 1955, Cmnd. 419 (May 1958); Ibid., 1958, Cmnd. 737 (May 195. (All figures obtained

, by the Housing Act, 1949.

Advances and Guarantees
Acquisition Act

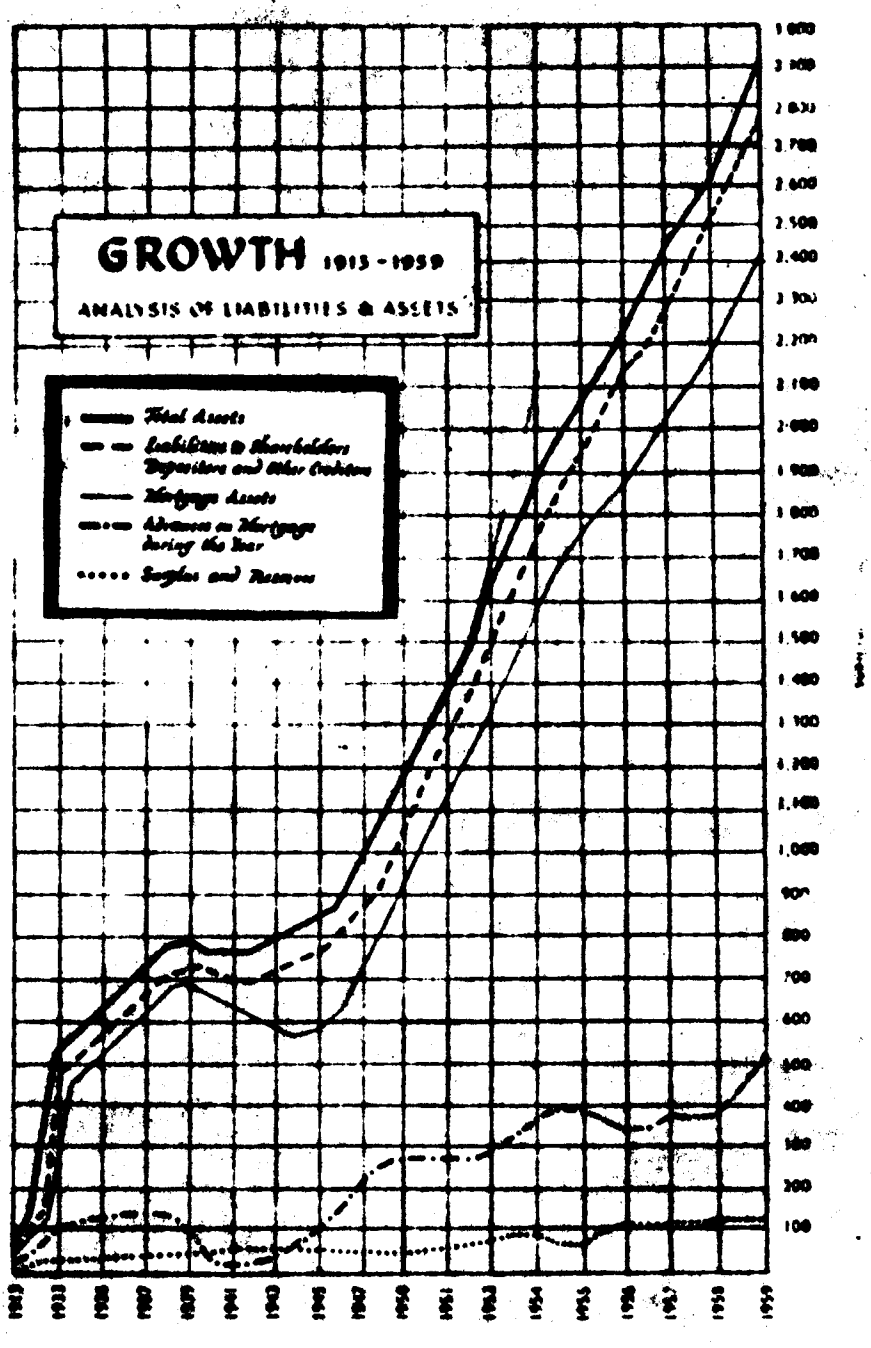
Purpose	April 1945 to March 1951		April 1951 to March 1952		April 1952 to March 1953	
	Number of Dwellings	Amount £000	Number of Dwellings	Amount £000	Number of Dwellings	Amount £000
Advances made under the Small Dwellings Acquisition Acts:						
1. For acquisition.....	32,215	25,040.0	12,335	12,725.4	8,670	8,632.7
2. For construction.....	8,590	8,803.8	4,025	5,162.0	4,758	7,137.1
Advances made under Housing Act, 1936 (Sections 90 and 91 (1) (a)):1/						
1. For improvements.....	34	9.1	-	-	-	-
2. For acquisition or construction.....	2,209	2,103.5	-	-	-	-
Advances to Housing Associations under Housing Act, 1957 (Section 119).....	n.a.	n.a.	1,938	1,750.6	1,539	2,026.1
Advances under Housing Acts:						
1. For acquisition.....	2,306	2,403.6	3,614	3,868.0	3,337	3,382.1
2. For construction.....	823	962.3	1,235	1,625.4	1,562	2,296.1
3. For conversion.....	15	10.8	43	21.1	29	22.1
4. For alteration, etc.	175	41.8	422	92.5	475	102.1
Dwellings for which guarantees have been given:						
1. Housing Associations under Housing Act, 1957 (Section 119).....	n.a.	-	59	-	61	-
2. Building Societies, etc., under Housing (Financial Provisions) Act, 1958 (Section 45).....	99	-	20	-	1	-

Sources: Report of the Ministry of Housing and Local Government for the Period 19
Cmd. 9876 (October 1956); Ibid., 1956, Cmnd. 193 (June 1957); Ibid., 195
from Appendices I of the foregoing Reports.)

1/ Sections 90 and 91 of the Housing Act, 1936, were repealed as from July 30, 194

Chart III-2

Growth of Building Societies in the United Kingdom, 1913-1959



Source: Franey & Co., Ltd., Editors, Building Societies Yearbook, 1960, Official Handbook of The Building Societies Association (London: Franey & Co., Ltd., 1960), p. 50.

Building Societies Association which account for about three-quarters of the total assets of all building societies in the United Kingdom. The total number of societies has declined from approximately 3,000 around 1890 to 755 in 1957, reflecting the continuous trend toward merger and consolidations over the years. The most rapid growth in assets occurred during the private building boom of the 1930's. The marked rise in mortgage loan advances following the Conservative Government's shift in housing policy is noticeable after 1952.

The most usual type of mortgage loan available through the building societies is a 75-percent 20-year loan repayable by annuity payments. The recent trend in rates of interest charged, shown in Chart III-1, reflects changes in prevailing money market conditions. Building societies usually reserve the right to vary the interest rate on existing mortgages by giving three or six months notice to borrowers. Newly built houses certified by the National Housebuilders Registration Council as of good construction are eligible for 23-year loans. The National House-Builders Registration Council is an autonomous body formed in 1937 and representative of all housing interests which operates a voluntary scheme for the independent inspection of houses built privately and the certification of those which comply with agreed standards of construction. Further, if the borrower can give additional security, loans are made up to 90 percent of value for periods up to 30 years. The typical form of additional security before the war was a local authority guarantee

of the entire 15 percent advanced. During the private housing boom of the late 1930's builders, through what was known as a "continuing arrangement," could deposit 10 percent of the value of the houses to be built with a building society, which would then advance to purchasers up to 95 percent of the value of the house on a 30-year basis. Combined insurance schemes are also available through which mortgage payments are linked with life insurance premiums to guarantee the unpaid balance on the mortgage if the mortgagor dies. For those in eligible age groups, combination mortgage loans and insurance policies are sometimes available up to 35-year terms.

Life Insurance Companies

British life insurance companies lend considerable sums to their policyholders and to others secured by house mortgages. Total loans on house purchase in the United Kingdom by members of the British Insurance Association at the end of 1957 amounted to £410 million. Mortgage holdings accounted for 12.3 percent of the assets of British Insurance companies at the end of 1956, which compares with 9.2 percent in 1951 and 11.4 percent in 1937. According to the recent report of the Committee on the Working of the Monetary System, the British insurance companies prefer to finance large blocks of office buildings, shops, and flats. However, they greatly extended their mortgages on house property to meet the demand, largely from their policyholders, during the credit squeeze in 1955-1957. According to a recent study life insurance companies expect the volume of house mortgage

lending to decline. They follow a policy of accepting lending opportunities when rates are favorable, but do not seek out the business.[47]

Local Authorities

Although the local authorities have been authorized to make 30-year loans up to 90 percent of the value of the house at a rate of interest 1/4 percent above the rate at which the local authority was able to borrow from the Public Works Loan Board, few local authorities offered credit on these terms. In general they tend to limit the terms of loans to 20 years, and to establish conservative valuations for purposes of determining loan values.

The mortgage credit terms available in early 1951 for purchase of a house costing £1,500 were summarized as follows in a confidential memorandum issued at that date:

	Deposit		Interest Rate	Number Years Repayment	Weekly Payment (Not Including Local Rates)
	Percent	Amount			
Building Society					
Plan 1	25	£375	4	23 (Certified) 20 (Uncertified)	29s. 1d.
Plan 2	10	£150	4	30 (Loc. Auth. Guar.) 23 (Certified) 20 (Uncertified)	29s. 10d. 35s. 6d. 38s. 0d.
Plan 3	5	£75	4	23 (Certified) 20 (Uncertified)	36s. 8d. 40s. 1d.
Local Authority					
Plan 4	10	£150	3¼	30 (By Annuity) 20 (By Fixed Inst. d Decreasing to 20s. 8d. at end of 20 years.)	27s. 6d. 42s. 8d.

[47] Committee on the Working of the Monetary System Report, Cmd. 827 (London: H.M.S.O., August 1959).

It can be seen that the weekly payments, which of course include amortization, far exceeded the median rents of 10 to 15 shillings per week including local rates referred to in Table III-3.

On May 4, 1954, Mr. Harold MacMillan, Minister of Housing and Local Government, announced a special scheme to enable purchasers of smaller properties to obtain mortgages through building societies with partial guarantee by the local authorities with an initial deposit of, in some cases, only five percent of the value. This scheme was modified in September 1955 to provide that for houses costing less than £2,500, building societies could advance up to 95 percent of value on a post-1918 house and up to 90 percent on a pre-1918 house. Although this and other measures by the Conservative Government to stimulate privately owned housing resulted in a record volume of mortgage advances by the building societies in 1955, the extreme credit stringency starting in 1955 which culminated in the raising of the bank rate to seven percent in September 1957 resulted in a sustained rise in mortgage interest rates charged by the building societies for new advances from the level of 4½ percent prevailing in March 1952 to five percent in July 1955, 5½ percent in November 1955, and to six percent in April 1956. The reduction of the bank rate to six percent in March 1958 removed for a time the upward pressure on interest rates charged by the building societies.

The government published a White Paper entitled "House Purchase; Proposed Government Scheme" in October 1958, outlining

arrangements for loans by the Exchequer to approved building societies in order to finance 95-percent 20-year loans for the purchase of older houses and improvements to houses. Loans are to be made at the rate recommended by the Building Societies Association. The scheme also made provision for loans by local authorities up to 100 percent of value instead of 90 percent as previously loaned.[48]

The Housebuilding Industry

As in the United States, the housebuilding industry in England has been traditionally made up of small, local enterprises. During the postwar period, the building industry in the United Kingdom was the subject of a great deal of criticism, and a number of studies were made of various aspects of the housebuilding industry.[49] The size structure of firms in the building industry during the postwar years is shown in Table III-8.

Sabatino and others have concluded that the post-World War II private housebuilding industry in England was a "backward industry of low productivity and high costs split into a large number of small, inefficient units engaged in a competitive scramble for work"....and...."producing a product to individual

[48] Report of the Ministry of Housing and Local Government, 1958, Cmnd. 737 (London: H.M.S.O., May 1959), pp. 53-54.

[49] The British Productivity Council, A Review of Productivity in the Building Industry (London: BPC, undated), p. 10.

Table III-8

Size of Building Firms in the United Kingdom, 1945 to 1953

Size of Firms by Number of Employees	May 1945		February 1948*		May 1953*	
	Firms	Employees	Firms	Employees	Firms	Employees
One-Man Firms	28,111	-	52,319	-	37,793	-
1 to 5	26,441	60,861	45,014	105,948	42,046	98,756
6 to 19	9,862	102,110	17,965	181,789	16,816	171,330
20 to 99	4,314	167,760	7,552	294,137	7,102	277,134
100 to 499	608	111,746	1,099	205,951	1,099	206,613
500 and over	55	60,343	127	159,227	146	215,550
Totals	69,391	504,820	124,076	947,052	105,002	969,383

Source: The British Productivity Council, A Review of Productivity in the Building Industry (London: BPC, undated), Table 1, p. 6.

* The figures for 1948 and 1953 exclude late returns not classified by size of firm. To arrive at the total number of operatives 30,948 should be added for 1948 and 20,617 for 1953.

measurement by wasteful handicraft methods."[50] The old incentives of unemployment and fear of poverty which had been instrumental in achieving relatively high labor productivity before the war were substantially weakened by the postwar Labour Government's full employment policy and new incentives had not replaced them. Correspondence with representatives of the British housebuilding industry suggest that Sabatino may have provided a somewhat distorted view of the industry. They point out, "It would have been unwise, and indeed impossible, for any private firm to have embarked on private housebuilding on a large scale at a time when application had to be made to the local authority for permission to build each individual house and the total number of private houses allowed in the whole country could be changed from month to month by ministerial edict. In addition, housebuilders had to face the various retarding influences, e.g., shortages of land and money and the bureaucratic control of land use."

The Girdwood Committee, which completed an investigation of the cost of housebuilding in 1948, found that a typical local authority house which had cost less than £400 to build in 1939, cost £1,200 in 1947.[51] The Committee concluded that the increase in building costs from 1939 to 1947 reflected changes in size, construction, and equipment of the houses built, direct increases

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[50] Sabatino, op. cit., pp. 66-7. See also Ministry of Works, Methods of Building in the U.S.A., The Report of a Mission Appointed by the Minister of Works (London: H.M.S.O., 1944).

[51] The British Productivity Council, op. cit., p. 10.

in materials, wages, and other components of cost, and a decline in productivity. Direct increases in labor and materials were found to have kept pace with the general inflationary trend in the economy during and since the war. The Committee called attention, however, to an apparent decline of 31 percent in labor productivity in 1947 as compared with 1939, which was attributed to shortages, dislocations, and the lack of productivity incentives.[52]

A second report by this Committee in 1949 indicated that the introduction of incentive schemes had been effective in improving productivity on some 50 percent of the houses currently under construction, but that productivity was still 20 percent lower than before the war. A third report in 1952 found no increase in output per worker between 1949 and 1951.[53] A special report by the Treasury noted a steady rise in productivity in housebuilding between 1951 and 1953.[54] Improved flow of materials, greater use of incentive schemes, careful pre-planning, and larger scale building operations were found to be the principal factors contributing to increased productivity.

The Report of the Private Enterprise Sub-Committee of the Central Housing Advisory Committee in 1944 drew attention to the following factors which contributed to the relatively high

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[52] Ibid.

[53] Ibid., p. 11.

[54] Ibid.

efficiency and low costs of the private housebuilding industry in England during the interwar years from 1924 to 1939:

a. Ability to organize a continuous belt of production.

b. Opportunity to acquire and plan sites in advance.

c. Standardization of housing layout.

d. Cheap money.

e. Plentiful supply of labor and materials.

f. Building costs in close correspondence with cost of living and stability of values.

g. No competition between private enterprise and local authorities in the same field.

For a number of reasons, many of which have been alluded to earlier, few of these conditions were present during the post-World War II years. As a result of the licensing regulations in effect under the Labour Government, production was limited almost exclusively to publicly owned rental housing up to 1952. The delays in securing planning permission, the reluctance of land owners to sell land, and housebuilders to pay the "development charges" assessed under the Town and Country Planning Act of 1947 were contributing factors in discouraging private housebuilding. The elimination of the "development charges" by the Town and Country Planning Act of 1953 removed one factor deterring private development.[55] Further, shortages of labor and

[55] Paul F. Wendt, "Administrative Problems Under the British Town and Country Planning Act of 1947," Land Economics, XXV (November 1949), 427-32; and his "A Reply from England on the Effects of the British Town and Country Planning Act, 1947," ibid., XXVI (November 1950), 397-400.

materials resulted in long delays in completing houses and in rising building costs during much of the post-World War II period.[56] The influence of the credit stringency from 1954 to 1957 affected both public and private housebuilding, as noted earlier. In discussing "Problems in Building Modern Houses for Sale" the managing director of one of England's leading housebuilding firms stated that in consequence of the high bank rate prevailing in 1958 the building societies were temporarily unable to secure and to hold a sufficient volume of funds to finance a really large program of private housebuilding.[57] The most important element contributing to the failure of private enterprise housing to assume a more important position in England following World War II, however, was the assumption by local authorities of broad responsibility for provision of housing. This was explicit in the housing policy of the Labour Government and remained a basic policy feature of the Conservative Government. Commenting upon this factor, in the review referred to above, Mr. D. G. Howard said:

> As regards the standards of design construction and internal equipment of new housing, it would be true to say that public authorities have greatly improved their standards compared with pre-war, and the private developer has got to maintain a very high standard in order to equal the standards set by public authorities....

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[56] Sabatino, op. cit., pp. 73-74. See also "Materials and Labour in Adequate Supply," The Financial Times Survey of the Building Industry, 1958 (London), July 14, 1958, p. 20.

[57] D. G. Howard, "Problems in Building Modern Houses for Sale," also in The Financial Times....1958, p. 42. Life insurance companies increased their lending during this period, but not sufficiently to offset the general mortgage credit stringency.

> On the other hand, it must be pointed out that up to quite recently all houses built by public authorities have attracted a substantial state subsidy, which in every case is payable for 60 years, and this factor has tended to inflate the demand for this form of housing. Another factor which has tended to depress the demand for privately built housing has been the continued operation of the Rents Acts...."[58]

It can be argued that the combination of these factors resulted in an atrophy of the private housebuilding industry in England as it was known before World War II. Meanwhile, the activity in the public housing sector immediately after the war attracted many of the larger housebuilding firms to the production of publicly owned rental housing. This is reflected to some degree in the expansion of the firms with 500 or more employees from 1945 to 1953 shown in Table III-8. Since 1952 many of these firms have re-entered private housebuilding on a substantial scale. Personal observation by the author confirmed the view that post-World War II housing and economic policies discouraged the revival of the private housebuilding industry to its prewar status, while encouraging improved design and construction standards in publicly owned housing and diverting the efforts of the most progressive firms in the housebuilding industry to the production under competitive bidding of local authority rental housing.

During visits to private housing developments and to local authority housing developments in mid-1958 the author gained the impression that publicly owned and developed housing had superior

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[58] Ibid.

site planning and was on the whole better designed and constructed than typical private housing. The impact of competition from publicly subsidized housing coupled with the shortages of land and adequate financing for private housebuilding place a severe handicap upon the private housebuilder in the British market.[59] However, despite the increase in publicly owned housing the average Englishman still has a preference for living in his own house and recognizes that house-purchase is a sound investment, particularly in times of inflation.

The relatively small number of large construction firms which participate in the bulk of local authority housing construction appear to have operated profitably in this sector of the housing market. However, it is generally regarded as highly competitive and as one of the least profitable sections of a building firm's work. Nevertheless, public housing has been such an important segment in total postwar housing construction in England that it is looked to by many as a potentially stabilizing factor in housebuilding.

Review and Evaluation

Housing production in the United Kingdom, as shown in Table III-9, was maintained at high levels from 1953 on. Public construction dominated as a percentage of the total under the Labour Government, but its percentage importance declined from 89 percent in 1951 to 58 percent in 1957 and to 53 percent in 1958. Approximately 970,000 new dwellings were added to the

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[59] D. G. Howard, "Problems in Building Modern Houses for Sale," The Financial Times..., Monday, July 14, 1958, p. 42.

Table III-9

New Permanent Dwellings Completed in England, Wales, and Scotland, 1945 to 1959

	Apr. - Dec. 1945	Jan. - Dec. 1946	1947	1948	1949	1950	1951	1952	1953
Public Authorities									
Local Authorities.....	1,794	22,266	94,166	188,244	165,175	163,450	162,551	193,260	238,883
Housing Associations....	-	96*	880	1,831	1,408	1,651	1,797	2,153	7,[illegible]
Government Departments..	-	72*	490	2,666	4,483	5,512	7,899	10,189	9,[illegible]
Total Public	1,794	22,434	95,536	192,741	171,066	170,593	172,247	205,602	255,[illegible]
Private Builders.....	1,059	27,277	31,511	20,382	20,313	24,850	21,201	34,320	62,[illegible]
Grand Total	2,853	49,711	127,047	213,123	191,379	195,443	193,448	239,922	318,[illegible]
Percent - Public	63.3	44.7	74.3	90.4	89.4	87.3	89.0	85.7	80.[illegible]
Rebuilding, Conversions and Improvements:									
1. England and Wales....	No figures available						3,178		
2. Scotland.....			6,136					507	451

	1954	1955	1956	1957	1958	1959	1945-51 Total	1945-51 %	1952-59 Total	1952-59 %
Public Authorities										
Local Authorities.....	234,973	191,803	166,267	165,910	135,768	122,165	797,646	82.0	1,449,028	61.0
Housing Associations....	14,876	4,575	2,666	2,018	5,977	1,465	7,643	.8	41,654	1.7
Government Departments..	7,320	7,560	7,531	6,707	3,802	2,356	21,122	2.1	54,496	2.3
Total Public	257,169	203,938	176,464	174,635	145,547	125,986	826,411	84.9	1,545,179	65.0
Private Builders.....	90,636	113,457	124,161	126,455	128,148	150,708	146,573	15.1	830,806	35.0
Grand Total	347,805	317,395	300,625	301,090	273,695	276,674	972,984	100.0	2,375,985	100.0
Percent - Public	73.9	64.3	58.7	58.0	53.2	45.5				
Rebuilding, Conversions and Improvements.....	14,056	36,668	36,997	38,413	36,635	83,153			245,922**	

Sources: Ministry of Housing and Local Government, Housing Return for England and Wales, 31st Dec., 1960, Cmnd. 1271 (London: H.M.S.O., Dec. 1960); Department of Health for Scotland, Housing Return for Scotland, 31st Dec., 1960, Cmnd. 1269 (Edinburgh: H.M.S.O., Feb. 1961); Ministry of Housing and Local Government, Housing: the Next Step, Cmd. 8996 (London: H.M.S.O., November 1953); Secretary of State for Scotland, Housing Policy, Scotland, Cmd. 8997 (Edinburgh: H.M.S.O., November 1953).

* Scotland included with private builders.

**Total figure for period 1954-59.

housing supply during the six years from 1946 to 1951 when the Labour Government was in power. Housing production during the following seven-year period, 1952 to 1958, under the Conservative Government, totaled approximately 2,000,000 units, or double the former production figure.

It was pointed out earlier that shortages of labor and materials and difficulties in initiating large-scale public housing programs were important contributing factors to the failure of housing production to rise more rapidly under the Labour Government. Easing of materials and manpower shortages and the encouragement of privately owned housing under the Conservative Government resulted in a sustained rise in private housing production after 1951. Meanwhile, public housing construction continued and total housing production was maintained at relatively high levels even during the extreme credit stringency period from 1955 to 1957.

Although substantial additions were made to the housing stock during post-World War II years, the volume of production never exceeded the record levels of the prewar years. The review of developments following World War II revealed that the maintenance of rents below the level of current costs and the centralization of responsibility for initiating housing programs in the local authorities resulted in a substantial drag upon the revival of the private housebuilding industry.

The subsequent elimination of the general needs subsidy by the Conservative Government in 1956 found a wide gap between the

costs of unsubsidized housing and typical rents for comparable space in local authority housing, making it difficult for private enterprise to build rental housing. It was of further importance that the reduced level of operations in the private housebuilding industry from 1939 to 1956 resulted in substantial organizational and technical obsolescence in this segment of the industry.

The gradually widening gap between housing costs and rents is illustrated by a tabulation published in the Journal of the National Housing and Town Planning Council for May-June, 1956, shown below. This shows that the local authorities, following the elimination of the Exchequer subsidy after November 1956, found it necessary to make up, out of rates or from the rent pool, over one-half of the annual costs for new houses constructed. It will be observed that increased costs for building, maintenance, management, and repairs have not been allowed for in the estimates in Table III-10, so that the actual rent fund deficiency was probably greater than that shown.

These data permit some measurement of the extent of the housing subsidy required under typical rent and cost relationships from 1952 to 1956. Generally speaking the occupants of both publicly and privately owned housing must make up the rent fund deficiency of local authorities through local rates assessed against housing occupants. According to the estimates in Table III-10, the total amounts of housing subsidies and rate fund deficiencies on new dwellings to be made up in this way have approximately equaled or exceeded typical rents paid in recent years. Further,

Table III-10

Effect of Interest Rate and Subsidy Variations on the Rent Fund Deficiency of Local Authorities, 1952 to 1956

	1952	Prior to Nov. 1955	Prior to Nov. 1956	After Nov. 1956
Assumed Total Cost of House	£1,525	£1,525	£1,525	£1,525
Rate of Interest	4-1/2%	3-3/4%	5-1/2%	5-1/2%
Annual Loan Charges	£70 5s.	£64 1s.	£87 5s.	£87 5s.
Maintenance, Management and Repairs	£12	£12	£12	£12
Total	£82 5s.	£76 1s.	£99 5s.	£99 5s.
Notional Rent (18s. per week)	£46 13s.	£46 13s.	£46 13s.	£46 13s.
Exchequer Subsidy	£26 14s.	£22 1s.	£10	-
Rate Subsidy	£8 18s.	£7 7s.	£7 7s.	£7 7s.
Rent Fund Deficiency	-	-	£35 5s.	£45 5s.

Source: County Council of Middlesex, County Planning Department, Notes on the 1956 Housing Subsidies Act, Office Circular No. 13/56 (London: November 16, 1956), p. 3.

loan charges on local authority housing debt, which amounted to £141 million in 1956-57, accounted for approximately two-thirds of local government current housing expenditures. Local government loan charges exceeded rental income and government housing grants by approximately £20 million in 1956-57. This represented an annual cost of approximately £6 for approximately 3.5 million publicly owned houses. Central government contributions to local housing programs amounting to £56 million in 1956-57 represent an additional cost of £16 per annum per publicly owned house which must be paid for by taxes. In order to ascertain the total costs of the housing program, it would be necessary to add the administrative costs of the Ministry and other public agencies participating in government housing programs. It seems evident that the apparent low housing costs under British rent controls and subsidies have represented a mirage, which disappears with the arrival of next year's tax bill.

The data in Tables III-10 and 11 clearly portray the problems of the private housebuilding industry in the United Kingdom today. Lacking the Exchequer general needs subsidy or the local rate subsidy, the prospective private home owner must be prepared to pay over twice as much in housing costs including loan amortization as are paid by the typical renter in council housing even allowing for the income tax advantages of home ownership. (Loan amortization costs alone on a 20-year loan of £1,500 at 4½ percent interest equal approximately £115 per annum.) At the same time, the quality of much of the postwar

Table III-11

HOUSE BUILDING COSTS: ENGLAND AND WALES

Summary of information relating to traditional three-bedroom houses for which tenders or estimates were approved by the Ministry during 1951–57

Period	Average floor area per house (including out-buildings)	Average tender price	
		Per house	Per sq. ft.
	sq. ft.	£	s. d.
1951: First quarter	1,050	1,304	24 10
Second ,, ...	1,037	1,359	26 2½
Third ,, ...	1,031	1,403	27 2½
Fourth ,, ...	1,011	1,396	27 7½
1952: First quarter	984	1,380	28 0½
Second ,, ...	952	1,391	29 2½
Third ,, ...	932	1,391	29 10
Fourth ,, ...	921	1,380	29 11½
1953: First quarter	923	1,385	30 0
Second ,, ...	913	1,387	30 4½
Third ,, ...	914	1,382	30 3
Fourth ,, ...	917	1,383	30 2
1954: First quarter	909	1,378	30 4
Second ,, ...	911	1,382	30 4
Third ,, ...	919	1,381	30 1
Fourth ,, ...	916	1,390	30 4
1955: First quarter	912	1,402	30 9
Second ,, ...	916	1,396	30 6
Third ,, ...	914	1,432	31 4
Fourth ,, ...	909	1,442	31 8½
1956: First quarter	918	1,448	31 6½
Second ,, ...	909	1,464	32 2½
*Third ,, ...	910	1,487	32 8
Fourth ,, ...	909	1,488	32 9
1957: First quarter	915	1,494	32 8
Second ,, ...	916	1,482	32 4½
Third ,, ...	902	1,489	33 0

* The figures from the third quarter of 1956 onwards include new tradition houses, as the records do not now distinguish between traditional and new tradition houses.

Source: Report of the Ministry of Housing and Local Government, 1957, Cmnd. 419 (London: H.M.S.O., May 1958), Appendix I, Table H.

rented housing so as good as better than private housing available at the higher costs.

Large-scale public housing production in the United Kingdom during the postwar years resulted in a major shift in the characteristics of British housing and its tenure. It was estimated that approximately 11 million dwelling units remained in the United Kingdom as of the end of 1945. The total number of dwellings had increased to approximately 15 million by the middle of July 1957, as shown in Table III-12.[60]

The addition of approximately 2,300,000 publicly owned dwellings during the period from 1945 to 1959 and of only approximately 850,000 privately owned dwellings altered substantially the ownership of the housing stock in the United Kingdom. While housing was predominately privately owned before World War II, almost one-quarter was publicly owned by 1959. Further, the emphasis upon production of rental housing in the postwar period increased the importance of tenant-occupied dwellings as a percentage of the total housing supply.

Since census data are not available, it is more difficult to appraise the effects of England's postwar housing program upon the quality of housing. It was noted above that the average size of local authority houses was reduced by approximately 10 percent during the period from 1950 to 1956. The space standards effective during most of the postwar period varied between 700 and 900

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[60] Steel, op. cit., p. 12.

Table III-12

Estimated Number of Dwellings in the United Kingdom, 1957

		Millions of Dwellings
Publicly Owned.		3.5
Privately Owned:		
Owner-Occupied.	4.65	
Rented--not subject to control by Rent Act of 1957.	.82	
Rented--subject to control	4.89	
	10.4*	10.4*
Other rented houses not controlled		1.1*
Total estimated dwellings, July 1957		15.0

Source: Robert Steel, The Rent Act, 1957 (London: The Royal Institution of Chartered Surveyors, July 1957), p. 12.

* Approximate--rounded to the nearest tenth.

square feet for houses designed for four and five persons.[61] Privately owned houses constructed after 1954 were generally somewhat larger. It is more difficult to assess the influence of rent controls upon the condition of older housing in the United Kingdom since World War II. It is generally considered that the quality of rental housing has deteriorated during this period.

Increasing proportions of dwellings constructed by local authorities in recent years were in flats, as shown by Table III-13. Table III-13 also shows the increasing trend toward production of smaller dwellings. The proportion of multistoried flats (more than 4 stories) increased to 11 percent of all local authority dwelling construction and to 26 percent of the total number of flats by 1958. As noted earlier, these trends resulted in part from the types of subsidies granted. It can be noted from Table III-4 that subsidies were higher for flats than for ordinary houses and that special subsidies were granted to facilitate construction of multistory flats on more expensive sites.

The data in Tables III-13 and III-11 suggest that the size of British housing units has declined during the postwar period. An increasing demand in the United Kingdom in recent years for one- and two-bedroom houses from the large numbers of childless and aged couples seeking a local authority house and the need to reduce costs were factors accounting for the government's encouragement of small dwelling construction. It is undoubtedly true, however, that postwar houses have had higher standards of convenience offsetting the trend toward smaller size.

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[61] Ministry of Housing and Local Government, Houses 1952, Second Supplement to the Housing Manual 1949 (London: H.M.S.O., 1952).

Table III-13

Analysis of Dwellings Built by Local Authorities
England and Wales

Dwellings with the Following Number of Bedrooms	Percentage of All Dwellings Completed			
	April 1945 to Dec. 1955	1956	1957	1958
One	7.0	10.6	13.3	17.8
Two	27.3	34.7	35.9	36.1
Three	63.1	52.8	48.7	43.9
Four or More	2.6	1.9	2.1	2.2
Flats (Incl. Above)	17.7	26.7	30.8	35.5

Source: Report of the Ministry of Housing and Local Government, 1958, Cmnd. 737 (London: H.M.S.O., May 1959), Appendix X, Table B.

houses were demolished or closed in England and Wales during that period. As indicated in Table III-14, a total of 40,552 houses were demolished or closed during the succeeding three years.

The Housing Act, 1949, provided for Exchequer assistance for owners prepared to improve or convert their property. Grants were made up to half the cost involved per dwelling, provided that the cost of the work exceeded £100 but not £600. (These limits were increased to £150 and £800 by amendment to regulations in 1952.) To be eligible, improvement plans must have the approval of the local authority and of the Minister, the houses must have an expected life of 50 years and must reach minimum standards established by the Minister. Exchequer contributions under this program, which were contributed mainly to private owners, rose to £215,000 in 1955-56 and to £546,000 in 1956-57. The number of conversions and improvements to dwellings in England and Wales under this program exceeded 100,000 during the three-year period from 1955 to 1957.[65] In combination with action on slum clearance and on elimination of unfit houses, this program made a notable contribution to the improvement in housing standards. New provisions in the 1959 Housing Act provide for government grants for the financing of basic necessities such as bath and water closet.

The Housing Repairs and Rents Act, 1954, required that local authorities submit to the Ministry proposals for dealing

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[65] Report of the Ministry of Housing and Local Government, 1957, [redacted] pp. 138-39.

Table III-14

Action Taken on Unfit Houses: England, Wales, and Scotland, 1945 to 1958

	Apr.1945 to March 1951	Apr.1951 to March 1952	Apr. to Dec.1952 (9 Mos.)	1953	1954	1955	1956	1957	1958
England and Wales:									
1. Houses in Clearance Areas (Housing Act, 1957):									
Unfit houses demolished.....	34,450	10,522	6,823	4,063	5,424	8,066	13,777	21,099	28,376
Other houses demolished.....				156	461	495	593	933	1,521
2. Unfit houses elsewhere:									
Houses demolished.....				7,590	8,395	9,587	11,136	13,012	16,302
Houses closed.....	10,271	2,934	3,104	3,868	5,685	7,081	9,346	9,430	9,074
Total houses demolished or closed...				15,677	19,965	25,229	34,852	44,474	55,273
Persons moved as result of:									
Demolitions.....	101,157	34,629	21,898	36,904	44,166	58,260	88,195	125,573	138,836
Closures.....	25,718	6,962	7,473	12,453	17,377	17,658	20,189	22,682	21,087
3. Unfit houses retained at end of year for temporary occupation under Housing Act, 1957:									
Sections 17 (2), 46, and 48.....							23,328	26,037	28,108
Sections 34 and 53.....						770	804	1,322	1,112
4. Houses which were made fit or in which defects were remedied as result of:									
Formal procedure under Public Health or Housing Acts:									
By owners.....	84,799*	12,167*	106,734	125,341	118,974	125,829	122,555	95,647	96,644
By local authorities (in default of owners)...			5,880	9,748	6,663	8,994	10,516	8,737	8,125
Informal action by local authorities..	425,502*	68,591*	219,253	268,697	255,882	230,809	215,500	178,713	176,447
Total.....	510,301*	80,758*	331,867	403,786	381,519	365,632	348,571	283,097	281,216
5. Houses reconstructed, enlarged or improved (Section 24 of Housing Act, 1957).....						2,102	390	330	251
Scotland:									
1. Unfit houses closed under Housing Acts..						4,295	5,811	6,186	6,389
Not yet demolished at end of Period[1]...						4,295	9,189	12,851	15,739
Unfit houses demolished in Clearance Area.						479	147	429	429
Unfit houses demolished not in Clearance Area.....						2,495	3,105	4,366	5,058
2. Unfit houses demolished under Town and Country Planning Acts:									
In Comprehensive Development Area.....						507	569	309	670
Not in Comprehensive Development Area.						52	44	125	326

Sources: Report of the Ministry of Housing and Local Government for the Period 1950/51 to 1954, Cmd. 9559 (London: H.M.S.O., August 1955); Ibid., for the Year 1955, Cmd. 9876 (October 1956); Ibid., 1956, Cmnd. 193 (June 1957); Ibid., 1957, Cmnd. 419 (May 1958); Ibid., 1958, Cmnd. 737 (May 1959). (All figures obtained from Appendices I of the foregoing Reports.)
Department of Health for Scotland, Housing Return for Scotland, 30th June 1958, Cmnd. 490 (Edinburgh: H.M.S.O., July 1958), Table 13, p. 8; Ibid., March 31, 1959, Cmnd. 728 (April 1959), Table 13, p. 18.

* These figures relate to houses made fit as a result of formal procedure (or informal action prior to formal procedure) under the Housing Act, 1936 only. Corresponding figures for the Public Health Acts are not available prior to April 1952.

1/ Excludes houses closed or since demolished, and houses closed and reopened.

[illegible] to start work. The following additional factors aided the rapid increase in the number of houses demolished in England and Wales from 1954 to 1957. (1) Continuation of housing subsidies for purposes of slum clearance in the Housing Act of 1956, (2) the strengthening of demolition and closing powers by the Housing Act of 1957, and (3) the encouragement by the Conservative Government of slum clearance despite the abandonment of the general needs subsidy and restrictions upon capital investment in 1956 and 1957. Table III-14 shows that substantially fewer houses were closed or demolished in Scotland during the postwar years.

Viewing the record, it can be observed that positive and effective steps were taken to improve the quality of the housing inventory in the United Kingdom, particularly in the years since 1954. Offsetting this, however, it must be recognised that the long-term debilitating effects of rent controls magnified the problem of slum housing and render its solution more difficult. Based on the author's personal observation, the standards of maintenance in the private housing sector in the United Kingdom are low compared with Germany, Sweden, or the United States, and this is due in great measure to rent controls. It is reported, however, that a considerable improvement in maintenance standards resulted from the recent decontrol of substantial numbers of rental dwellings.

The apparent success of programs of slum clearance in the United Kingdom can be attributed to the broad powers of clearance

and redevelopment granted to the local authorities. The Housing and Repairs Act, 1954, and the Housing Act, 1957, provide that local authorities:[66]

1. May pass a resolution declaring any area to be a clearance area.
2. Shall then proceed to clear the area either by order for demolition or by purchasing the land in the area for demolition by the local authority.
3. May also purchase any other surrounding or adjoining land which is reasonably necessary for the satisfactory development or use of the cleared area.
4. Shall pay compensation for land in any clearance area, including any buildings thereon, based upon the valuation of the land as a site cleared of buildings.
5. May, after 14 days notice, take possession of any land to be appropriated without previous consent, subject to payment of compensation for the land taken and proceed with the clearance.

These legislative sanctions were a potent force making it possible for local authorities to move aggressively in slum clearance. The major contributing factor which accounted for the notable progress in slum clearance, however, was the presence of competent staffs in active local authority housing programs. The organization, experience and know-how developed in public

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[66] Housing Act, 1957, 5 & 6 Eliz. 2, Ch. 56 (London: H.M.S.O., July 31, 1957), Part III.

[illegible] a springboard for slum clearance programming.

Postwar housing programs in the United Kingdom illustrate the implications of housing as a political problem and the difficulties of altering the basic tenets of government housing policy in the short run. The decision by the Labour Party at the conclusion of World War II to place primary reliance upon publicly initiated, subsidized, and owned housing, to maintain control over rents and nationalize the development value of land, relegated the private investor, housebuilder, and private house financing institutions to relatively unimportant positions in the housebuilding economy. Under this system the provision of housing at prewar levels of costs became a public obligation. The Conservative Government has made some progress in shifting this responsibility back to the individual and to the private housebuilding industry, but the tradition of public intervention in housing [redacted] dies very slowly. The measure of success achieved in the over-all provision of housing during the entire period can be attributed to the relatively high standards of public administration in the housing program. The competence of national and local public officials and the flexibility with which basic adjustments in housing policy and program were effected, testifies to the basic strength of the civil service in the United Kingdom. The legacy of rent controls, public responsibility and domination of housebuilding promises to haunt the political arena for many years and will deter the early revival of a

CHAPTER IV

SWEDEN

Background of National Housing Policy in Sweden

During the nineteenth century the only housing measures enacted in Sweden were concerned with safety and health regulations in an economy dominated by laissez-faire political and social philosophy. Rapid population growth and urbanization contributed to the critical housing shortage prior to World War I. It was estimated that over three-fourths of the Swedish people were living in dwellings smaller in size than two rooms and a kitchen in the Census of 1912-14.[1] The predominant type of dwelling in Sweden at that time consisted of one room and kitchen. Extensive overcrowding, dilapidation, and the lack of modern conveniences added to the severity of the housing situation.

During and immediately following World War I, with the emergence of the Social Democrat Party as a force, the Swedish Government assumed a major role in housing. The entrance of the government into the housing field has been attributed to the stagnation of speculative residential construction during the years of World War I and the subsequent inflation when the population of Swedish cities was increasing rapidly.[2]

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[1] Leonard Silk, Sweden Plans for Better Housing (Durham, North Carolina: Duke University Press, 1948), p. 20. The author has drawn extensively from this work in the review of Swedish housing policy prior to World War II.

[2] Ibid., p. 31.

As a result of the acute wartime housing shortage in Sweden, the government acted to control rents in May 1917 and to increase the supply of housing through a subsidy program. The subsidies were primarily for the construction of apartment houses and usually amounted to about one-third of the building costs. The National Government provided two-thirds of the subsidy and the local community one-third. The granting of these subsidies was conditional upon the acceptance by the building society of state and local building controls, rent controls, and limitations on profits.[3] Although national production figures are not available prior to 1938, it can be seen by Table IV-1 that this program was relatively ineffective in increasing the volume of residential building in urban areas prior to 1920, primarily because of the continued rise in building costs. Following the deflation of 1921, when conditions again became favorable for speculative building, the government subsidy program was dropped, and rent controls were repealed in 1923.

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[3] *Ibid.*, p. 33.

Table IV-1

Swedish Housing Production, Building Costs, Vacancies, and Rents – Selected Years, 1915 to 1950

Year	Total Production of Dwelling Units: Entire County	Total Production of Dwelling Units: Urban Areas	Urban Housing Production by Size of Dwelling: Single Room %	One Room and Kitchen %	Two Rooms and Kitchen %	Three Rooms and Kitchen %	Four or More Rooms and Kitchen %	Percent of Dwellings Vacant	Rent Index (1914=100)	Index of Building Costs (1914=100)
1915	n.a.	5,132	14.6	28.6	25.8	10.7	20.3	3.91	100	120
1920	n.a.	4,524	13.5	26.2	33.1	12.1	15.1	.09	155	325
1925	n.a.	13,042	12.8	24.0	32.1	15.2	15.9		186	239
1930	n.a.	21,765	20.9	33.4	25.0	10.6	10.3		204	208
1935	n.a.	27,303	15.2	31.0	29.8	14.3	9.8		199	153
1940	26,000	18,667	16.7	26.7	30.1	16.8	9.8		198	272
1941	17,000	11,943	19.7	27.3	27.5	16.5	9.0		202	281
1942	29,500	20,552	16.0	21.1	38.5	17.3	7.2		201	295
1943	39,500	29,050	13.3	20.0	39.1	20.8	6.8		202	324
1944	45,000	35,648	9.6	17.9	41.3	23.0	8.2		202	323
1945	49,500	36,931	10.7	12.2	37.4	28.3	11.4		202	323
1946	58,000	42,344	11.2	11.9	36.8	28.1	12.1			
1947	58,000	37,507	12.4	10.0	35.3	29.2	13.2			
1948	48,000	37,063	13.2	10.2	36.9	26.9	12.9			
1949	41,551	32,885 a/	11.8	7.8	39.3	28.7	12.5			
1950	43,935	35,133 a/	11.7	6.6	37.2	29.4	15.1			403 b/

Sources: 1915 to 1950--size of dwellings, rent and building cost indices, and vacancy percentages: Leonard Silk, Sweden Plans for Better Housing (Durham, North Carolina: Duke University Press, 1948), pp. 117-20.

1955 to 1950--size of dwellings: Bostadsbyggandet i Sverige 1956 (Stockholm: 1956), p. 35, Table R.

a/ Only additions because of new building included.

b/ Building costs for Stockholm only: Svenska Handelsbanken, Index (Stockholm: March 1957).

The housing shortage following World War I was intensified by a sharp increase in the number of new Swedish households and in consumer incomes. As a result of strong demand influences and a sharp fall in interest rates, coupled with free rental markets and high profit expectations, residential building experienced a relatively unbroken expansion in the period from 1920 to 1938. Lundberg has called attention to this unbroken expansion of housebuilding and to its relative stability, even during 1931 and 1932. He cites the data in Table IV-1a in support of his conclusion that housebuilding had a decisive influence upon the stability of total investment in Sweden in the decades preceding World War II. The interest rate for mortgage loans declined from 5 to 5-1/2 percent in the 1920's to about three percent from 1933 to 1935. Lundberg attributes the decline in housebuilding in 1936 and 1937 to the sharp rise in building costs and to poorer prospects for employment and incomes, the latter reflected in some decline in rents.[3a]

Swedish residential building rose by approximately 50 percent from 1924 to 1931, and following a brief and relatively moderate decline from 1932 to 1934, rose to a record high of 59,000 dwelling units nationally in 1939. During this period rents and building costs were maintained at relatively stable levels. Government participation in the housing market was limited to the improvement of mortgage credit facilities and, following the depression, to the improvement of housing for low-income families.

[3a]Erik Lundberg, Business Cycles and Economic Policy, Translated by J. Potter (Cambridge: Harvard University Press, 1957), pp. 42-48.

Table IV-1a

Indicators of Economic Changes in Sweden,
1920 to 1938
Percentage Change

	1920-21	1925-29	1928-30	1929-32	1932-34	1936-37	1937-38
Investments							
Total value of gross investments	-40	+28	+14	-27	+28	+23	+11
Machinery (production + imports - exports)	-43	+46	+27	-40	+47	+26	+11
House building (number of rooms)	+38	+ 9	+28	+28	+ 7	+ 1	+13
Consumption							
Value of total consumption	-29	+11	+ 4	- 8	+ 5	+ 7	+ 6
Consumption of durable consumer goods	-39	+22	+ 5	-21	+22	+19	+15
Incomes							
National income (gross)	-27	+16	+ 6	-13	+10	+11	+ 6
Agricultural income (total sales of produce)	-43	- 7	-16	-20	+18	+11	+ 4
Total industrial wages	-30	+27	+13	-19	+15	+13	+ 6
Average hourly earnings in industry	± 0	+ 7	+ 7	- 1	- 1	+ 4	+ 6

Source: Erik Lundberg, Business Cycles and Economic Policy, Translated by J. Potter (Cambridge: Harvard University Press, 1957), p. 43.

The State Housing Loan Bank was established as a semi-public institution in 1930 for the purpose of issuing second mortgage loans up to a total of 75 percent of value or first mortgage loans up to 60 percent of value for periods varying from 20 to 40 years. Interest charges were equal to the selling price of the bank's bonds, plus administration expenses and reserves. Individual cities were also authorized to make mortgage loans to stimulate ownership of small homes during this period.[4]

Housing co-operatives had a considerable share in urban residential building from 1924 to 1933 and accounted for approximately 10 percent of urban residential construction.

The Royal Commission on Housing and Redevelopment was appointed in 1933 and has since been a key factor in the formulation of Swedish housing policy. Acting upon the view that "Few works are more suited to counteract a depression than are building construction projects,"[5] the Social Democrat Government embarked upon a program of loans and grants for the construction and improvement of rural dwellings from 1934 to 1939. To aid urban housing, the government also provided credit at favorable terms for construction of dwellings by private builders.

Public concern over the declining birthrate focussed attention in the depression years upon the housing problems of

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[4] [redacted]. Silk, op. cit., pp. 37-38.

[5] Alf Johansson, "Social Housing Policy in Sweden," The Annuals of the American Academy of Political and Social Science, CXCVII (May 1938), 164-65.

low-income families. Loans were granted to local authorities and to co-operatives for the construction and conversion of dwellings for families with at least three children under 16 years of age. These government loans were amortized over a 30- or 40-year period at interest rates of 3.25 percent, the cost of borrowing to the state. Local authorities were required to contribute the costs of preparing sites and to provide the balance of loan capital above the state loan and to rent the apartments at rents based upon costs. The State Government at the same time initiated a program of family rental subsidies varying with the size and income of the family for those occupying these dwellings.

Housing Policy During World War II

Swedish Housing production began to fall off rapidly from the record level of 1939 with the outbreak of World War II. Shortages of materials, the rapid rise in building costs and interest rates, and the general uncertainty brought about by the occupation of Norway and Denmark all contributed to the sharp decline in residential building between 1939 and 1942. Meanwhile, the housing shortage became more severe, and the government took steps in 1942 to reduce mortgage interest rates on new construction and to control rents. In 1942 the Riksdag adopted a new subsidy program, based upon the granting of so-called "supplementary loans" which bore no interest or redemption charges for 10 years, after which, if the level of rents had not risen, they were to be written off. However, if after 10 years rents had

risen to a point where the owners of the property built with such loans were receiving "extra" profits, the government could require the payment of interest and amortization of the original loan.[6] In addition, the 1942 housing program provided for the granting of third-mortgage loans by the government at low interest rates to public, nonprofit, and private builders. Municipal and nonprofit builders could borrow up to 95 percent of the value of the property, while private builders were limited to 90 percent. Third-mortgage loans were also granted for owner-occupied, single-family dwellings, up to a maximum total loan of 85 percent of value. As a general rule, the local communities were expected to contribute 20 percent of the supplementary loan subsidy and, in addition, were responsible for any losses on loans to enterprises operating in their communities.

It can be seen from Table IV-1 that this program was effective in doubling dwelling unit construction in 1942 over the previous year and in stimulating a continued rise in residential construction during World War II. More than 80 percent of all dwelling units built from 1943 to 1945 received state aid in some form of loan or subsidy, and in 1945 more than 90 percent of all new residential construction received financial assistance from the government.[7]

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[6] Silk, op. cit., p. 55.

[7] Ibid., p. 57.

Swedish housing standards had improved substantially by the end of World War II relative to the situation in 1939 and during the depression years. Approximately 50 percent of Sweden's urban dwelling units had two rooms and kitchen or were smaller in 1939, and densities of two persons per room or higher still prevailed in approximately 50 percent of urban dwellings. It was estimated that only about 30 percent of Sweden's urban population lived in crowded homes with two or more persons per room by the end of World War II. Approximately 40 percent of new urban dwellings constructed during World War II was in units of three or more rooms and kitchen and over three-quarters in units of two rooms and kitchen or larger. While only 28 percent of the apartment units in Sweden had a private bath in 1939, practically all of the new urban dwellings added during the period from 1939 to 1945 were equipped with modern conveneinces.[8]

Table IV-2 shows the gradual change in the characteristics of the Swedish housing stock from 1915 to 1948.

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[8] Harald Dickson and Paul F. Wendt, "Housing Characteristics of the United States and Sweden: 1930-1946," Supplement to Land Economics, Monograph Series 1 (May 1950), p. 1.

Table IV-2

Characteristics of Swedish Dwellings

Size of Dwellings and Percentages (49 Urban Districts, 1912-1945)[a]

Year	One Room and Kitchen or Less		Two Rooms and Kitchen		Three Rooms and Kitchen		Four or More Rooms and Kitchen	
	Number of Dwellings	Percent	Number of Dwellings	Percent	Number of Dwellings	Percent	Number of Dwellings	Percent
1912-1915	114,754	56.3	46,345	22.7	19,338	9.5	23,482	11.5
1920	132,524	55.6	56,776	23.8	22,907	9.6	26,300	11.0
1924	136,796	53.7	62,407	24.5	25,816	10.1	29,978	11.7
1935	175,338	53.2	85,236	25.9	33,884	10.3	35,298	10.6
1939	218,110	52.4	115,370	27.7	44,364	10.7	38,248	9.2
1945	246,371	49.0	149,342	29.7	59,900	11.9	47,212	9.4

Swedish Housing Stock by Age (1945 and 1955)[b]

	Undetermined		Before 1881		1881-1900		1901-1920		1921-1935		1936-1940		1941-1945	
	Number of Dwellings	%	Number of Dwellings	%	Number of Dwellings	%	Number of Dwellings	%	Number of Dwellings	%	Number of Dwellings	%	Number of Dwellings	%
1945	262,209	12.5	376,492	17.9	246,184	11.7	392,957	18.7	419,162	19.9	231,191	11.0	174,224	8.3

	Prior to 1903	1903-1921	1921-1935	1935-1947	1947-1955
1955	20%	20%	20%	20%	20%

Percentage of Dwellings with Selected Conveniences[c]

	Central Heat				Bath or Shower				Inside Toilet				Total Number of Dwelling Units in Sweden
	Stockholm	Malmö	Göteborg	Entire Country	Stockholm	Malmö	Göteborg	Entire Country	Stockholm	Malmö	Göteborg	Entire Country	
1920	12.7	7.7	8.5		10.4	7.4	9.2						
1933	61.2	35.2	35.5		47.4	24.7	21.5						
1939	75.7	59.8	61.7		57.9*	31.4*	34.4*						
1945	79.1	66.5	66.9	45.5	55.2*	38.0*	37.0*	21.3*	90.0	64.4	66.4	35.6	2,101,790
1955	82.5	66.3	71.6		59.2	44.8	42.7		96.5	64.4	62.2		

Sources: a/ Kungl. Socialstyrelsen, Bostäder och Hushåll (Stockholm: 1950), p. 68, Table 50.
b/ 1945: Statistiska Centralbyrån, Statistisk Årsbok för Sverige, 1957 (Stockholm: 1957), p. 211, Table 244.
1955: Per Holm, Swedish Housing (Stockholm: The Swedish Institute, 1957), p. 55.
c/ 1920-1945: Kungl. Socialstyrelsen, Bostäder och Hushåll (Stockholm: 1950), p. 88, Table 59 & p. 82, Table 58.
1955: Alvar Westman, "Dwelling Standard in Western Europe," Building-Forum (Göteborg: February 1957), p. 6, Table 3.

* Category definition changed to Private Bath.

Post-World War II Housing Policies

Sweden's post-World War II housing policy was essentially an extension of the measures which had been employed in World Wars I and II, combined with a major expansion of the social welfare housing measures which had been inaugurated on a limited scale during the depression years. As the policies of the Social Democratic Party evolved over the postwar period, the housing subsidies which were originally developed for low-income and special occupational and social groups were extended to encompass virtually the entire housing market, and the government gradually assumed control over the planning, financing, and construction of Swedish housing. In order to provide for the co-ordination of the efforts of the national and local authorities in the housing field, a central Housing Board (Bostadsstyrelsen) was created in 1948 by the reorganization of the State Building Loan Office, which had been established in 1933. The Royal Housing Board co-ordinates housing activities through a system of provincial housing boards.[9] The organization of The Royal Housing Board is set forth in Chart IV-1. It can be seen that the provincial housing boards operate through the local councils as intermediaries in receiving application for government aid.

The Royal Commission on Housing and Redevelopment, in a report which was adopted by the government as the basis for

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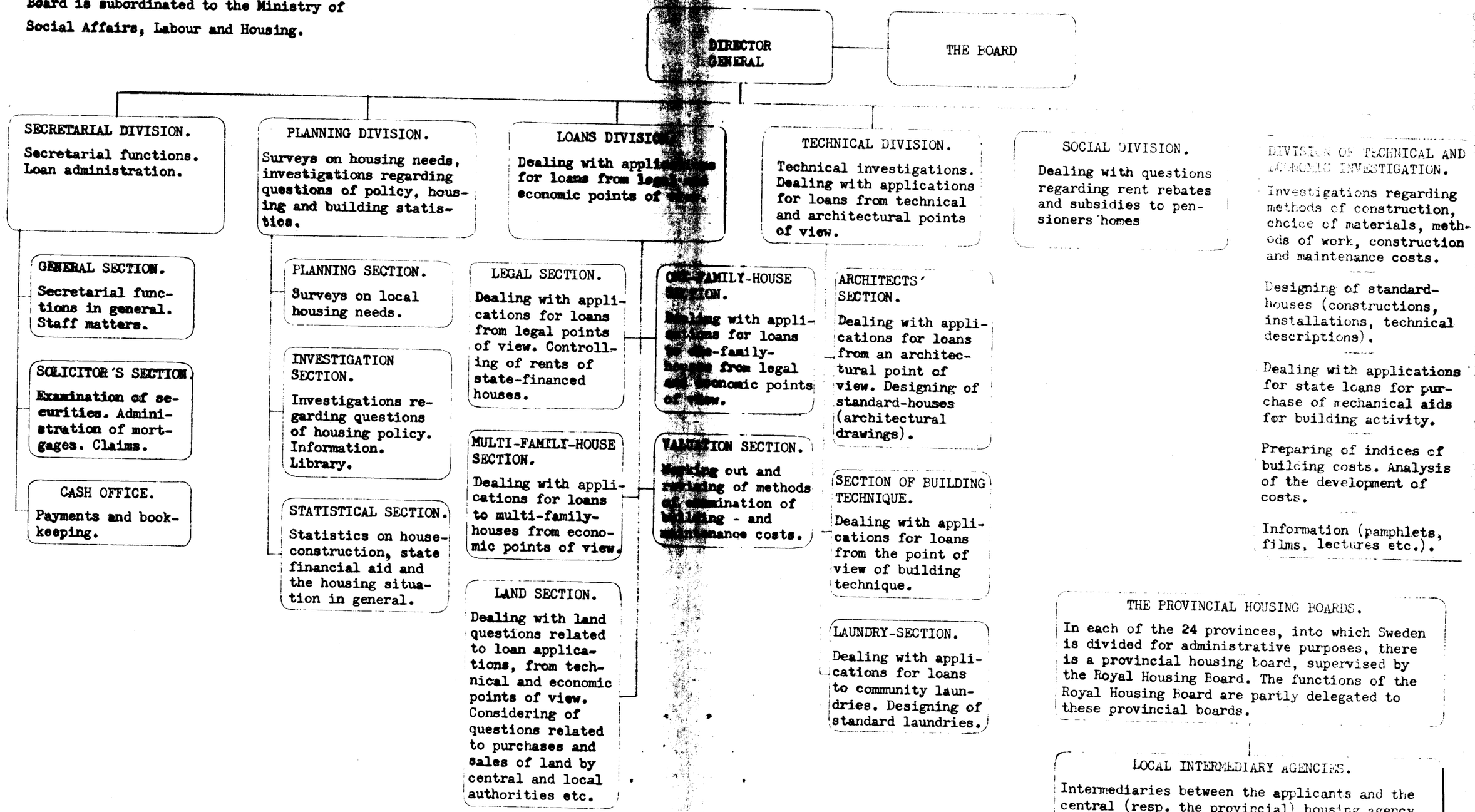
[9]Social Welfare Board, Social Sweden (Stockholm: 1952), Chapter XI. See also, Silk, op. cit.

[illegible] of the Royal Housing Board is to promote good housing by granting state loans, subsidies and rent rebates. The Board is subordinated to the Ministry of Social Affairs, Labour and Housing.

CHART IV-1

THE ORGANIZATION OF THE ROYAL HOUSING BOARD.



THE PROVINCIAL HOUSING BOARDS.

In each of the 24 provinces, into which Sweden is divided for administrative purposes, there is a provincial housing board, supervised by the Royal Housing Board. The functions of the Royal Housing Board are partly delegated to these provincial boards.

LOCAL INTERMEDIARY AGENCIES.

Intermediaries between the applicants and the central (resp. the provincial) housing agency are usually the finance committees of the local councils. The functions of the intermediary agencies are: Advising of applicants. Receiving and recommending applications. Granting of rent rebates (in urban districts). Controlling of state-financed houses during period of construction and afterwards. Assisting at the control of rents of state-financed houses.

post-World War II housing policy in 1946, defined the aims of Sweden's postwar housing policy as follows:

1. To overcome the housing shortage and stabilize new production at a level that, with due regard for the steady growth in number of households, will also meet the need for improved dwelling standards and redevelopment of urban areas.
2. To raise the space standard by increasing the production of units consisting of at least two or three rooms and kitchen. The one-room flat is condemned as a family dwelling.
3. To raise the equipment standard through new production and improvement of old units. The standard of rural dwellings is to be brought up to the level of urban dwellings.
4. To keep down the rent level, partly through public measures, so that modern, spacious family dwellings are also within easy reach of average wage-earners. An industrial worker should pay no more than 20 percent of his wages for a fully modern flat of two rooms and kitchen.
5. To encourage public financing of residential construction.
6. To activate the role of local authorities in housing.
7. To encourage non-speculative building by offering favorable loan terms.[10]

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[10] Owe Lundevall, Swedish Housing Market (Stockholm: Hyresgästernas Förlags AB, 1957), pp. 7-8. Original wording of Point 7 cited by Lundevall was, "To discourage speculative building by offering favourable loan terms," but Swedish reviewers have suggested the change as shown above.

To achieve the above objectives, the Swedish national and local governments developed an elaborate system of income, mortgage financing, and building subsidies, combined with governmental controls over rents, interest rates, and building activity. The continued development of co-operative and other nonprofit institutions in the residential investment and construction field has also been fostered. Since World War II, Swedish housing policy has assumed that the local governments have the primary responsibility for initiating the planning and construction of housing, aided by over-all planning, co-ordination, and financial assistance from the national government. As in England, local governments have been granted increased powers to carry on these expanded functions.

Rent Control

It may be said that rent control was of key importance in Sweden's post-World War II housing policies. This is true in spite of the fact that the Swedish Rent Control Act of 1942 was intended as an emergency measure to remain in force for only one year, for it has since been extended from year to year and is still substantially in effect. At the time of its enactment it was generally assumed that the wartime inflation in prices and building costs would be followed by a postwar recession and that the control of rents would assure that wartime inflationary costs would not be "built in" to the housing market. The major objective of rent control was to stabilize housing and building costs at the 1939 level. Added objectives, of course, were to control landlords' profiteering and reduce housing expenses for the working classes. Building subsidies were employed to encourage residential construction under conditions of rising costs. It was planned to use these subsidies in combination with rent controls to maintain

rents on newly constructed as well as older houses at the 1939 level. According to experts who were active in the development of housing policies, it was expected that the inflationary wartime conditions would be followed by a post-World War II deflation and that at that time rent controls and building subsidies could be eliminated.

Because of the omission of the housing census in 1955 and the manner in which rents are controlled, accurate current rental data are not available on a national basis for Sweden.[11] For purposes of rent controls, Swedish housing is divided into two classifications, houses built before January 1942, and those built subsequently. For dwellings in the first classification, rents in 1958 were fixed at 129 percent of the 1942 level within Stockholm and at approximately 139 percent of the 1942 level outside Stockholm.[12] A system of 565 rent courts and one upper court in Stockholm act upon special cases or appeals for rent increases for new equipment, alterations, etc. The combination of rent controls and high occupancy rates has greatly limited mobility in Sweden's housing inventory. Tenants cannot be removed unless the landlord secures another flat for the occupant at about the same price and location and appeals first to the rent court. Exchanges of living accommodations are frequent and often involve complex multiple moves. Not only do present tenants have occupancy rights, but their children have such rights in the event of

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[11]The contention by some liberals and conservatives that the Swedish rental policies had resulted in inequities prompted a request by a 1957 parliamentary committee for an investigation of rents in Sweden. This had not been initiated in June 1958.

[12]Statens Hyresråds, Cirkulär Nr 94 (Stockholm: 1957). The above increases include allowances of seven percent for additional heating costs.

parents' death, with the result that turnover of the housing inventory is very limited.

Rents were fixed on houses built after 1942 based on a formula of seven percent on the owner's equity investment, plus an allowance for heating costs. Annual questionnaires are filed by a sample of owners on operating costs as a basis for adjustments in allowances for these items. Rents for apartments built with the aid of government loans are fixed by the Housing Board, which grants the supplementary loans. The general standard of rents for houses started after January 1, 1958, is approximately a 4.6 percent return on the total approved loan value plus 6.85 percent on additional investment without government aid. Varying percentage increases in rents have been allowed for houses built from 1942 to 1953 to offset increasing operating costs. These increases vary from 15 percent plus increased heating allowances for houses built in 1952 and 1953 to 17 to 21 percent for houses built from 1942 to 1947.[13]

As a result of the recommendations of a parliamentary committee in 1957, rent controls after January 1, 1958, apply primarily to privately owned dwellings. Community-owned dwellings are exempted from all rent controls while co-operatives are exempt from government fixing of rents at time of construction, but not from general rent controls.

Since building costs have been rising steadily since 1942 and since the subsidies to builders have not kept pace with the

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[13] Ibid. It is reported in 1960 that rent controls are being abandoned in 1960 in many smaller towns and communities, where housing shortages have ceased to exist.

rise in costs, rents on houses built since 1942 have increased successively with each rise in costs. Although data are not available for the entire period, statistics developed for dwellings built with government financial assistance from 1954 to 1957 illustrate this trend. The 1957 data represent only a small percentage of the total dwellings built in that year with government aid. It can be seen from Table IV-3 that average approved rentals in privately owned housing per square meter of floor area increased from 30 Swedish kronor per year in 1954 to 34.37 in 1957, an increase of 14 percent for government assisted rental housing. Actual apartment rents increased more than this, since the average apartment unit increased in size from 56.5 square meters in 1954 to approximately 65 square meters in 1957. The new tenant in 1957, therefore, paid an average rental of 2,236 kronor per year, as compared with 1,695 kronor per year in 1954, an increase of approximately 32 percent. Of course, the 1957 new tenant received more for the higher rent.

The data for the nation as a whole obscure important regional differentials. Average rents for privately owned dwellings constructed in Stockholm rose from 32.85 kronor per square meter in 1954 to 35.71 in 1957, an increase of only six percent, while rentals in privately owned dwellings in the surrounding communes rose from an average of 34.42 kronor per square meter in 1954 to 41.06 in 1957, an increase of 20 percent. Average rents rose more in northern Sweden than in the south, due perhaps to differences in incomes and in building technology and to the shortages of labor in certain areas.

Table IV-3

Average New Swedish Apartment Rentals Finally Approved by the Royal Housing Board, 1954 and 1957, Excluding Heating

Area and Period	Number of Dwelling Units Approved	Average Dwelling Area Square Meters	Average Annual Rent Per Square Meter - kr.
Stockholm:			
1st half 1954	3,386	52.4	32.85
1st half 1957	300	60.8	35.71
Communes around Stockholm:			
1st half 1954	1,183	62.7	34.42
2nd half 1957	70	71.3	41.06
Göteborg:			
1st half 1954	987	56.8	34.95
1st half 1957	354	64.7	38.54
Skåne:			
1st half 1954	2,617	59.8	24.77
1st half 1957	295	61.7	29.62
Northland, Excluding Gävleborgs Province			
1st half 1954	1,327	56.4	34.69
2nd half 1957	38	67.7	42.46
All of Sweden:			
1st half 1954	19,813	56.5	30.08
2nd half 1957	581	64.9	34.37

Source: Mimeograph tabulation, dated May 16, 1958, prepared by the Royal Housing Board (Kungl. Bostadsstyrelsen).

As noted above, rents for new dwellings built with government aid are fixed by the government on the basis of a 4.6 percent net over-all return on the approved loan value. This return is usually calculated on a basis to provide a seven-percent return on the owner's equity. Since financing costs are higher for homes built without government loans, rents on these dwellings have been substantially higher than for similar dwellings built with government aid. According to government officials, rents on privately financed apartments built in Stockholm during the past few years have been as high as 55-60 kronor per square meter without heating costs.

In view of the above description of Sweden's rent controls, it can be seen that no single rent index can accurately portray the movements of rents in the post-World War II period. Although rent control authorities appear to have been successful in maintaining some degree of uniformity in rent levels for housing of similar amenities built with government assistance since World War II, wide disparities appear to exist between rent levels for the older dwellings in Sweden and for those more recently built and for dwellings built without government aid.[14] The most serious consequence of this is that the rent control legislation favors those who were occupants of rental housing in 1942 or who have been fortunate enough to secure accommodation

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[14] A sample study of rent levels in nine principal Swedish cities for a special parliamentary committee in 1951 by Mrs. Stina Thornell of Statens Nämnd för Byggnadsforskning showed that rent levels were only slightly lower for dwellings built from 1936 to 1940 than for those built from 1942 to 1947 or from 1948 to 1950, although relatively wide differentials were revealed in rents among the various cities studied. Unfortunately, older houses were not included in the sample.

in such houses. Newly married couples, unless they "inherit" the tenancy rights in an old apartment from their relatives, are forced to pay the higher rents in newly built apartments or houses. If they cannot wait for an apartment in a government financed project, they must pay still higher rentals in a privately financed unit. An added problem for those entering the housing market in recent years is that rents are lower in the center of Swedish cities and graduate to higher levels on the outskirts, since most of the older buildings constructed before 1942 are situated near the center. Those unfortunate enough to enter the housing market in the post-World War II years must therefore not only pay a higher rent, but must accept a location more distant from the city, which adds to travel costs.

An additional and expected result of the rent differentials which exist between older housing and that more recently constructed is that a portion of Sweden's housing inventory is not being used to its best advantage. Low rents in some of the larger and older units deter one- and two-person families from moving to smaller units, since the latter frequently command higher rentals and occupy poorer situations. As a result of the low level of controlled rents, some individuals maintain two apartments, even though waiting lists for low rent-controlled units are long. Government officials express the view that black-market operations in housing are not prevalent, although fairly extensive subletting of controlled rental units at rents above ceilings was observed by the author in some of the larger cities. The use of many legal and quasi-legal devices to evade rent controls makes it difficult to measure the actual extent of black-market operations.

A further result of Sweden's rent control policies has been to cause a decline in the attractiveness of real estate as an investment in Sweden. The Swedish landlord has virtually relinquished control of his property to his tenants and to the state. He has little incentive to improve his property, since Swedish rent courts are generally reluctant to grant increases in rents which more than barely cover increased operating costs. As a result, the landlord is often completely indifferent to the needs and desires of his tenants. Although quantitative data are not available, government officials and private investors acknowledge that a deterioration is taking place in the quality of the privately owned housing inventory in Sweden as a result of undermaintenance during rent controls. This is of further consequence when it is realized that much of this housing is situated in urban areas which are subject to deteriorating influences of other sorts resulting from the growing use of the automobile and resulting congestion. Experts in the field of housing management also point out that many municipalities and small co-operatives have fixed dwelling rents so low that adequate maintenance funds are not available.

Perhaps the most enduring effect of Swedish rent controls has been their effect upon consumer expenditure patterns. Increases in rents since 1939 of approximately 30 percent can be compared with increases of over 100 percent in the general cost of living and the building cost indexes, and with increases of over 400 percent in the average hourly wage for men. The result

has been that the ratio of rent for a newly built two-room flat to the average industrial wage in Sweden fell from 35 percent in 1939 successively to 25 percent in 1945, 21 percent in 1950, and to 17 percent by 1955.[15] Owing to the diversity in rent levels for housing of similar quality in Sweden, it is impossible, of course, to describe changes in rents generally with any degree of accuracy. This is one of the unhappy results of the abandonment of a free housing market under national controls.

The 1950 sample housing census for Stockholm showed that the combination of rent controls and rising consumer incomes resulted in a downward adjustment in over-all rent-income ratios in that city from 17 percent in 1945 to 13.1 percent in 1950. It can also be noted from Table IV-4 that rent-income ratios ranged between 12 and 15 percent for both large and small families. They were, of course, substantially higher in all cases for families with only one adult. Family income and housing subsidies, which had the effect of leveling incomes, were an important factor in accounting for the uniformity in rent-income ratios indicated in Table IV-4.

The rise of other consumption expenditures in the postwar years leads to the conclusion that one effect of rent controls was to finance the purchase of automobiles, television sets, foreign travel, and other types of consumer expenditures during the post-World War II years. Although the above trend appears to be consistent with one of the objectives of Swedish housing policy cited above, and may be considered in some degree to be

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[15] Per Holm, Swedish Housing (Stockholm: The Swedish Institute, 1957), pp. 66-67. See also, Ragnar Bentzel, "Consumption in Sweden 1931-1965," Skandinaviska Banken, XXXIX (Stockholm: January 1958), [redacted]10-20. The figures cited include heating costs which account for about 30 percent of total housing expenditures. Computations made from the Swedish national income statistics show the following rent-income ratios: 1938/39 - 12.2%; 1946 - 9.0%; 1950 - 8.8%; 1955 - 8.6%; and 1958 - 9.5%. See Meddelanden Fran Konjunkturinstitutet, Konjunkturlaget Hosten 1959, Serie A:32 (Stockholm: 1959), Tables S II:6 and S II-7.

Table IV-4

Percentage of Rent to Income in a Sample Census of Stockholm Housing by Number of Children and Adults, 1950

Number Children	Number Adults 1	2	3	4	5	Total 6
0	16.9	12.3	10.4	9.4	7.6	12.8
1	21.4	13.5	10.8	8.4	9.1	13.1
2	22.0	13.9	11.2	9.1	10.7	13.6
3	28.8	14.1	12.5	10.8	11.0	14.0
4	29.3	15.9	15.8	16.3	11.0	15.8
1950	17.3	13.1	10.7	9.2	8.3	13.1
1945	20.9	17.7	15.3	13.8	11.7	17.0

Source: Stockholm Office of Statistics, Housing Census of Stockholm, 1950 (Stockholm: 1956), p. 130, Table 100.

Note: It can be seen from the close similarity between columns 2 and 6 that families with two adults are most typical and that the rent-income ratios for families with 1, 3, 4, and 5 adults are relatively unimportant in their total influence.

a "normal" consequence of the increase in real incomes, it has undoubtedly altered the views of Swedish consumers as to the appropriate percentage of income to be paid for housing and may react unfavorably against the longer aims of Swedish housing policy, which seek to improve the quality, size, and amenities of dwellings.[16] These long-run unfavorable effects of rent controls and the inequities and maldistribution of the housing stock which have resulted have already prompted some initial steps by the government to relax rent controls, as pointed out above. A special parliamentary commission, with representatives of the various political parties, recommended in October 1956 that average rents for newly constructed multi-family dwellings should be increased by about 15 percent in 1957 and by another five percent in 1959. In order to compensate families with children for these rent increases, at least in part, the commission recommended increases in family housing allowances. These recommendations were not accepted by the Swedish Parliament, however, and rents were increased by only six percent in 1957. It appears to be largely a political question in Sweden of when, if, and how it will be feasible to restore a free rental market, as has been the case in France, England, and other countries which have experimented with rent controls over a long period of years.

Housing Finance

Mortgage and interest rate subsidies and capital grants were key elements of Sweden's postwar housing policy. The principal government housing subsidies employed in Sweden during the post-World War II years were the following:

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[16] United Nations Economic Commission for Europe, European Rent Policies, E/ECE/170 (Geneva: August 1953), p. 25.

1. Mortgage loan and interest rate subsidies to builders and municipalities.
2. Capital grants (supplementary loans) to builders and municipalities.
3. Homeownership loans and grants.
4. Annual family income subsidies.
5. Subsidies to municipalities and nonprofit builders to provide old-age homes.

Swedish housing is typically financed by a system of multiple mortgages held by a variety of government, semi-official, co-operative and private institutions. Among the most important semi-official lending institutions are the Urban Mortgage Bank of Sweden (Konungariket Sveriges stadshypotekskassa) which was founded in 1909 and restricts its financing to first mortgages, the Swedish Housing Loan Bank (Svenska bostadskreditkassan) which was established in 1929 to provide second-mortgage loans and first mortgages on one-family houses in urban areas, and the Swedish Mortgage Bank (Sveriges allmänna hypoteksbank) which serves rural areas. The government originally underwrote the initial capital of these institutions which are conducted as co-operatives under the management of elected representatives from among the owner-borrowers. Funds are raised by the sale of bonds which usually command favorable interest rates. The interest rate paid by the borrowers is equal to the net interest of the bonds plus a fee for administration.

The National Union of Tenants' Savings Bank and Building Associations, a co-operative organization originally founded in

1924 and known as the HSB, has assumed an increasingly important role in Swedish housing during the past decade. The national HSB organization is supported by loans and share purchases made by local HSB associations. Although the national HSB does not own houses, it has initiated construction of over 150,000 flats for local member associations and municipalities in its 30-year existence and has accounted for between 20 and 25 percent of apartment construction in Sweden in recent years. An important feature of local HSB association policies has been the "bostadsrätt" or freehold lease, which gives the apartment dweller in an HSB co-operative apartment complete security of tenure, and a right which he can sell or otherwise dispose of at will. This technique has undoubtedly been an important factor in encouraging co-operative apartment house construction in Sweden, since it gives the occupant of co-operative units security of tenure and a financial equity in the unit represented by the lower rental in comparison with units built at higher cost. Subject to certain restrictions which the co-operative may impose, he is free to dispose of this interest. This advantage has been particularly evident during the post-World War II years of rising building costs and would probably disappear during deflation.[17]

In addition to these institutions, insurance companies, savings banks, and others extend loans secured by first mortgages,

[17] "Thirty Years of Co-operative Housing," Att bo, English edition (Stockholm: HSB, 1955), pp. 32-48.

usually up to a maximum of 60 percent of the value of the property. A few private mortgage loan banks financed by bond issues grant first as well as second mortgage loans up to 70-75 percent of the value. Private mortgage loans are typically extended for terms of 10 or 15 years at a rate of interest determined by the lending institution, with the proviso that after the expiration of the period of the loan, it may be continued in effect but will bear the current open market rate of interest. Usually, the first mortgage loan is not amortized over its term.

The Royal Housing Board (Kungl. Bostadsstyrelsen) has been the key governmental organization in residential financing in the post-World War II years since it has granted so-called "tertiary" or third-mortgage loans, subject to first or second mortgage loans held by private lenders. By virtue of its control over such loans, it has been able to control dwelling characteristics and rents of units constructed with government financing aid as well as interest rates on private loans for such dwellings.

Up until 1957, government third-mortgage loans were granted for 40 years at a three-percent rate of interest. As a result of recommendations of a special parliamentary committee, the rate of interest on these loans was raised to four percent effective January 1, 1958, and the amortization period reduced to 30 years. The interest rates permitted on private first and second mortgages were also raised one-half of a percentage point to 3 1/2 and four percent, respectively, effective July 1, 1957.

The technique for fixing rates to be paid for private loans provides that the borrower pay the open market rate of interest to the private lenders and receive in turn an annual payment from the government representing the difference between the open market rate and 3 1/2 or four percent. The difference in rates represents a direct government subsidy to the owner or builder and to the lending institutions. In the case of rental units, the government subsidies are passed on to the tenant through controlled rents.

In the granting of so-called "tertiary" loans to builders of apartment houses, the government gives preference to municipalities and nonprofit builders, since such loans can be approved for amounts not covered by first and second mortgages up to 100 percent of approved value for municipalities, up to 95 percent for co-operatives, and up to only 85-90 percent for private builders. Government officials rationalize this policy by arguing that municipalities could issue their own obligations up to 100 percent of their credit needs and that it therefore makes little or no difference whether the national government advances 100 percent of the funds or the local government raises the funds through its own financing. Critics of the government's housing policies have maintained, however, that this discrimination against the private builder has reduced the role of private enterprise in Swedish housing.

The Swedish Government also granted "supplementary" loans for multi-family dwelling construction varying from 10 to 40

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[illegible]

[illegible]

kronor per square meter, in order to equalize the gap between the level of controlled rents and building costs. Since these loans run without interest or amortization, they really amount to a subsidy.[18] Beginning in 1957, these loans or capital grants were limited to specific localities and the government sought to discourage such loans, since the program had resulted in excessive demand for housing credit, rising interest rates, and government costs.

The government also grants homeownership loans on second mortgages to encourage owner-builders, which, added to the customary 50 percent first mortgage loans from private sources, cover up to 90 percent of the construction costs for homes of certain prescribed maximum sizes. A portion of the second mortgage loan by the government (4,000 kronor) is a subsidy like the "supplementary" loan discussed above for apartment construction, since it runs without interest or amortization. The interest rate on the balance of the loan from private sources is guaranteed by the government at 3.5 percent.

Table IV-5 illustrates typical financing plans for dwellings constructed during the post-World War II period.

Up to the year 1950, the Sveriges Riksbank continued to support quotations for government bonds to prevent yields from

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[18] According to an interview with Mr. Harry B. Bernhard, Vice President of the Royal Housing Board and Director of the Loan Division, about 30 percent of the supplementary loans granted during the 1940's has been written off while the balance of 70 percent has been converted to real loans. Increased rentals have been permitted in the apartment buildings where the supplementary loans have been converted to offset the landlords' increased financing costs. Supplementary loans for home owners have been written off.

Residential Financing in Sweden - Capital Cost
Estimates Applicable January 1, 1958

		Rate of Average
1. Public Agencies (Government does not fix rents)		
Primary loan (1st mortgage)	60% loan value @ 3.5%	= 2.10
Secondary loan (2nd mortgage)	10% loan value @ 4%	= 0.40
Tertiary loan (3rd mortgage)	30% loan value @ 4%	= 1.20
		3.70
Over-all percentage return on capital including amortization = 4.6% (raised from 3.85%)		
Return on equity = 6.85% (estimated)		
2. Co-operative Societies Financed by State Loans (Government does not fix rents)		
Primary loan (1st mortgage)	60% loan value @ 3.5%	= 2.10
Secondary loan (2nd mortgage)	10% loan value @ 4%	= 0.40
Tertiary loan (3rd mortgage)	25% loan value @ 4%	= 1.00
Own contribution	5% loan value @ x%	=
Over-all percentage return on capital including amortization = 4.6% (raised from 3.85%)		
Return on equity = 6.85% (estimated)		
3. Private Builders Financed by State Loans (Bostadsstyrelsen fixes rents)		
Primary loan (1st mortgage)	60% loan value @ 3.5%	= 2.10
Secondary loan (2nd mortgage)	10% loan value @ 4%	= 0.40
Tertiary loan (3rd mortgage)	15% loan value @ 4%	= 0.60
Own contribution	15% loan value @ x%	=
Over-all percentage return on capital including amortization = 4.6%		
Estimated return on equity = 6.85%		

Attention: The foregoing estimates under items 1-3 concern only that part of the costs which refer to dwellings. For land over-chase financed through state loans the corresponding over-all percentage return = 6.2%.

4. Private Builders Financed without State Loans

Primary loan (1st mtg.) 60% appraised value @ 5.35%(x) = 3.2[illegible]
Secondary loan (2nd mtg.) 15% appraised value @ 5.85%(x) = 0.8[illegible]
Own contribution, balance of total cost @ 7%(x)
Amortization is 0.75% of the building cost

(x) If the appraised value is estimated at 90% of total costs, the total financing is obtained by using the following formula:

Primary loan	55% of total cost @ 5.35%	= 2.9[illegible]
Secondary loan	15% of total cost @ 5.85%	= 0.8[illegible]
Own contribution	30% of total cost @ 7%	= [illegible]

Murg. Stina Thornell. Stockholm, May 30, 1958

rising above the fixed level of three percent and the yield on government loans was permitted to rise only gradually to 3.30 percent by 1953 year end. One of the main purposes of this policy was to make funds available at relatively low rates for the building industry, although the maintenance of full employment certainly played a part in the policy. The Swedish Debt Office issued a four-percent 16-year loan in October 1954, which represented the first major break in the low-interest rate policy and was taken as an indication that the low-rate policy of the Riksbank was having an inflationary effect.[19] In January 1955 investment duties were introduced--one for different types of capital expenditure by companies and one for purchase of motor cars. At the same time a more restrictive construction policy and a more austere fiscal policy were announced, representing a further departure from Sweden's post-World War II expansionist fiscal policies.[20]

The continued and rapid rise in building costs which had started with the Korean War was an important factor furthering moderately restrictive measures in the field of housing finance. Table IV-6 shows the percentage rise in an index of construction

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[19] Skandinaviska Banken, Quarterly Review, January 1955, p. 3. The official discount rate of the Riksbank was maintained at 2 1/2 percent from 1946 to 1950 and was raised in December 1950 to three percent. Following a drop to 2 3/4 percent in 1953, it was raised to 3 3/4 percent in April 1955, four percent in November 1956, and five percent in July 1957. In May 1958, it was reduced to 4 1/2 percent.

[20] Investment duties were abolished effective January 1, 1958. Skandinaviska Banken, Quarterly Review, April 1958, p. 60.

Table IV-6

Index Numbers of the Cost of Construction for a Multi-Family Apartment Building in Stockholm, 1950 to 1957
January 1, 1939 = 100

Cost Index as of January 7	Total Cost	Labor	Material
1950	159	131	183
1951	209	155	259
1952	220	174	262
1953	213	175	247
1954	210	175	243
1955	217	177	250
1956	225	184	260
1957	230	187	265

Source: Magnus Ellson, "Statliga lån och subventioner till bostadsbyggandet," Ekonomisk Revy, Häfte 5 (May 1956), pp. 233-42. Data were corrected and brought up to date by the Royal Housing Board, June 1958.

costs for a standard multi-family house in Stockholm, with January 1, 1939, costs as a base. It is, of course, an imperfect measure of the actual change in building costs, since changes have occurred in the type of structure and since no allowance is made for premium payments to labor and other extra costs incurred in actual building operations. The persistence of increasing costs in the face of government subsidies designed to maintain costs at the prewar level was the occasion for a reappraisal of certain features of Swedish housing finance policy, by the parliament.

The first major step was the imposition of loan ceilings effective January 1, 1956. Prior to this date, the government appraised properties for loan purposes by the replacement cost method, with an allowance of five percent profit plus an allowance for overhead depending on the size of the project. This method of fixing the value and the determination of rents on the basis of 4.6 percent of the appraised value, furnished an inducement to builders to increase the quality and size of dwellings and to add as many items as the public would accept into the construction. This naturally resulted in higher costs and valuations and higher government supplementary and "tertiary" loans. Since certain commercial facilities were permitted to be added to the housing facilities for government loans, the percentage of such facilities and their size and quality also increased. The inflationary effects of this system were apparent to most observers and government officials. The loan ceilings

apply in such a manner that the government limits the amount of its loans to a percentage of a maximum appraisal value. The builder may elect to build a higher cost dwelling, but he must finance any additional cost privately, and he is allowed a return of 6.85 percent on this additional portion of his investment in the fixing of rents. This is to compensate the builder for the higher financing costs on the additional costs. Although the new regulations appear to have had the desired effect in eliminating unnecessary or particularly high-cost items in new construction, some critics are fearful that the result will be that the squeeze between government loan ceilings and rising costs will force builders to construct mere "shells" without the amenities the public expects to have.

The second major change toward a more restrictive financing policy was the virtual elimination of the so-called supplementary loans or capital grants for multi-family construction, effective January 1957. Partly as a result of these grants the percentage of units built without state aid had declined from approximately 20 percent before the Korean War to less than five percent in 1957. (See Table IV-11.) It had become increasingly difficult for the Royal Housing Board to turn down projects, since practically all building was wholly dependent upon government financing aid. Although the elimination of this special subsidy necessitated a slightly higher level of rents for newly built apartments, the rise in consumer incomes had, in the judgment of the parliament, eliminated the need for it. Because of the

widening gap between the rates of interest on government housing loans and mortgage loans available in the open market, however, the reliance of the housebuilding industry upon the government has not decreased since the elimination of the supplementary loan.

The third major change in government financing policy was the increase in interest rates on government tertiary housing loans from three to four percent effective January 1, 1958, and the shortening of amortization periods from a maximum of 40 years to 30 years. Prior to this time, interest-rates had also been fixed at three percent on first mortgages and 3 1/2 percent on second mortgages, and these rates were also raised to 3 1/2 and four percent. As pointed out earlier, these rates also applied to the private loans on houses built with government aid, since the government paid a subsidy to the owner of the difference between the official government rates and the rates paid in the open market. Before the Korean War, open market rates were at the same level as the rates on government loans. However, open market rates for first mortgage loans up to 60 percent of value had risen to 3.6 percent by 1953 and to 5.75 percent in June 1958 after reaching a high of 6.25 percent in 1957.[21] Rates for second and third mortgage loans were substantially higher, of course. The combined effect of the

[21] "Interest on Housing Credits in Different Countries," Skandinaviska Banken, XXXIV (Stockholm: October 1953), 98. Current rates obtained by personal interview of the author with bank officials, June 1958.

increase in interest rates and shortening of maturities on government mortgage loans is not fully reflected in building statistics as yet, but it will undoubtedly add to the level of annual housing costs and rents and widen the difference in rentals between old and new housing. The wide gap which continues to exist between open market and government rates, however, indicates that the state will continue to be the major factor in mortgage credit through its interest subsidy policies.

The expansion of government lending for housing in Sweden has resulted in important structural changes in institutional participation in the Swedish mortgage loan market. Table IV-7 shows that state loan funds are gradually supplanting funds previously supplied by other financial institutions. The reasons for this are quite apparent, since the government has controlled interest rates in the mortgage loan market, while interest rates on industrial loans and bonds have risen substantially.[22] The loans for commercial banks in Table IV-7 are primarily for construction loan credit during the period of construction and prior to final approval by the Royal Housing Board. In addition to their direct loans, the commercial banks participate in housing finance indirectly through the purchase of the housing bonds issued by local communities and government mortgage banks and through their advances to the national government.

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[22] The average yield on industrial bonds rose from 2.92 percent in 1938 to 3.72 percent in 1953 and to 5.12 percent in 1957, while the yield on government bonds rose from 2.32 percent in 1938 to 3.30 percent in 1953 and to 4.41 percent in 1957. The rates of interest on mortgage loans with government aid were maintained at three and 3 1/2 percent until 1957 when the rates were raised to 3 1/2 and four percent. Interest rates on construction loans have risen from 3 1/2 percent in 1945 to 5 1/4 percent in 1955 and to 5 3/4 percent in 1958. An additional one percent service charge is also made for construction loan credit.

Table IV-7

Volume of Credit for Building Operations and the Financing of Housing in Sweden, 1944 and 1957 (direct loans)

Type of Institutions	1944 Million Kronor	1944 Percent	1957 Million Kronor	1957 Percent
Commercial Banks	1,661	20.7	731 3,919 a/	2.4 13.1
Savings Banks	2,501	31.2	8,420 b/	28.1
Post Office	92	1.1	2,083	6.9
Mortgage Banks	1,485	18.5	4,630	15.4
Mortgage Investment Companies	448	5.6	891 c/	3.0
Insurance Companies	1,437	17.9	3,157	10.5
State Loan Funds	400	5.0	6,184 d/	20.6
Total	8,024	100.0	30,015	100.0

Source: 1944: "The Economic Situation," Skandinaviska Banken, XXXIX (Stockholm: April 1958), 67.
1957: Estimates by Mr. Bengt Senneby, Manager's Assistant, Skandinaviska Banken, June 1958.

a/ All other obligations than government bonds. Primarily bonds of mortgage institutions.

b/ Estimated as same percentage as for the year 1956.

c/ 1956.

d/ Preliminary estimate.

Family Income and Other Subsidies

In addition to loan subsidies, family housing allowances were paid in 1956 to about 140,000 Swedish families with two or more children, having modest incomes and living in dwellings larger than fifty square meters and constructed since 1941. The families receiving these rent allowances in 1956, which amounted to 150 kronor per child annually plus 270 to 330 kronor per family, depending on locality of residence, constituted 30 percent of all Swedish families with two or more children.[23] These housing allowances are taken as a deduction from mortgage payments to the government by homeowners or in the form of reductions in rent and paid to the landlord for renters. These payments are in addition to general family allowances.

The Swedish government also grants subsidies to municipalities and to nonprofit builders to encourage the building of homes for the aged or to provide pensioner units in ordinary apartment houses. The rents for these units are often fully covered by national and municipal rent allowances supplemented by old-age pensions.

Post-World War II Housing Production

Sweden's housing subsidies, combined with record post-World War II prosperity, have resulted in consistently high levels of residential construction in Sweden since the war, as shown by Table IV-8. Although the number of dwellings constructed did

[23] Holm, op. cit., p. 73.

Table IV-8

Housing Construction in Sweden by Type of Unit and Ownership
1949 - 1958

	1949	1950	1951	1952	1953	1954	1955	1956	1957	1958
Total Number of Dwelling Units:	41,551	43,935	39,784	44,736	51,911	58,213	56,970	56,906	64,455	62,225
One-family houses	8,344	9,494	8,580	6,617	8,027	10,738	13,383	13,350	15,889 a/	15,984 a/
Two-family houses	2,586	2,630	2,222	1,734	1,507	1,762	2,131	1,665	1,231	1,040
Multi-family houses	30,364	31,494	28,637	36,062	42,003	45,348	41,051	41,436	47,012	44,306
Other	257	317	295	323	374	365	405	455	323	335
Dwellings Constructed By:										
State/County Council	375	572	551	487	513	456	435	545	403	505
Community/Utility Companies	13,329	14,340	13,545	17,237	19,554	18,299	17,019	16,714	18,985	18,396
Co-operatives	6,560	6,797	5,984	7,879	10,703	14,383	11,557	14,328	17,530	17,319
Employers	2,715	2,548	2,072	3,486	2,686	1,677	2,041	1,971	1,852	1,357
Owner-built	9,127	10,509	9,332	7,132	8,514	11,762	14,549	13,708	13,994	15,131
Other builders	9,445	9,169	8,300	8,515	9,939	11,636	11,369	9,640	11,691	9,517
Percentage of New Units With:										
Three or more rooms and kitchen	45.6	48.8	49.2	41.0	37.6	43.2	47.7	50.8	55.2	63.2
Central heating, private bath, and WC	84.2	87.8	89.1	84.1	84.1	91.0	92.6	94.5	94.6	95.8

Sources: Sociala Meddelanden 1957, Nr 8, Tables 4,7,8,10.
1958: Statistisk Centralbyrån, Statistisk Årsbok för Sverige, 1959 (Stockholm: 1959), Table 217.

a/ Including 3,219 in one-family houses in rows in 1957 and 4,390 in 1958.

not exceed the prewar peak of 59,000 units completed in 1939 until 1957, when 64,000 units were built, the dwellings constructed since the war have been somewhat larger in size and number of rooms and better equipped.

Table IV-8 shows that multi-family housing has continued to dominate Sweden's housing production during the post-World War II period, although a notable increase has occurred in the production of single-family homes since 1955.

Prior to World War II private enterprise completely overshadowed public, co-operative, and nonprofit building in Sweden. It has been estimated that 90 percent of Swedish housing was built under private auspices either for owner-occupier use or for lease on the open market prior to 1947.[24] As noted earlier, the 1942 housing program provided for more favorable loan terms for public and nonprofit builders than for private builders. The post-World War II statement of housing policy of the Social Democrat Government indicated clearly the objective of encouragement of public housing. The results of the policies put into effect were to reduce substantially the activities of private firms in the production of Swedish housing, and it was estimated that less than one-quarter of the number of dwelling units completed in 1955 were initiated by private firms.

The marked shift in the relative proportion of residential construction initiated by private owners and builders in Sweden

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[24] Lundevall, op. cit., p. 35.

[illegible]

[illegible] number of [illegible] kitchen equipped

Table 1[illegible] shows that multi-family housing has continued a downward tendency in being produced during the post-World War II period, although a notable increase has occurred in the production of single-family homes since 1958.

Prior to World War II private enterprise completely overshadowed public housing agencies, and rural-area building in Sweden. A survey published that 40 percent of Swedish housing was built without private subsidies either for construction or for loans on the open market prior to 1945.[24] As noted earlier, the high housing demand provided for more favorable loan terms for public and nonprofit builders than for private builders. The post-World War II abandonment of housing policy of the Social Democrats brought an increased stress on the objective of encouraging [illegible] public housing. The results of the policies put into effect were to increase substantially the activities of public [illegible]

[illegible] indicated that less than one-quarter of [illegible] number of dwelling units complete in 1951 were initiated by [illegible] firms.

The marked shift in the relative [illegible] of residential construction initiated by private or [illegible] builders in Sweden

[24] [illegible]

can be seen in Table IV-8. Only about 47 percent of the dwellings constructed from 1949 to 1956 were classified as built by owner-builders or "other" builders. (The latter classification includes some construction by nonprofit builders not otherwise classified.) The share of housing production accounted for by "company housing" declined from between five and eight percent of production in 1949 to about 3 1/2 percent in 1954-55. Municipalities, which accounted for approximately six percent of Swedish housing construction from 1935 to 1940, initiated 32.1 percent of the dwelling units constructed from 1949 to 1956. Similarly, co-operatives, which accounted for only about five percent of Swedish residential construction from 1935 to 1940, initiated about 20 percent of total dwelling units constructed from 1949 to 1956 and a higher percentage, 22.7 percent of construction, from 1953 to 1956. The activities of co-operatives, of which the Tenants' Savings and Building Society (HSB) and Svenska Riksbyggen are the largest, have been concentrated in the larger cities, principally Stockholm and Gothenburg.[25]

The emphasis in Sweden upon apartment house construction has tended to foster the development of large building enterprises. The national Tenants' Savings and Building Society functions as a general savings bank and as the central house-planning and financing office for all local HSB societies. The national HSB, which employs some 600 architects, engineers,

[25] Ibid., p. 36.

town planners, accountants, administrators, and financial experts, buys the sites, plans, finances, and builds houses. The finished projects are then taken over by a separate subsidiary co-operative society formed by the people who intend to live in the new houses. A management committee elected by the members is in charge of the general administration of the project.[26] Normally the prospective occupier of an apartment or a house has to buy shares of the co-operative society amounting to at least five percent of the total cost of the dwelling. The HSB has built 150,000 flats during the period from 1924 to 1959. The organization accounted for between five and 10 percent of urban building during the twenties, between 10 and 15 percent in the thirties, about 20 percent in the forties, and between 20 and 25 percent during the past decade.

The Swedish building workers' unions founded "Svenska Riksbyggen" (SR) during the 1940's in order to meet the threat of unemployment in the housebuilding industry. In contrast to HSB, which lets contracts to private building firms, Svenska Riksbyggen carries on actual construction of the large annual volume of housing it plans and finances through the "Trade Unions' Building Enterprise" (Fackföreningarnas Byggnadsproduktion) which serves as a general contractor. Other labor union groups in Sweden are active in the housing field and the Swedish Federation of Labor (Landsorganisation) has made substantial investments in the HSB society and in other co-operative housing enterprises.

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[26] Att bo (1955), [redacted] p. 34.

The organization of the private housebuilding industry in Sweden also reflects the encouragement of large-scale production of apartment buildings since World War II. Although detailed statistics are lacking, larger firms tend to dominate the housebuilding industry in Sweden. The major building material manufacturers take a leading part in the planning and financing of private housebuilding. In some cases these firms, such as the International Siporex Company, Ltd., develop building plans, estimate costs, finance land acquisition and construction, and furnish virtually all materials required for a housebuilding job. Some of the larger firms specializing in prefabricated individual houses for rural areas co-operate with employers in arranging for self-erected workers' houses. Building firms such as "Rikshus" acquire the land from the employer or local authorities, plan the buildings, secure financing, and ship the materials to the site ready for erection.

Concentration upon apartment building and the domination of public authorities, nonprofit societies, and material suppliers, has tended to retard the development of a vigorous and active private single-family housebuilding industry in Sweden. The implications of this will be explored further below when recent changes in housing demand are considered.

Postwar Changes in Property Ownership

The growing importance of public and nonprofit housing in Sweden has resulted in a major shift in the structure of property

ownership over the past decade. Table IV-9 shows the distribution of ownership of Sweden's housing stock in 1945 with estimates as of 1957 developed by the author from official building statistics. The data for the nation as a whole do not adequately reflect the marked variations in the patterns of ownership among individual cities and regions in Sweden. For example, 89 percent of all units in rural areas were owned by indivuduals in 1945, while only 46 percent of Stockholm dwellings were individually owned. Employer-owned housing accounted for 16 percent of all dwelling units in the smaller manufacturing towns in 1945. Real estate companies, which are included in the private sector, were substantial owners of property in the larger cities, accounting for ownership of 22 percent of the dwelling units in Stockholm and about 6 1/2 percent of dwellings in cities with 30,000 to 100,000 inhabitants in 1945.[27]

The estimates shown for the year 1957 were made by applying average percentages of new building accounted for by the various ownership classifications to total new dwelling construction from 1946 to 1956 and making adjustments therefrom in the 1945 figures. The estimates are rough approximations only, since they make no allowances for demolitions or losses by fire or other causes, nor for changes in ownership of the existing housing stock during the period. Since building statistics do not segregate building by real estate companies, and nonprofit and

[27] Lundevall, op. cit., pp. 35-37.

profit firms or foundations, the estimates for these groups are lumped together as of 1957. Since the activities of nonprofit firms such as savings banks are known to have increased markedly during the period, it is judged that the increase in the share of ownership by these three groups together may be accounted for largely by increases in the nonprofit sector.

The estimates of occupancy of dwellings in Sweden by type of tenure have been made in a similar manner by adjusting the 1945 census data for new production from 1946 to 1956. In making the estimates for 1957, the author assumed that co-operatives and owner-built dwellings each accounted for approximately 20 percent of total new dwelling construction from 1946 to 1956. Table IV-10 reveals a marked increase in the proportion of occupancy by members of co-operatives, offset by declines in owner occupancy and occupancy by renters in Sweden. It must be recognized that the estimates in Tables IV-9 and 10 probably underestimate the extent of individual private ownership and occupancy of Swedish housing since no allowance has been made for dwellings constructed by private builders for sale to owner occupiers. Offsetting this have been transfers from private owners to co-operatives and governmental units.

Table IV-9

Changes in Ownership of Swedish Housing Stock, 1945 to 1957

	Industrial and Commercial Firms	State, County, and Municipal	Co-operatives	Individuals	Real Estate Companies	Non-Profit Firms	Profit-Making Firms	Total
1945								
Total	150,000	97,000	80,000	1,020,000	91,000	32,000	20,000	[illegible]
Percent	7.1	4.6	4.3	77.1	4.4	1.5	1.0	100.0
1946-1957								
Total	26,500	164,100	119,700	512,700a/				[illegible]
Percent	4.5	28.3	19.2	50.2a/				100.0
1957 Estimated								
Total	176,500	261,100	209,700	1,012,700a/	91,000	32,000	20,000	[illegible]
Percent	6.5	9.7	7.8	70.9a/	3.4	1.2	0.7	100.0

Sources: 1945: Lundevall, op. cit., p. 34.
1957: Estimated by author based on Swedish building statistics 1946 to 1956. Changes in ownership [illegible] estimated by applying average percentages of new building accounted for by the various ownership classifications to total new building from 1946 to 1956. No allowances were made for demolition or losses by fire and other causes or for transfers of ownership during the period among the various groups.

a/ Includes Individuals, Real Estate Companies, Non Profit Firms, and Profit-Making Firms.

Table IV-10

Changes in Swedish Housing Occupancy, 1945 to 1957

	Rented on the Open Market	Company-Owned Workers Housing	Government-Owned Housing[a]	Co-operatives	Owner-Occupied	Social Welfare Housing	Other Tenure[b]	Total Dwelling Units in Sweden
1945								
Total	952,[illegible]	219,458	34,085	89,726	901,519	31,266	188,735	2,[illegible]
Percent	36.1	10.4	1.6	4.3	38.1	1.5	9.0	
Additions								
1946-1957	154,000	26,500	164,100	119,700	158,700	n.a.	n.a.	
1957 Estimated								
Total	881,205	245,958	198,183	209,426	960,019			2,[illegible]
Percent	33.0	9.0	7.5	7.7	35.5	7.5		

Sources: 1945: Kungl. Socialstyrelsen, Bostäder och Hushåll (Stockholm: 1950), p. 74, Table 53.
1957: Estimated by author based on Swedish building statistics 1946-56. See notes to Table IV-9.

a/ State, County Council, and Municipal.
b/ Includes Free Workers Housing, Union-Owned Housing, and Sub-standard Dwellings.

Dominance of Multi-Family Dwellings

Table IV-8 indicates the relative degree to which the apartment house structure has consistently dominated Swedish housing construction during the post-World War II years. This has resulted from government policies encouraging the building of these types of structures, combined with climatic, topographic, institutional, and economic considerations. The long and cold winter season in Sweden results in high costs of heating, and both fuel costs and costs of maintenance are higher in single- than in multi-family units. Relatively high foundation costs owing to the character of the soil and the climate are another factor encouraging multi-unit construction. The relatively severe winters also heighten the importance of close proximity to the central area in most Swedish cities. Most of the land area within close proximity to the cities was pre-empted for apartment dwellings during the past two decades of rapid growth, and single-family home sites are usually quite distant from the centers. As a result of these factors, Sweden's housing subsidy and land use policies have encouraged the construction of multi-family units. This emphasis has led to the development of relatively greater efficiency in Sweden in construction of apartment units than in single-family housebuilding. The adage that a country builds best what it builds most is apparent in Sweden.

It is interesting to observe, however, that increasing numbers of people are demanding single-family homes in Sweden today. According to one authority on Swedish housing, this is a

natural consequence of rising incomes and the spread in the use of automobiles, and may bring about a "shattering" of the dominance of the multi-family apartment structure in Sweden within 20 or 30 years. It has been observed, however, that the development costs for single-family homes are three or four times as high as for multi-family units in Sweden.[28] Two other important factors appear to be influencing the production of single-family

[28] Holm, op. cit., p. 51.

A series of studies carried out by Lennart Holm, a Swedish economist, from 1951 to 1958, indicated that substantial proportions of Swedish families living in small flats in the larger cities desired to move to larger units, preferably single-family houses. Recent studies in Malmo revealed that 33 percent of those wishing to move desired a single-family house, and that approximately one-half of those desiring to move to single-family houses were willing to pay more for such accommodations. Malmo is an area with ideal land conditions for development of single-family houses.

The following estimates of the differences in land and development costs for a dwelling unit of 22 square meters in 1953 indicate that units in multi-family structures can be produced at lower costs to the municipalities than for comparable units in row houses or in single-family structures.

Estimated Development Costs per Dwelling Unit
in Stockholm in 1953 by type of structure
(Swedish Kronor)

	Multi-Family	Row-Chain	Single-Family
Streets	360	675	1,300
Sewers	150	325	900
Electricity-Gas	15	35	90
Foundation	100	200	400
Open land other than parks	47	87	226
Water	8	20	43
Total Excluding land costs	680	1,342	2,959
Est. land costs (reflect local price policies, not actual costs) (City does not sell land, ground rent)	250	250	290
Density ratio (square meters of dwelling unit space for one square meter land)	.56	.33	.10

homes at present. The first is the scarcity of apartment units of adequate family size, owing to government rent controls and other factors. Government rent policies virtually force younger married couples with children to go on the "waiting list" for either a new apartment unit at rentals of 55 to 60 kronor per square meter (older units might rent for as low as 25 to 30 kronor per square meter but are available to only selected families and usually after waiting periods as long as five years--some new flats in co-ops are available in 1960 for immediate occupancy, but require high downpayments), or enter the new home market. Although the annual costs in the latter are very high in proportion to average incomes, many young couples are purchasing new homes in Sweden today on the calculated risk that inflation will continue and that their incomes will rise and hence that the burden of the housing expense will lessen over the years.

The technique through which the owner of a co-operative apartment in Sweden retains the right to sell his financial equity provides a desirable element of mobility within the Swedish housing inventory. The use of the so-called freehold lease by the apartment dweller in Swedish co-operatives affords some of the advantages of homeownership since thrift is encouraged in order to secure the initial financial equity and security of tenure is assured. This feature of co-operative occupancy should permit movements to larger apartment units or owner-occupied, single-family dwellings with greater ease.

Any prediction of future demand for owner-occupied homes in Sweden must necessarily be highly speculative. Government

taxation policies have thus far been less favorable to homeowners than in the United States or West Germany, since they must add to their earned income an imputed income at the rate of 2 1/2 percent of the value of an owner-occupied home in determining individual taxable income. Although it is reported that this tax provision will be eliminated by the government within the next few years, other reports are that the socialist government is considering a proposal that would appropriate to the government the increments in assessed value of owned residences financed with government aid. Enactment of such a proposal would undoubtedly dampen any growing enthusiam for owned homes in Sweden. Offsetting the special tax on imputed income, homeowners are permitted to deduct a portion of the interest on borrowed capital from earned income.

In evaluating Per Holm's prediction quoted above concerning the "shattering" of the dominance of the multi-family unit in Sweden, it must be recognized that many Swedish apartment dwellers have a "summer cottage" in the country, which is frequently little more than a one- or two-room wooden shack but which serves as a means of escape from the city during the summer months. It would appear more likely to this author that the influence of the automobile might be to give impetus to a further expansion in this form of vacation housing in Sweden. The degree to which this form of family housing or any other will continue to expand in Sweden depends in the last analysis, of course, on trends in the real national income in Sweden. Another factor which might tend to limit the expansion in demand for single-family homes is

the fact that a large percentage of Swedish housewives work and find that a flat near the place of work is more convenient to maintain for that reason. A further important consideration is the fact that municipalities generally are expected to finance necessary improvements to raw land, such as sewers, water, and roads. Since the finances of many communities have already been strained during the postwar building boom, it seems unlikely that they will regard favorably the increased costs necessary to improve lots for single-family home development. If the communities are unable or unwilling to meet the higher costs of land development for single-family homes, it can be expected that housebuilders will have difficulty in passing on such costs to homebuyers in purchase prices of lots. The real bottleneck in the single-family home market may be the unavailability of improved lots at prices permitting economical development. Some point out the possibility that employers may assume these costs in order to provide housing as a means of attracting and holding labor. The extent to which this can be expected to take place, however, seems unlikely to be great.

Costs of Postwar Government Housing Programs

The postwar expansion in state housing subsidies in Sweden and the important influence of the so-called supplementary loans or capital grants is illustrated by Table IV-11. It can be seen that over 90 percent of the total number of new dwellings constructed in Sweden in recent years have benefited by

Table IV-11

Financial Arrangements for New Residential Construction in Sweden, 1949 to 1958

Year	Total Number of Units Constructed	Units Built With State Aid				
		Total	Homeownership Loans	3rd Mtge. or Supp. Loans	Subsidies to Pensioners Homes	Other Forms of Aid
1949	41,351	32,432	5,909	23,665	1,646	1,222
1950	43,955	35,001	8,575	25,152	1,259	215
1951	39,784	31,722	7,800	23,049	756	27
1952	44,736	38,657	6,135	31,561	951	10
1953	51,911	47,225	7,774	39,028	1,081	42
1954	58,215	54,998	11,098	43,233	544	12
1955	56,970	53,121	13,924	37,891	1,280	26
1956	56,906	53,976	13,774	39,300	892	10
1957	64,155	60,715	14,415	44,845	1,445	12
1958	62,225	56,355	15,007	41,714	1,269	365

Sources: Sociala Meddelanden, 1957, Nr 8, Table 6.
Statistisk Centralbyrån, Statistisk Årsbok för Sverige, 1959 (Stockholm: 1959), Table 219.

capital grants from the state. By virtue of the government's financial assistance to this large proportion of total new housing production, the Royal Housing Board has been in position to approve the mortgage terms and rentals on the bulk of Sweden's post-World War II housing.

Public expenditures for housing in Sweden have increased rapidly with the expansion of government subsidies. Lundevall summarizes Sweden's post-World War II expenditures for housing, as shown in Table IV-12. Administrative costs of the government housing agency, interest guarantee payments, family housing rebates and subsidies, building improvements, and pensioner housing subsidies are included in Column (1), showing the growth in expenditures for housing reported in the operating budget. The increase of over 600 percent in housing expenditures in the operating budget during the period from 1946 to 1957 is primarily due to an increase of 80 million kronor in annual family housing rebates during the period, and to the guarantee by the government of fixed interest levels during the period of rising market rates of interest, which occasioned an increase of 20 million kronor in annual government expenditures.

The largest portion of housing advances reported in the capital budget (Column 3) represents long-term loans on houses and apartments. As of June 30, 1956, state loans amounted to about 4,640 million kronor or 635 kronor per capita.[29] The

[29] Lundevall, op. cit., p. 43.

Table IV-12

State Expenditures Devoted to Housing in Sweden, 1946-47 to 1957-58
(Millions of Kronor)

Budget Year	(1) Housing Expenditure Reported in Operating Budget	(2) Total State Expenditures in Operating Budget	(3) Housing Advances Reported in Capital Budget	(4) Portion of Column (3) Devoted to Supp. Loans and Non-interest Portion of Homeownership Loans	(5) Total State Expenditures in Operating and Capital Budgets
1946-47	30	3,155	205	25	3,8[illegible]
1947-48	36	3,971	221	25	4,245
1948-49	30	4,643	199	29	5,113
1949-50	61	5,002	197	52	5,255
1950-51	54	5,449	302	75	6,010
1951-52	68	6,423	419	79	7,199
1952-53	87	7,647	614	164	8,667
1953-54	112	8,130	650	163	9,164
1954-55	132	8,619	807	259	9,696
1955-56	157	9,691	1,085	345	10,719
1956-57	211	10,978	879	224	11,621
1957-58	239	12,120	1,103	473	13,324

Sources: 1946-47 to 1951-52: "Budgetredovisningen," Byggforum 4, 1957, as cited in Owe Lundevall, Swedish Housing Market (Stockholm: Hyresgästernas Förlags AB, 1957), p. 70. See also, Arne Karlsson, "Swedish Housing Policy Expenditures During the Last Decade," Building-Forum (Göteborg: January 1957), p. 31.
1952-53 to 1957-58: Statistiska Centralbyrån, Statistisk Årsbok för Sverige, 1959 (Stockholm: 1959), Tables 376, 380, 386.

Notes: Column (1) includes the following: Administration costs, interest rebates, rent rebates, improvement loans, subsidies for old-age housing for pensioners.
Column (3) includes Tertiary loans and Supplementary loans.

portion of housing expenditures in the capital budget which can be considered as capital grants is shown in Column (4) of Table IV-12. It will be seen that these increased by more than 15 times over during the period from 1946 to 1956, but were sharply reduced in the fiscal year 1956-57, when the granting of supplementary loans was virtually stopped. The rapid rise in the costs of this phase of the Swedish housing program from 1952 to 1956 undoubtedly influenced the decision to limit such subsidies to particular localities in 1957 and to eliminate this form of state subsidy entirely in 1959.

It can be seen from Table IV-12 that total government expenditures for housing in Sweden which should be classed as operating costs of the program (including supplementary loans and the noninterest portion of homeownership loans), equaled about five percent of total state expenditures in the operating budget in 1955-56. These estimates do not include local government expenditures for housing purposes which have undoubtedly increased substantially during the postwar period of family and child welfare allowances. Total expenditures of rural communes, boroughs, and towns in Sweden in 1956 for "administration of real estate" were 540.4 million crowns. These expenditures were offset by revenue of 281 million crowns, leaving a net expenditure of 259.4 million crowns. This total, which included expenditures of 27.9 million on current account and 231.5 million on capital account, represented approximately eight percent of total local government expenditures in 1958.[30]

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[30] Statistisk Årsbok för Sverige, 1959, Table 402. The expenditures in Table IV-12 exclude family and child welfare allowances paid by central and local governments which rose from 600,000,000 crowns annually in 1948 to approximately 1,000,000,000 crowns from 1954 to 1958. Such payments have accounted for over six percent of total current expenditures of the Swedish national government since 1952. Total expenditures of the Ministry for Social Affairs have accounted for approximately a third of current central government expenditures and 11 percent of the national income since 1955. Ibid., pp. 226 and 300.

Housing Production

Sweden has made notable progress in the achievement of the housing objectives adopted in 1946. Prior to World War II approximately one-half of Swedish apartment units had only two rooms (one room and kitchen) or were smaller, and over 40 percent of new production was of units of this size.[31] It can be noted in Table IV-8 that over 40 percent of the newly constructed dwelling units in each year since 1949 (excepting 1953) have had three or more rooms and kitchen. The proportion of new construction in units of this size had risen to 50 percent in 1956 and to 55.2 percent by 1957. During the period from 1954 to 1957 the average size of new dwelling units rose from 56.5 to 64.9 square meters. The equipment standards of the new dwellings constructed in the post-World War II period also represented a marked improvement over prewar levels. Over 90 percent of the new dwelling units produced since 1954 had central heating, private bath, and water closet. Although density figures will not be available until the 1960 census, it will probably be revealed that the high levels of dwelling construction relative to population growth have reduced average dwelling densities in Sweden.

Lundavall has prepared estimates showing the improvement which has resulted in the characteristics of the Swedish housing stock as a result of the production from 1946 to 1955, which are reproduced in Table IV-13. It can be seen that the percentage

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[31] Dickson and Wendt, op. cit., p. 3.

Table IV-15

Characteristics of Swedish Housing Stock,
1945 to 1955

	Number of Units	Units With: Running Water in Structure	Central Heat	Bath	Water Closet
Urban:					
No. units, 1945	1,160,908	88%	62%	54%	57%
New units, 1946-55	383,564	100%	98%	85%	96%
Rebuilt & improved units, 1946-55		3,350	7,800	4,600	8,000
Est. housing stock, January 1, 1956	1,550,000	1,423,000	1,117,000	726,000	1,062,000
Est. percentages with, as of 1956		91%	72%	46%	68%
Rural:					
No. units, 1945	920,982	57%	24%	7%	6%
New units, 1946-55	125,442	97%	97%	79%	95%
Rebuilt & improved units, 1946-55		44,400	83,200	17,700	33,500
Est. housing stock, January 1, 1956 a/	1,041,000	505,000	578,000	184,000	224,000
Est. percentages with, as of 1956		48%	56%	18%	22%

Source: Owe Lundevall, Swedish Housing Market (Stockholm: Byggnadsstyrelsens Förlags AB, 1957), p. 32. Percentages as of 1956 calculated by the author.

a/ The estimated housing stock as of January 1, 1956, makes provision for partial removal of older dwellings from the market from 1946 to 1955. The number of such units is computed at 17,000 in urban areas, of which 5,500 had running water in the structure, the figure for rural areas is 5,000 units, of which 1,200 had running water in the structure.

of urban dwelling units with central heat rose during the decade from 62 percent to 72 percent, the percentage with private bath rose from 34 percent to 46 percent, while the percentage of urban dwellings with private water closet rose from 57 percent to 68 percent. Even more striking improvements are shown in the percentages of rural units with these amenities over the period.

Another major objective of the 1946 statement of policy has been achieved, since it has been seen that the average rent level for a modern two-room and kitchen flat is today probably less than 15 percent of an industrial worker's wages. This is confirmed by a study of changes in consumption expenditures in Sweden cited earlier which showed that on the average consumption expenditures for housing had declined from about 22 percent of consumer incomes in 1932 to approximately 13 percent in 1955.[32]

The fifth and sixth objectives of the 1946 statement, to encourage public financing and the role of local authorities in housing, have been achieved with much to spare. It will be noted below that over 95 percent of Sweden's new dwelling construction in recent years was built with state financing aid. Meanwhile, the share of Swedish housing construction initiated by municipalities and other public bodies rose from six percent of the total construction from 1935 to 1940 to over 32 percent from 1949 to 1956 (Table IV-7). It has also been seen that government mortgage financing policies have resulted in maintaining low interest rates and favorable loan terms for residential construction during the post-World War II years.

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[32]Bentzel, op. cit., p. 11.

The so-called supplementary loan was a notable feature of the Swedish Government's postwar housing policy. As noted above, these loans, designed to equalize the gap between controlled rents and building costs, bore no interest or amortization. Provision was made, however, for their conversion to real loans as increased rentals were permitted and a portion were actually converted. The supplementary loan afforded a flexible and successful subsidy device for encouraging rental housing construction in the immediate postwar period, and at the same time, provided for some recoupment of government outlays as rents rose. It was used with some variation for encouraging single-family home construction also, but in this case no provision was made for its conversion to a real loan and it operated as an outright subsidy. The inflationary effects of "supplementary" loan-subsidies under conditions of rising consumer incomes and full employment forced their abandonment in 1957. As noted above, these loans represented a growing burden of financial cost to the government.

Eliminating the Postwar Housing Shortage

For reasons following, stemming from the nature of government programs, the accomplishments of Swedish housing policy in eliminating the housing shortage and stabilizing residential building have been less impressive. The extent of the housing shortage which exists in any country depends, of course, upon whether a market concept of shortage is employed, which takes into consideration the public's ability and willingness to rent

[illegible] housing, or whether the housing shortage is to be measured in terms of some criteria of housing need, based upon certain assumptions concerning appropriate housing standards. It is virtually impossible to appraise accurately the extent of any market shortage of housing in Sweden today because of the existence of rent controls and the division of the market into various sub-classes of subsidized and nonsubsidized housing. Because of the omission of the housing census in 1955, it will be necessary to await the results of the 1960 census to assess the extent of the remaining housing need which exists, given certain assumptions as to appropriate standards.

Dr. Alf Johansson, Secretary of the Social Housing Committee which prepared the general directions for the future housing policy of the Swedish Government in 1946, and presently the Director of the Royal Housing Board, estimated in February 1946 that Sweden had a shortage of 50,000 urban dwellings in 1946 and that the production of 45,000 urban dwellings annually from 1946 to 1950 would end the Swedish housing shortage in urban areas by 1950.[33] The report of the above committee made the following estimates of the future increase in urban households in Sweden and of the levels of urban housing production necessary to allow for the elimination of the shortage of 50,000 dwellings and the removal of urban housing units classified as uninhabitable or substandard by 1960.[34]

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[33] Silk, op. cit., pp. 77-78, quoting an interview with Dr. Johansson on February 13, 1946.

[34] Ibid., pp. 78-79.

Period	Estimated increase in urban households	Swedish dwelling units to be built, allowing for expected increase in households, eliminating of shortage, demolition and removal of uninhabitable and substandard units by 1960a/	
		Total Production	Annual Production
1946-50	130,000	225,000	45,000
1951-55	105,000	200,000	40,000
1956-60	95,000	190,000	38,000

a/ Estimates of production include allowance for removal of 75,000 units classed as uninhabitable and 160,000 units classed as substandard by 1960.

The high postwar marriage rates, high rates of urban in-migration and immigration, and the establishment of separate households of many of Sweden's unmarried men and women under the stimulus of postwar prosperity, resulted in rates of household formation which far exceeded the above estimates in the period from 1946 to 1955. In addition, the doubling of the divorce rate from 1946 to 1955 compared with the previous decade resulted in the establishment of separate living quarters by a large proportion of the 60,000 couples obtaining divorces in urban areas from 1946 to 1955.[35] Added to those elements was the increase in urban in-migration and immigration which took place during the period. Over 250,000 persons migrated from the countryside to Sweden's cities from 1946 to 1955, four-fifths of whom were concentrated in the marriageable age groups of 15 to 25 years of age. In addition, over 70,000 foreigners immigrated to Sweden's

[35] Lundevall, op. cit., p. 49.

cities, principally from northern European countries.[36] Undoubtedly, rising incomes and acute labor shortages in many cities were the principal factors encouraging these high rates of in-migration. A further important influence of rising incomes was the increase in separate households established by unmarried men and women after the war. The Royal Housing Board estimated that 31 percent of unmarried men over 20 years of age and 45 percent of unmarried women over 20 years of age had established separate homes in these two groups in 1955.[37]

It will be noted from Table IV-8 that 383,364 new dwelling units were added in urban areas from 1946 to 1955, approximately 40,000 less than the quotas established by the 1946 report. It can be noted from this table, however, that the number of demolitions for urban areas is estimated to have totaled only 17,000 from 1946 to 1955, while the Social Housing Committee estimates allowed for removal of 75,000 units classed as uninhabitable and of 160,000 units classed as substandard before 1960. It can be concluded from the above data that the net increase in supply of dwelling units in Sweden far exceeded the increase of 235,000 households estimated for the years 1946 to 1955. Actual urban household formation probably exceeded the 1946 estimates by 100 percent or more. It is not surprising, therefore, to observe that a housing shortage is still estimated to exist in Sweden of the magnitude of 100,000 units.[38] It is quite apparent in retrospect that the fundamental error of the Socialist Government was in assuming that the demand for housing was inelastic with respect to income.

[36] Ibid., p. 47.

[37] Ibid., p. 50.

[38] Svenska Handelsbanken, Index (Stockholm: December 1957).

A study by the Royal Housing Board of the waiting lists for housing accommodations in 65 urban communities with a population of over three million persons as of January 1, 1957, revealed total applicants of 258,746, of whom 116,693 were without a home of their own. The others already occupied homes and were waiting for homes of different size, type, or location.[39] Only 33,742 of the total of 116,693 persons without homes of their own were married or had dependents. The balance were persons who intended to marry or have families in the future or desired separate living quarters as single persons. It would appear from these statistics that the current housing shortage in Sweden is somewhat less than the total number of persons on so-called waiting lists for housing. Lundevall and others have pointed out that the rapid population growth and the shortages of the immediate post-World War II years have encouraged many persons to file applications well in advance of their actual need for housing.[40] It is probably true that many persons file applications in the hope of getting a housing unit which might be situated closer to the center of the city or command a lower rent than newly built units. In assessing the degree of housing shortage in Sweden, it is also necessary to consider the extent to which the present housing inventory could accommodate additional family units if housing space was more efficiently rationed. The housing shortage under free market conditions would, of course, differ greatly from that under the present structure of rent controls. This emphasizes the difficulty of measuring the adequacy of the housing supply under rent controls.

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[39] Kungl, Bostadsstyrelsen, Planeringsbyran, Om Bostadsmarknadsläget i Början av År 1957 (Stockholm: April 16, 1957).

[40] Lundevall, op. cit., pp. 52-53.

Swedish housing market experts expressed the opinion in June 1958 that an adequate supply of dwellings was available in most communities at present costs and rental levels.[41] This can be taken as an indication that from a market demand point of view no extensive housing shortage existed in 1958 in most Swedish cities. They point out, however, that an unsatisfied demand exists for smaller and cheaper units at lower rents and/or selling prices.

In evaluating Sweden's housing program in 1950, this author and his Swedish co-author concluded as follows:

> Because of the stimulation to family incomes through subsidies and the maintenance of low rents (through) controls, a housing shortage continues in Sweden, since the demand for housing at current costs exceeds supply and will probably continue so for several years as long as subsidies are maintained.[42]

Although these conditions persisted for some time, the relatively rapid rise in housing costs in the period since 1950 (brought about by some relaxation of rent controls and sharply rising building costs not offset by increased subsidies), and the competition of autos and other items for consumer expenditures, have combined to reduce substantially the persistent housing market shortage experienced in Sweden since World War II.

Achieving Stability in Housing

As noted above (Table IV-1), residential construction in Sweden was characterized by marked instability prior to World

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[41] Interview with officials of the National Association of Tenants' Savings and Building Societies (HSB), June 13, 1958.

[42] Dickson and Wendt, op. cit., p. 28.

War II. After rising to a record high of 59,000 units in 1939, national production dropped to 26,000 in 1940 and to 17,000 in 1941. The uncertainty as to future political and economic events associated with the Nazi invasion of Norway and Denmark was undoubtedly the most important factor in this precipitate drop, although sharp increases in building costs and in interest rates on building loans were contributing factors.[43] The post-World War II record in Swedish housing construction must be viewed, therefore, in comparison with the prewar instability which characterized the housing economy. Residential construction, which had risen to 58,000 units annually by 1946, declined by about 30 percent to approximately 40,000 units in 1951. Housing production soon recovered, however, and after remaining at levels of 57,000 units annually from 1954 to 1956, rose to an all-time high of 65,000 units in 1957, was maintained at approximately 62,000 units in 1958, and rose to approximately 69,000 units in 1959.

Critics point to the postwar monetary and fiscal policies of the Riksbank as the major reason for the lack of stability in Swedish housing production.[44] The cheap money policies of the Swedish Riksbank which had been followed since 1945 were modified in 1950 with increases in discount rates, reserve requirements, and government bond yields. Discount rates were again increased in 1955 and in 1957 and an extremely restrictive

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[43] Silk, op. cit., pp. 50-51.

[44] Bygg-industrin och Kreditmarknaden, Second Report from Research Institute of the Swedish Building Trades Union, 1958.

monetary policy was pursued in those years. It has been seen that these steps were followed by increases in private mortgage-loan interest rates, by the application of "loan ceilings" and by the virtual elimination of the so-called supplementary loan effective January 1, 1957, and finally by increases in interest rates on government "tertiary" loans in 1958. Notwithstanding these measures, a recent review has pointed out that the policies of the Riksbank consistently gave priority to public investment and housebuilding throughout most of the post-World War II period, with the result that monetary and fiscal policies had their principal effects upon private business investment and private consumption.[45] Support for this assertion is found in the fact that business capital and some types of consumer durable expenditures were restricted by investment duties in 1955 and by a "general ceiling" placed upon commercial bank advances from 1955 to 1957. In addition, interest rates in the housing sector were maintained below other interest rates. Supporters of the programs of the Royal Housing Board argued that continued high production of housing was required if rents were to be controlled. They viewed the government's policies in limiting housing production in 1956 and 1957 through monetary and fiscal controls, as inconsistent with the goals of over-all housing policy. Supporters of the government's restrictive policies argued in turn that the loan priorities granted to the housing sector served to restrict unduly other business and private investment.

Table IV-14 confirms the relative stability in housing investment as a percentage of total investment in Sweden during the post-World War II years relative to private investment and consumption. As will be noted in more detail in the final chapter, the increase in the proportion of the gross national product accounted for by the public sector, including housing, is a major feature of postwar economic development in Sweden.

[45] Bengt Senneby, "The Swedish Credit Market During the Nineteen-Fifties," Skandinaviska Banken, XLI (Stockholm: January 1960), 18-23.

Table IV-14

The Percentage Share in the Swedish Gross National Product of Various Sectors

	1949	1952	1955	1958	1959 a/
Private Investment.....	11.3	11.8	12.0	12.7	12.6
Housing.....	6.2	5.8	6.6	6.6	6.5
Central Government Investment.....	5.4	7.2	7.0	7.4	7.9
Local Government Investment.....	3.1	3.7	4.2	4.4	4.5
Total Investment	26.0	28.5	29.8	31.1	31.5
Central Government Consumption....	4.7	5.0	4.8	5.1	5.2
Local Government Consumption.....	5.6	6.3	6.9	7.7	8.0
Private Consumption.....	61.4	57.5	57.2	56.8	55.3 b/
of which: Durables.....	6.2	6.5	6.8	7.0	7.0
Total Consumption	71.7	68.8	68.9	69.6	68.5
Public Sector (Incl. Housing).....	25.0	28.0	29.5	31.2	32.1
Private Sector.....	72.2	69.5	69.2	69.5	67.9

Source: Bengt Sennely, "The Swedish Credit Market During the Nineteen-Fifties," Skandinaviska Banken, XLI (Stockholm: January 1960), 18-23.

a/ Preliminary figures.

b/ With correction for the effects of the introduction of the general sales tax.

It must be concluded that greater stability has been achieved in Swedish residential construction since World War II than was evident during the prewar decade. However, the prewar period included the years of the Great Depression and the initial phases of World War II and present government policies have not stood tests of this magnitude. More important questions appear to be: At what level and at what cost to the government can Sweden maintain a high and stable level of new housing production? and, What will be the effect of these decisions upon the total Swedish economy and over-all economic stability? In this connection, it is important to examine more closely the estimates of Swedish housing needs from 1956 to 1965 which were included in the long-term economic plan for Sweden published in 1956, as shown in Table IV-15.[46] This housing program of 65,000 units annually, recommended by the Royal Housing Board, was adopted by the Parliament in 1959. It is of interest to consider the implications of such a program in terms of stability in housing production and general economic stability. Although the program recommended was expected to shift the emphasis further toward single-family homes and larger units, it has been reported that the average size of apartment dwellings erected declined by four percent between 1957 and 1959.

Obviously, speculation concerning the effects of any future housing program upon the Swedish economy must require many

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[46] Statens Offentliga Utredningar, Finansdepartementet, Balanserad Expansion, Betankande avgivet av 1955 ars langtidsutredning, 1956:53 (Stockholm: 1956).

Table IV-15

Calculation of Swedish Housing Needs, 1956 to 1965
(Dwelling Units)

Increase in urban households composed of:		290,000
Household formation as result of natural increase and urban migration	140,000	
Immigration	20,000	
Changes in marital status (divorce, etc.) of population	10,000	
Elimination of housing shortage, increased household quotas	120,000	
Increase in households in suburban areas		115,000
Vacancy Reserve		45,000
Elimination of substandard dwellings including planned redevelopment		100,000
Rural housing requirements		100,000
Total for Sweden		650,000

Source: Statens Offentliga Utredningar, Finansdepartementet, Balanserad Expansion, Betankande avgivet av 1955 Ars Langtidsutredning, 1956:53 (Stockholm: 1956).

assumptions concerning government fiscal and monetary policy and the ever-present spectre of increased pension costs. It is apparent, however, that if Swedish housing policy is inextricably linked with social and family welfare schemes, it is just as closely linked with general economic policy and must be consistent with the latter.

The broad economic implications of Swedish housing policy may be inferred from the following comments published in December 1957, commenting upon the government's proposed program of building 65,000 dwellings annually from 1960 to 1965.

> Even though the immediate prospects are relatively favourable there are also certain disquieting aspects. Housing production during the past few years could not have been maintained at the achieved level were building credits not exempted from the general credit squeeze. As a result, certain other sectors--especially industry--had to be satisfied with a smaller slice of the cake. There is every indication that capital will remain scarce during the next few years and it seems likely that building credits will have to enjoy continued priority if the programme is to be completed. The basic question is how far this priority policy can be stretched without causing harmful repercussions in other sectors of the economy.[47]

The same note of caution concerning the impact of high level of investment in housebuilding upon other sectors of the Swedish economy is found in a discussion of the savings shortage in Sweden in mid-1959.

> ....Yet if we look at the distribution of capital formation among various sectors we find that Swedon, as compared, for example, with West Germany, has a relatively low share which goes to production in industry and agriculture, and a relatively high share in the public sector and housebuilding.

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[47] Svenska Handelsbanken, Index (Stockholm: December 1957).

> It can be argued--though of course nothing definite can be proved--that investment requirements in Swedish production and trade will be growing briskly during coming years because of the rapid technical developments and structural changes in foreign competition. ....
>
> Sweden's relatively high wage (and thus wage-cost) level can only be defended and maintained in the future if Swedish firms in different sectors are in a position to retain their relative technical advantage, which among other things necessitates rapid replacement and expansion of machinery and other capital equipment. A necessary condition is that the supply of savings for the private sector is adequate, and presumably considerably larger on a per capita basis than in competing countries. In these respects Sweden's position has, as mentioned above, hardly been specially favourable in recent years. There is therefore a risk that her advantage in productivity cannot be maintained, if and when the supply and distribution of savings evinces tendencies which are unfavourable from this point of view.[48]

Considering the background of postwar inflation in Sweden, it can be argued with some justification that further expansion of housing production in Sweden under present conditions of full employment may be at the expense of industrial investment. Further, it appears probable that the maintenance of an annual level of production of 65,000 units over an extended period might require the renewal of supplementary loan subsidies which were eliminated in 1957. This, of course, would have further implications for controlling inflation in Sweden, which will be explored further in the final chapter. It may be possible, of course, that continued expansion of the total labor force and further technical innovations in the Swedish building industry may make it possible to achieve the above production goals without either further inflation or renewed subsidies.

Evaluation of Sweden's post-World War II housing policies must recount the losses as well as the gains, since these

[48] Erik Lundberg, "Capital Formation and the Savings Shortage," Skandinaviska Banken, XL (Stockholm: July 1959), 85.

policies have wrought fundamental changes in housing ownership, market structure, financing methods, institutions, and costs.

The undesirable effects of rent controls in Sweden are clearly evident. Lacking inducements in the form of increased rents, landlords have limited incentive to maintain rental properties and the quality of the privately owned sector of the rental market is undoubtedly deteriorating. Further, the lack of knowledge and experience and political considerations appear to have led many municipalities and some co-operatives to fix rents at a level too low to assure proper maintenance and hence a portion of the publicly owned inventory of housing may also be suffering from under-maintenance.

Since rents are determined according to the time of construction, varying rent levels exist for similar properties. A continued rise in building costs coupled with reductions in government subsidies would magnify these differences over time. Rent differentials tend to lower the degree of mobility within the housing inventory, since families are naturally reluctant to move from a unit with a lower rent even though one differing in size or location might suit them better. As can be expected, the subdivision of the rental market into subgroups of dwellings having substantially similar amenities, but differing rents, has led to familar black-market operations in some controlled rental units.

Government rent policies have restricted the rise in the level of consumer expenditures for housing relative to total consumption. Consumer expenditures for housing rose 200 percent from 1938/39 to 1958, while total consumer expenditures rose by 300 percent. Rent

controls and housing subsidies have thus made it possible for Swedish families to expand their purchases of consumption goods. Sweden's rent policies have also resulted in an increasing reluctance of working-class families to rent or buy unsubsidized housing built at current costs which meets the government standards of size and quality and to demand instead the smaller two-room flats which the government seeks to eliminate for family units. Assuming that the government will continue to impose higher housing standards nationally, a major political task appears to lie ahead in re-educating Swedish families to spend higher proportions of family income for housing.[49] As in other countries which have experimented with rent controls and housing subsidies over long periods, these lessons will be less easily learned than the more popular lessons of the 1940's and 1950's.

The achievements referred to earlier in expanding public investment and the role of local authorities in the housing field must be balanced against the costs of these programs and the virtual elimination of rental housing as a field for private investment in Sweden. Government loan and other subsidies have consistently favored public and other types of nonprofit investors since World War II. Rent controls have further heightened the unattractiveness of rental property for the private investor, although the rather severe inflation has worked in the opposite direction. Municipalities, which control land planning and improvements for

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[49] Current statistics of national income in Sweden reveal that the proportion of income spent for housing has risen slightly since 1955. As noted above, rent-income ratios in Sweden vary widely among individual groups.

residential development, consistently favor the nonprofit investor, according to private developers.

The co-operative movement has undoubtedly been the strongest element in the postwar housing market in Sweden. The national HSB organization and other co-operative groups have helped to sponsor improvements in house planning, design, and construction. Further, co-operatives have been instrumental in stimulating savings for co-operative house purchase. The freehold lease or "bostadsrätt" has proven a highly successful instrument for permitting the transfer of interest in co-operative housing units and has permitted the owner of a co-operative dwelling unit to take advantage of increases in values much as a homeowner does in a free market.

It can be argued that the decline of speculative building in Sweden has been offset by the rise of this new type of private investment, using the co-operative form of organization. The implications of this development will vary with the views of the reader as to the relative value of private competition in the housing field.

It is appropriate to consider whether the present organization for housebuilding in Sweden, under the leadership of municipalities and co-operative organizations, will prove responsive to changing demands for housing in Sweden. It has been seen earlier that dwellings built since World War II in Sweden have been predominantly in multi-family structures.

It is not surprising to find that these buildings have been erected with considerable efficiency, [redacted] Many observers have raised the question, however, concerning the types of structures which will be demanded in the future, with the expected increase in automobile transportation and urban spread. Since 1955, government policies have tended to encourage a higher proportion of single-family dwelling units. It has not yet been demonstrated that public bodies and co-operatives can operate as efficiently as private builders in this sphere. Sweden's residential construction industry is far behind American industry in organization, financing, development, and construction of single-family homes. As a result, the single-family home, which many forecast will be in demand in Sweden in the years to come, is relatively more expensive than its counterpart in other countries and considerably more expensive than dwelling units in multi-family structures. Part of this difference is due to the climatic and topographical features in Sweden, but part is undoubtedly due to the fact that government policies have consciously directed building activity to the multi-family dwelling unit since World War II.

The monotonous exterior appearance and design of Sweden's government-approved flats is a more serious shortcoming of post-World War II housing policy. The more recent development of high rise apartment buildings or so-called Punkt houses and of neighborhood units such as the Vällingby Centre outside Stockholm

does little to relieve the overwhelming impression of sameness in Swedish postwar housing. As a price for government financing subsidies, the typical Swedish consumer has virtually abdicated the right to choose a dwelling of individual design and characteristics. These he must seek elsewhere--in his automobile, boat, or perhaps in his country villa.

Happily, this review and evaluation of Sweden's post-World War II housing policies can end on a note of praise. The results of government housing policies are under continuous review by competent and experienced public officials in the Royal Board of Housing and under the constant watchful eyes of the Parliament. The penetrating character of much of the criticism of government housing policies coming from within the Parliament is well illustrated by the recommendations of a government commission in 1956, including representatives of various political parties, that general housing subsidies should be gradually abolished in favor of special state housing allowances to those in special need, that general housing subsidies should not be used as a permanent feature of government policy, and that rent controls should be substantially altered to permit more realistic levels of rents.

It is generally recognized that the administration of the government housing program on a national and a local level is efficient and lacking in the endless red tape and corruption which characterizes so much of governmental activity in the economic field in many countries. Residential development has

CHAPTER V

WEST GERMANY

Background of National Housing Policy

The year 1870 marked the beginning of a period of rapid development of German population and commercial and manufacturing activity. High rates of urbanization and a shift of population from rural to urban areas accompanied the political and economic unification of Germany.[1]

In the latter quarter of the nineteenth century Germany dealt rather successfully with the imposing problems created by an explosion of economic activity. This success may be partly due to the fact that German industrial growth came later than that of the other important European powers of the period, particularly England, France, and Belgium. German cities were not so chaotically constructed as those of other countries, and the flimsy shacks and alley slums common in other countries were the exception rather than the rule in Germany.[2] The efficiency of the early German system of municipal government seems to have contributed to the elimination of many of the evils connected

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[1]For a summary of this activity see Robert A. Brady, "The Economic Impact of Imperial Germany," Journal of Economic History, 3 (December 1943), 108-23; also, W. O. Henderson, The Zollverein (Cambridge, England: University Press, 1939).

[2]Catherine Bauer, Modern Housing (Cambridge, Mass.: Riverside Press, 1934), pp. 270-71.

with very early urban living, and contrasted favorably with contemporary municipal efforts in the United Kingdom.[3]

The typical nineteenth-century residential construction in Germany was a six- or seven-story tenement with two or three "back-buildings," firmly constructed and usually supplied with water. A picture of the density pattern in various cities in Germany in the latter part of the nineteenth century is given in Table V-1. The data illustrate the predominance of multi-family dwellings in Germany and suggest that the housing densities did not improve significantly between 1880 and 1890.[4]

A good part of the success of the German municipal governments in the late nineteenth and early twentieth centuries in alleviating the imposing housing problem can be laid to the fact that the German town councils were allowed to assess vacant construction sites and regulate the prices for which they could be

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[3]For example, T. C. Horsfall notes: "...the Town Councils of nearly all German towns are showing far greater energy in combating this evil [overcrowding] than our [British] Town Councils are showing, and the methods which they have adopted to remove it, appear much more likely to be successful than the methods adopted by the few English Town Councils which are making serious attempts to lessen overcrowding in their towns. It is, however, chiefly by their remarkable success in making full and healthy life possible in all parts of all towns for those persons, of all classes, who earn enough to be able to obtain an adequate amount of house room, that German Town Councils show that their system is very greatly superior to ours." T. C. Horsfall, compiler, The Improvement of the Dwellings and Surroundings of the People - The Example of Germany, Supplement to the Report of the Manchester and Salford Citizens' Association for the Improvement of the Unwholesome Dwellings and Surroundings of the People (Manchester: University Press, 1950), p. 24.

[4]Ibid., p. 5.

Table V-1

Average Number of Occupants Per Structure for Selected Cities in Germany for the Years 1880 and 1890

City	Inhabitants 1880	Inhabitants 1890	Households 1890
Berlin	44.9	52.6	12.3
Breslau	33.2	35.4	8.2
Königsberg	27.7	29.5	6.4
Chemnitz	32.1	29.1	6.7
Stettin	30.7	27.6	5.6
Dresden	32.6	27.4	6.3
Magdeburg	26.7	27.4	6.0
Leipzig	38.6	25.4	5.4
München [Munich]	19.2	22.4	5.1
Köln [Cologne]	13.5	13.9	3.0
Bremen	7.1	7.6	2.2
Average	27.8	27.1	6.1

Sources: Eugen Jaeger, Die Wohnungsfrage, Zweiter Band (Berlin: 1903). Also quoted in T. C. Horsfall, compiler, The Improvement of the Dwellings and Surroundings of the People - The Example of Germany, Supplement to the Report of the Manchester and Salford Citizens' Association for the Improvement of the Unwholesome Dwellings and Surroundings of the People (Manchester: University Press, 1905), p. 3.

sold.[5] These early achievements of the German town governments were due partially to the fact that they possessed considerable amounts of land during this period. In 1901 the Prussian Government issued directions to the Governors of the 12 Provinces to induce all Prussian towns to purchase as much land as they could obtain, and to retain possession of all land they held.[6]

Some evidence exists that in the very early part of the twentieth century some German town councils stimulated private-enterprise housing supplies by letting portions of government-owned town land to building societies at submarket rental rates and by lending money on easy terms to building societies.[7] However, the over-all importance of national and local government intervention in the private housing market was small until the post-World War I period.

The German cities, in addition to purchasing large areas of land and exercising some control over land-use patterns, engaged

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[5] Ibid., p. 30. The German Communal Rating Act of July 14, 1893, left to each town council the decision as to the manner in which land would be rated. When the Prussian Government recommended the adoption of the system of rating land on its selling value, it prepared by-laws for the guidance of communities which desired to accept its advice.

[6] Ibid., p. 36. A Joint Decree was issued by the Prussian Ministers of Trade and Commerce, of the Interior, of Religion, and of Agriculture on the Housing Question on March 19, 1901.

[7] For example, the Frankfurt Town Council offered to lend nine-tenths of the cost of dwellings for "workpeople" and let part of the town land to building societies of public utility and private builders at low rentals for terms of about 80 years. Ibid., p. 26.

in a variety of public utility activities. Probably the most important of these were efforts directed at low-cost housing. As early as 1889 some legislation granted certain favors to co-operative housing societies, and by 1914 there were about 1,400 of these small co-operative societies in existence. Most of them were formed by prospective tenants who had little or no equity capital, and the majority of these dwellings remained in collective ownership.

The Prussian Decree of 1901 led to the imposition of the ministerial recommendations as statutory obligations by several of the provincial governments, and by 1909 at least half of the larger German cities were providing assistance in the construction of low-cost public utility housing.[8] In addition to social insurance funds which were officially encouraged to make loans on public utility housing and those funds provided by the town councils, some funds for housing were provided after 1911 out of the proceeds of a land-value increment tax and by some newly formed semiofficial savings banks.[9]

World War I and Aftermath

The period between the two World Wars was characterized by great fluctuations in housing activity and by an almost chronic shortage of dwellings. The greatest obstacle to housing construction was the scarcity and high cost of capital. A first

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[8]Bauer, op. cit., p. 272. "By the end of 1913, the insurance foundations had invested some $114,000,000 in housing, a sum which probably produced a good 150,000 dwellings."

[9]Ibid., pp. 272-73.

mortgage which would have been granted at a rate of four percent before the war was 10 percent or higher after it, if the money was available at all, and was still 8 1/2 percent in 1929.

The postwar rent for a privately financed new house in 1927, based on construction costs, would have been about four times the prewar rent for the same dwelling. Meanwhile, wages had increased by only 50 percent, and unassisted private enterprise was relatively ineffective in financing the great mass of housing required.[10] As a result, large-scale government intervention in the housing market began to manifest itself immediately after World War I.

Residential construction declined from 200,000 new units annually in 1913 to less than 3,000 units in 1918. A rapid increase in postwar marriages, coupled with a large influx of refugees, resulted in an extreme shortage of housing. Table V-2 indicates that new construction and rehabilitation of older and damaged housing units added only about 120,000 units annually to the housing stock between 1919 and 1924. Many of these units were added by rebuilding military barracks for civilian occupancy.[11]

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[10] See Table V-4 for detailed data in this respect.

[11] It should be noted that all of these early figures relate to Germany as a territorial entity after World War I and not to the present German Federal Republic. Paucity of data force consideration of the entire area during this period.

Table V-2

Housing Construction in Germany, 1919 to 1938

Year	New Construction	Rebuilding	Total	Rebuilding as Percent of Total
1919	35,596	25,265	60,861	41.5
1920	75,928	32,379	108,307	29.9
1921	108,596	32,902	141,498	23.3
1922	124,273	30,697	154,970	19.8
1923	100,401	25,539	125,940	20.3
1924	94,807	20,569	115,376	17.8
1925	164,437	27,375	191,812	14.3
1926	199,084	21,445	220,529	9.7
1927	284,444	22,390	306,834	7.3
1928	306,825	23,617	330,442	7.1
1929	315,703	23,099	338,802	6.8
1930	307,933	22,327	330,260	6.8
1931	231,342	20,359	251,701	8.1
1932	131,160	27,961	159,121	17.6
1933	132,870	69,243	202,113	34.3
1934	190,257	129,182	319,439	40.4
1935	213,227	50,583	263,810	19.2
1936	282,466	49,904	332,370	15.0
1937	308,945	31,447	340,392	9.2
1938	276,276	29,250	305,526	9.6

Source: Deutscher Verein für Wohnungsreform E. V., Wohnungsbau in Reich und Ländern, 1933-1937 (Berlin: Ernst Wasmuth, 1939).

The low level of construction between 1919 and 1924 was due principally to the postwar German inflation.[12] Rents were frozen at prewar levels while inflationary pressures were rapidly pushing up construction costs. During World War I the entire housing complex had been regulated by a series of legislative enactments. All rents were officially fixed, private renting contracts were outlawed and tenants were accorded a permanent right of tenure for their dwellings provided they paid the set rent. In the last resort, the public authorities took over the function of renting agent. It can generally be stated that the government intervened at several points to prevent a catastrophic situation in the housing market during the breakdown of the capital market under the strain of the German inflation. The Housing Shortage Law of 1923 (Reichswohnungsmangelgesetz) permitted the government to provide dwellings for the homeless by various methods; the Tenant-Protection Bill of 1923 (Mieterschutzgesetz) was a guarantee to tenants that they could not be forced to leave dwellings except under certain prescribed conditions, and the Rent Act of 1922 (Reichsmietengesetz) prevented rent increases except by official permission.

The German Government undertook to cover the difference between actual cost price and what was considered a "normal" cost,

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[12] The "German inflation" is usually thought of as a postwar phenomenon. However, the inflationary pressures during the war were hidden by measures of war economy. The Statistical Reich Bureau computed, after the war, that the average level of German wholesale prices had increased 130 percent during the war. But this computation took into account only the legal official maximums, not the prices really paid. Only when the war economy with all its comprehensive restrictions had broken down did the real extent of the disturbances and dislocations become apparent.

on the assumption that the rise in building costs was only temporary. This was done by either government construction with a write-off of part of the investment or by granting outright subsidies to public utility societies. But as it became evident that prewar conceptions of normality were not realistic, it became necessary to replace temporary measures by long-run policies.[13]

Several measures were taken to reorganize the capital market by the establishment of mortgage loan banks with the assistance of public funds. The establishment of the Deutsche Bau und Bodenbank in 1923 was a particularly important step in improving the flow of capital into housing investment. Residential construction did not start in earnest, however, until after the stabilization of the currency in 1924. The continued scarcity of capital and accompanying high interest rates prompted the enactment of special government subsidies for housing construction. The funds for government aid were secured from the proceeds of the house-rent tax or "Hauszinssteuer," which was levied in 1924, rather than out of borrowed funds. The rationale for this tax was that all pre-inflation era houses were free of interest costs, since the owners had been able to pay off mortgage debt at the height of the inflation. During this period, house owners netted handsome revaluation profits as they were mortgage debtors, and mortgages were revalued by only 25 percent after the

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[13] Bauer, op. cit., p. 273.

stabilization of the currency.[14] This unfair advantage was equalized by the imposition of special taxes on such houses.

The period from 1924 to 1930 became known as the "Era of the Hauszinssteuer." During this period the volume of new housing construction increased by a multiple of three. As supplements to the rent tax, government loans were made to builders and to government employees at low rates of interest, and private employers were encouraged to construct homes for workers or to offer building loans at low rates of interest.

Throughout this period, public financing accounted for between 50 and 60 percent of total new investment in housing. The heavy dependence of the housing market upon public financing served to aggravate the severity of the decline when the depression set in between 1930 and 1931. The decline in tax revenues necessitated a drastic reduction in public funds for housing construction and was matched by a similar decline in credit available through the organized capital markets. As a result of these and other factors, residential construction declined by over 50 percent between 1929 and 1932.

Housing Under the Nazi Government

When the Nazi Regime came to power in May of 1933, most phases of economic life, including the housing sector, were brought under a rigid and centralized control. A complex of

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[14] Gustav Stolper, German Economy, 1870-1940; Issues and Trends (New York: Reynal and Hitchcock, 1940), pp. 204-05.

laws and decrees concerning housing were fitted into the general framework of two four-year plans.

The First Four-Year Plan (1933 to 1936) had as its main purpose a revival of the German economy, and during the first two years of this plan great emphasis was placed on rebuilding. The achievement of this plan can be noted by the fact that in 1933, 34.3 percent of all additions to the German housing stock were the result of rebuilding, while in the following year, rebuilding accounted for 40.4 percent of the additions to the housing stock. Table V-3 gives a general picture of the amount of housing construction before and during the First Four-Year Plan together with the relative importance of the public and private sectors over this period. It should be noted that the changes in the relative importance of private relative to public construction were in good part induced by the changes in the sources of housing finance that were made by the Nazi Government. The shift of financing from public funds to private capital after 1933 is shown in Table V-4. Rebuilding had been encouraged by the pre-Nazi Government in 1932,[15] since a considerable surplus of large apartments which had been constructed during the previous boom were available for remodeling to offset a severe shortage of smaller apartments. However, the tendency throughout the period of the First Four-Year Plan was for the proportion of larger to smaller residential dwellings to increase.

[15] Notverordnung, September 1932.

Table V-3

Newly Built Dwellings in Germany, by Types of Builder, 1927 to 1935

Year	Private Builders	Percent of Total	Nonprofit Societies	Percent of Total	Public Authority	Percent of Total	Total
1927	169,595	60.3	78,426	27.9	33,269	11.8	281,090
1928	180,900	59.6	90,889	30.0	31,538	10.4	303,327
1929	173,189	55.5	109,121	34.9	30,010	9.6	312,270
1930	156,764	51.3	121,394	39.8	27,148	8.9	305,296
1931	118,749	51.7	92,587	40.3	18,492	8.0	229,828
1932	91,672	70.4	27,282	20.9	11,337	8.7	130,291
1933	99,680	75.4	19,546	14.8	12,988	9.8	132,191
1934	133,542	70.5	30,187	15.9	25,760	13.6	189,489
1935	154,845	73.0	40,050	18.9	17,127	8.1	212,022

Source: Heinz Umrath, Activities of the European Labor Movement in the Housing Field (unpublished report, Amsterdam, December 1952), p. 28.

Table V-4

Financing of Housing Construction
in Germany, 1924 to 1939

Type of Finance	Period Under Consideration	
	1924-1931	1932-1939
Public Funds	51%	14%
Real Estate Credit Institutions	37	46
Other Private Sources	12	40

Source: United Nations Economic Commission for Europe, Methods and Techniques of Financing Housing in Europe, E/ECE/TM/HOU/38 (Geneva: March 1952), p. 111.

Table V-1

Financing of Housing Construction
in Germany, 1924 to 1932

Type of Finance	Period Under Consideration 1924-1931	1932-1932
Public Funds	51%	14%
Real Estate Credit Institutions	37	46
Other Private Sources	12	40

Source: United Nations Economic Commission for Europe, Economic and Technique of Financing Housing in Europe, E/ECE/HOU/38 (Geneva: March 1952), p. 111.

Table V-5 indicates that the percentage of total construction represented by small houses declined from 88.7 percent in 1933 to 83.3 percent three years later.

The law for the Encouragement of Housing Construction,[16] passed in 1935, placed a greater emphasis upon new construction. The percentage of total additions to the housing stock represented by new construction increased to 80.8 percent in 1935, with a further increase to 85.0 percent in 1936. As shown by Table V-2, construction continued to expand during the 1930's and the 1929 high was exceeded in 1936 and 1937. A slight decline in construction occurred in 1938 which reflected a growing shortage of labor and materials due to increased allocation of economic resources to the military sector of the economy. However, in spite of the considerable increase in residential construction during this period, a serious housing shortage existed. Although about 300,000 dwellings a year were added to the housing stock from 1927 to 1930, the shortage increased rapidly because of the more rapid rate of population growth.[17] According to the census of 1933, over a million households had no separate home [redacted] as compared with 600,000 in 1927.[18] Though most of the new construction was in lower-income housing, there was still much construction of dwellings with rentals too high to find tenants in

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[16] Reichsgesetz zur Forderung des Wohnungsbaues.

[17] Refer to Tables II-1 and II-2 to see the relationship between population growth and the amount of new housing construction.

[18] Heinz Umrath, Activities of the European Labor Movement in the Housing Field (unpublished report, Amsterdam, December 1952), p. 29.

[illegible] the percentage of [illegible] construction [illegible] small houses declined from 48.7 percent in 1933 to 18.3 percent three years later.

The law for the Encouragement of Housing Construction,[16] passed in 1934, placed a greater emphasis upon new construction. The percentage of total additions to the housing stock represented by new construction increased to 60.8 percent in 1935, with a further increase to 85.0 percent in 1936. As shown by Table V-2, construction continued to expand during the 1930's and the 1939 high was exceeded in 1935 and 1937. A sight decline in construction occurred in 1938 as it reflected a growing shortage of labor and materials due to increased allocation of economic resources to the military sector of the economy. However, in spite of the considerable increase in residential construction during this period, a serious housing shortage existed. Although about 300,000 dwellings a year were added to the housing stock from 1937 to 1939, the shortage increased rapidly because of the more rapid rate of population growth.[17] According to the census of 1939, over a million households were homeless as compared with 600,000 in 1927.[18] Though most of the new construction was in lower-income housing, there was still a high concentration of dwellings with rentals too high to find tenants in

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[16] Reichsgesetz zur Forderung des Wohnungsbaues.

[17] Refer to Tables II-1 and II-2 to see the relationship between population growth and the amount of new housing construction.

[18] Reichs Durch. Activities of the Government for Housing [illegible] Reichs Statistic Pfold (unpublished report), American Legation [illegible] p. 20.

Table V-5

German Residential Dwelling Construction
Size Distribution, 1933 to 1936

Year	Total Residential Construction	Small Houses		Medium Houses		Large Houses	
		Number	Per-cent	Number	Per-cent	Number	Per-cent
1933	91,909	81,450	88.7	2,887	3.1	7,571	8.2
1934	128,574	113,291	88.1	4,228	3.3	11,055	8.6
1935	134,185	115,705	86.2	5,307	4.0	13,173	9.8
1936	155,112	129,512	83.3	6,600	4.3	19,000	12.4
Total	509,780	439,959	86.3	19,022	3.7	50,799	10.0

Source: Helwig Stern, Die Bedeutung des Wohnungsbauses im ersten Vierjahresplan (Würzburg-Aumuhle: Konrad Triltsch, 1940), p. 30.

Table V

German Residential Dwelling Construction
Size Distribution, 1933 to 1936

Year	Total Residential Construction	Small Houses		Medium Houses		Large Houses	
		Number	Percent	Number	Percent	Number	Percent
1933	91,409	81,450	88.7	2,881	3.1	7,077	8.2
1934	128,714	113,291	88.1	4,254	3.3	11,068	8.6
1935	134,185	115,705	86.2	5,377	4.0	13,173	9.8
1936	155,112	129,512	83.3	6,600	4.3	19,000	12.2
Total	509,480	439,958	86.3	19,000	3.7	50,318	10.0

Source: Helm & Stern, The Reconstruction of Germany in Its Relation to Her Neighbors (Washington: Government Printing Office, 1941), p. 30.

the period before 1933. Fey notes:

> At the end of 1932 more than one million households had no home of their own in Germany. The fact that not even 10 percent, nay, apparently not a single one of these families disposed of enough purchasing power, to rent one of the [150,000] empty apartments, clearly shows the wrong relation between rent and income. But the outside impression was that there was no housing shortage in Germany.[19]

The Second Four-Year Plan, which was interruped by the war, began in 1937 and was designed to overcome the more critical aspects of the housing problem discussed above, although it was almost impossible to close the gap between supply and demand. In contrast to the First Four-Year Plan, increased emphasis was placed upon the construction of smaller apartments and upon rural workers' homes. German rent policy in this period was placed in the hands of a "Reichskommissar für die Preisbildung," who was responsible for "the control of prices for goods and production of any kind, in particular, the necessities of life." All rents were frozen and every effort was made throughout this period to keep rentals at a low stabilized level.

Armed conflict broke out in Europe soon after the inception of the Second Four-Year Plan, and the allocation of German economic resources was diverted primarily to military activities. After 1938 there was relatively little effort devoted to housing activities per se until after World War II.

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[19] W. Fey, Leistungen und Aufgaben im Deutschen Wohnungs und Siedlungsbau, (Berlin: Duncker & Humblot, 1936).

[illegible] 1931 [illegible] today [illegible]

As the end of 1932 were [illegible] a [illegible] had [illegible] of its own in Germany. The [illegible] even 10 [illegible], only apparently [illegible] a [illegible] of these facilities dispensed of enough [illegible] power to run one of the 1,000,000 [illegible] machines, clearly showing a [illegible] relation between [illegible] and [illegible]. But this [illegible] approaching was [illegible] was [illegible] [illegible] shortage in [illegible].[1]

The second Four-Year Plan, which was [illegible] by the [illegible] of 1937 and was designed to overcome the more critical aspects of the [illegible] problem disclosed above, although it was [illegible] impossible to close the gap between supply and demand. In [illegible] to the First Four-Year Plan, increased emphasis was placed upon the construction of smaller apartments and upon rural workers' homes. German [illegible] in this period was placed in the hands of a "Reichskommissar für die Preisbildung" who was responsible for the control of prices for goods and production of any kind, in particular, the necessities of life. All [illegible] were frozen and every effort was made throughout this period to keep rentals at a low stabilized level.

Among [illegible] brought out in [illegible] after the [illegible] of the Second Four-Year Plan, and the [illegible] of German economic [illegible] was [illegible] [illegible] to [illegible] [illegible]. After 1937 there was relatively little [illegible] to [illegible] activities [illegible] until after World War I.

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[1] W. [illegible], Heizungen und Anlagen in Deutschen Wohnungen und Siedlungen, (Berlin: Duncker & Humblot, [illegible]).

Housing Policy During World War II

It is quite difficult to trace in any detail the developments in German housing through the course of World War II. In 1939 the housing stock in the area which has now become West Germany, consisted of approximately 10 million dwellings serving a population of 39.4 million people. Over the course of World War II, one-quarter of the dwelling units in existence in 1939 were destroyed by bombing and other war action.[20]

In spite of the tremendous war losses suffered by Germany, the population of that country continued to increase. Table II-1 indicates that the population in the territory of West Germany rose by approximately 25 percent from 38.5 million persons in mid-1937 to 47.9 million at the end of 1952. Since 1952 the population increased a further 7.5 percent to 51.5 million at the end of 1958. The rapid postwar increase in the total population may be attributed more to the heavy influx of refugees from the East than to large changes in the birth or mortality rates. It is estimated that net immigration into West Germany in the period from October 1946 to December 31, 1951, totaled about 2.1 million, with an additional 1.3 million individuals entering West Germany between 1952 and 1958. The total net immigration between 1950 and 1958 is estimated at approximately 2.5 million.

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[20] Robert G. Wertheimer, "The Miracle of German Housing in The Postwar Period," Land Economics, XXXIV (November 1958), 338. See also, Umrath, op. cit., p. 34.

An estimate of the extent of the housing shortage in Germany can be gained from a report of the United Nations which estimated that the number of households in West Germany in September of 1950 totaled approximately 15.2 million (out of a population of 47.7 million) and exceeded the number of available dwellings by about 5.75 million. It was also estimated that about 40 percent of the German households did not share their dwellings and that if separate dwellings were to have been provided for all married men and for half of the widowed, divorced, and unmarried persons over 30 years of age, the housing stock in West Germany would have fallen short of requirements by almost 4.5 million units in 1950.[21] The housing census taken in Germany in 1950 determined that 6.5 million dwellings or 425,000 dwelling units per year would have to be constructed until 1965 to eliminate the most urgent housing shortage within that period. Even then an extensive slum clearance program was felt to have been necessary, as many of the existing houses were far below minimum standards.[22]

Post-World War II Housing Situation

The emergency nature of the immediate post-World War II housing problem placed emphasis upon the shelter requirements

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[21] United Nations Economic Commission for Europe, The European Housing Situation, E/ECE/221 (Geneva: January 1956), p.18. According to this report, the interpretation given the concept of a "household" in the West German housing census of 1950 included as households some classifications such as students and apprentices who do not ordinarily require a separate dwelling. For this reason, the above estimates cited may exaggerate somewhat the extent of the housing shortage in Germany in 1950.

[22] Umrath, op. cit., p. 34.

[illegible]

[illegible] Economic Commission for Europe (ECE) [illegible] Housing Situation, E/ECE/22 (Geneva: [illegible] 1950). According to this report, the [illegible] expansion [illegible] of a "[illegible]" in the West German housing [illegible] of [illegible] in Europe [illegible] some [illegible] who do not ordinarily [illegible] dwellings. For this reason, the above [illegible] the extent of the housing [illegible] in Germany in 1950.

[illegible] p. 3

of refugees and those whose homes had been demolished by bombing and by other military activities. Scarcely any use was made of temporary housing. In urban areas many people were housed in air-raid shelters, and in the other areas people were housed in available undamaged dwellings. Emergency repair work in the first winter after the war rendered half a million dwellings habitable again, but the shortage of new materials caused the deferment of new construction on any scale until after the Currency Reform of 1948. During this period directly following the war, first priority went to the repair of damaged but habitable accommodations. In view of the problems of removing rubble and repairing more extensively damaged houses, the provision of dwellings in the early postwar years moved slowly. Hence the main focus from 1945 to June of 1948 was upon the restoration of housing and industrial capacity, the removal of debris, and political reorganization.[23] It was obvious to the Occupying Powers that whatever the success of these emergency measures, the basic industries of coal and steel must be swiftly restored if, in accordance with the principles of the Potsdam Agreement, the German people were to be enabled to

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[23] Central Mortgage and Housing Corporation, Housing Progress Abroad, VII:2 (Ottawa, Canada: June 1952), 6. See also Robert George Wertheimer, Tax Incentives for Savings and Investments in the German Federal Republic, 1948-1954 (unpublished Ph.D. dissertation, Harvard University, 1956), pp. 4-8.

[illegible] and [illegible] bombing [illegible] other military activities. In general, [illegible] was made on [illegible] operations. In urban areas [illegible] were [illegible] in air raids shelters, and in the [illegible] people were [illegible] in available unheated dwellings. Bureaucracy reacted in the [illegible] after the war [illegible] half a million dwellings annually again, but the shortage of new manufacturing [illegible] caused the government of new constructions or [illegible] until after the [illegible] in 1948. During that period [illegible] the [illegible] pressure [illegible] to the [illegible] of [illegible] public [illegible].

In view of the [illegible] of [illegible] and [illegible] were extensively [illegible] [illegible] the [illegible] of the [illegible]. In the early [illegible] [illegible] [illegible] [illegible] from 1945 to [illegible] of 1948 was [illegible] the [illegible] of [illegible] are industrial [illegible], the [illegible] of [illegible] political [illegible] [illegible]. It was [illegible] to the [illegible] [illegible] that [illegible] the [illegible] of [illegible] [illegible] the basic industries of [illegible] and [illegible] [illegible] [illegible], in [illegible] [illegible] the [illegible] of the [illegible] [illegible] the German people [illegible] to [illegible] to

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[illegible] Canadian Portage and Housing Corporation, [illegible] Program Abroad, /11:2 (Ottawa, [illegible] 1948). See also Robert [illegible], Work Shelter, Tax [illegible] Give [illegible] and Live Beneath the [illegible] Federal [illegible] 1948 [illegible] Problem Pb. [illegible] Reconstruction, Harvard [illegible] Urban [illegible] p. [illegible].

[illegible] of available funds and of finding shelter for the homeless, work was begun on restoring coal and steel output in Ruhr. Coal was very important and priority was given to housing for miners. Within the framework of the Marshall Plan, a special project for miners' houses was developed by the organizations of employers and employees in the Ruhr coal industry. A premium of DM 2 was paid on every ton of coal and DM 100,000,000 was supplied from counterpart funds.[25] The Ruhr miners' fully financed the net construction costs, of

[24] After the German surrender in 1945, supreme authority in Germany had been vested in the British, United States, Soviet, and French Commanders-in-Chief, each in his own zone of occupation, and also jointly--as the Allied Control Council--in matters affecting Germany as a whole. It was fundamental to the conception of the purposes of the Occupation, as set out in the Potsdam Agreement, that Germany should be treated as an economic unit, and that required imports should be paid for out of current production, with reparations relegated to second place.

[25] Hermann Wandersleb, "Idea, Planning and Execution of the MSA/FOA Coal Miners' Housing Program," Eigenheim für den Bergmann (German Ministry of Housing, December 1954). Realizing that any sizable increase in the construction of coal miners' housing would leave the current housing program with a critical shortage of funds unless it were possible to tap other sources, the German Congress unanimously adopted a new law, dated October 23, 1951, under which the Federal Republic introduced a levy of DM 2.- per ton of bituminous coal and DM 1.- per ton of brown coal, to be used exclusively for financing the construction of coal miners' housing. An amendment to this law, dated October 29, 1954, provided for an extension of this financing method through 1957, but reduced the levy to one half the original amount.

These were originally ECA (Economic Cooperation Administration) projects in 1948; they later shifted to the MSA (Mutual Security Agency) in 1951. The intention of the MSA Mission was to make available DM 100 million of counterpart funds to promote the idea of homeownership and to raise the standard of housing for coal miners appreciably. Houses built under the MSA Miners' Program were constructed for homeownership in the mine projects.

which DM 8 million went for site-improvement costs. The later policies, applying to homes for miners, will be discussed in more detail later; however, these initial steps brought coal from an output of a few thousand tons a week immediately following the war to over 300,000 tons daily within two years.[26] Whereas at least 400,000 miners had no homes at all in 1945, the shortage was reduced to 90,000 in 1953 and "probably totally eliminated in 1955."[27]

Currency Reform and Governmental Reorganization

Expectations of reform had inhibited financial undertakings prior to the Currency Reform of June 20, 1948, and it was only after the currency reform that any serious approach to the housing problem became possible and that attempts were made to tackle the housing problems of the larger cities. The monetary disorder of the country was recognized as a major impediment to progress. The reichsmark had become almost worthless long before the end of the war; the magnitude of the chronic inflation to which Germany had been subject was concealed by the intricate and pervasive network of controls created by the National Socialist war machine; currency payments were useless and black-market barter spread to every trade and form of manufacture. Industrial output suffered severely and only through barter could materials

[26] Great Britain Board of Trade, Commercial Relations and Exports Department, Federal Republic of Germany, Economic and Commercial Conditions in the Federal Republic of West Berlin, Overseas Economic Survey Series (London: H.M.S.O., March 1955), p. 2.

[27] Umrath, op. cit., p. 38.

be obtained at all.[28] Although the Länder of the German Federal Republic did everything possible from the time they were founded in 1945 to further the repair and construction of dwellings, actual construction was possible only in the rural areas where the country population was in a position to feed construction workers and to barter foodstuffs for building materials through the "gray" and "black" markets.[29] The task of rebuilding many of the rural areas was thus largely completed when the larger cities were only beginning to take on the problems of reconstruction and planning. As in the period following World War I, the revival of urban residential construction had to wait for the currency reform which came into effect under laws promulgated by the British, French, and American occupation authorities. By 1948 the basis for further expansion had been laid as the reichsmark was replaced by a new currency controlled by a bank of issue with authority throughout the three Western zones, and the Deutsche mark was established as legal tender.[30] In addition to the currency reform other programs established were of great assistance in shaping the pattern of future German economic development.[31] The establishment of a stable currency, the

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[28] Federal Republic of Germany..., p. 5.

[29] The German Federal Republic Press and Information Office, Germany Reports, 2nd ed. (Bonn: 1955), p. 4.

[30] German citizens received 60 of the new Deutsche mark in exchange for 60 of the old reichsmark, and all wealth above that figure was converted at the rate of 10 RM = 1 DM.

[31] Particularly the Economic Cooperation Administration (ECA), the Mutual Security Agency (MSA), and the Foreign Operations Administration (FOA) under the framework of the Marshall Plan and the Office of European Economic Cooperation.

prospect of increased imports due to large-scale American aid, and the psychological effect of the association of West Germany with the Western European countries in a concerted drive toward economic recovery, laid the groundwork for the West German recovery under the Federal Republic established in 1949. The ministers and civil servants in the new government included many who had worked closely and effectively with the Allied authorities.[32] The erection of new dwellings was constituted as one of the foremost tasks of the new Bonn Government, according to its policy statement of September 20, 1949, and this was reiterated in the statement of policy issued by the Second Government when it took office in the latter part of 1953.

Housing Policy and the First Housing Act of 1950

When the Federal Government took office in 1949, a major problem was the provision of the necessary finance at interest rates low enough to enable rents to be controlled at a modest level. The problem was solved by subsidizing housing construction on a large scale from public funds, especially from the funds of the Federal and Länder budgets, and by making provision for generous income tax relief on nonpublic funds invested in housing.[33]

The Federal Government's social housing program and the means of financing it were set out in the First Housing Act of

[32]Especially important were Professor Erhard, Minister of Economics since 1949 and in charge of economic affairs since 1948, and Herr Schaeffer, Minister of Finance during the same period.

[33]Detailed analysis of financing will follow.

1950, which provided the legislative basis for implementation of the German Federal Republic's housing plans. The Act was amended in certain respects in August of 1953,[34] and further amendments were incorporated in 1955 and in the Second Housing Act of 1956 to give greater encouragement to homeownership. It distinguished three types of housing, namely:

1. Social housing enjoying subsidies and loans at low rates of interest from public funds.
2. Other housing construction aided by tax concessions and tax exemptions.
3. Housing financed entirely from private funds and enjoying no financial privileges.

The subsidized social-housing projects were intended primarily for the broad masses of individuals in the lower-income groups. Projects of this type were financed by public loans at a low rate of interest, were limited as to the size of the dwellings constructed, and were subject to strict limitations on the level of rents and maximum levels of income which could be received by tenants.[35]

Other housing projects utilizing tax exemptions and concessions were also limited in size of constructed dwelling, although they generally provided for homes larger than those

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[34] Restrictions on the sizes and rents of social housing project dwellings set up in the original Act of 1950 were modified in 1953 to induce private capital into this area of investment.

[35] Federal Republic of Germany..., p. 137.

considered in the subsidized projects, as will be noted in detail later.

The First Housing Act of 1950 established as a goal the production of 1.8 million new social-housing dwellings over a six-year period. Table V-6 shows that this target was reached by 1956, although social housing declined to less than 50 percent of total dwellings completed in 1956 and 1957. As will be noted presently, the elimination of special Section 7c income tax concessions in 1955 and 1956, combined with generally restrictive credit measures by the central bank to combat inflationary trends in the economy, probably accounted for the sharp decline in social-housing production in 1957. Tax concessions were re-introduced at the end of 1956, and this development, together with measures through which the federal government provided special financial assistance to the Länder for providing refugee housing, resulted in a large increase in social-housing production in 1958.

It can be noted that total dwelling unit completions rose from 360,000 in 1950 to a record total of 558,900 in 1956. This production record is impressive when it is compared with the highest building total for the pre-World War II years--339,000 units in 1929, of which 197,000 units were completed in what is now the German Federal Republic.

Table V-7 shows that rents for all income groups showed a similar trend, but lagged substantially behind rising building costs in the period from 1950 to 1954. The increase in the

Table V-6

Dwelling Construction in the Federal Republic of West Germany, 1950 to 1959 (Excluding West Berlin and the Saar)

Year	Total Number of Dwellings Completed	Social Housing	
		Number	Percent
1950	360,000	261,000 a/	73 a/
1951	410,300	293,000 a/	71 a/
1952	443,100	275,000 b/	62 b/
1953	518,400	286,700	55
1954	542,900	284,800	52
1955	541,700	269,400	50
1956	558,900	276,000	49
1957	528,900	211,000	41
1958	486,400	295,000	61
1959	550,000 c/	300,000 c/	55

Sources: Walter Fey, "Umfang und Merkmale des Wohnungsbaues in der Bundesrepublic Deutschland im Jahr 1958," Abdruck aus Bundesbaublatt (May 1959), p. 235. Also, his Housebuilding and Finance of Housing in the Federal Republic of Germany in 1956 (Bad Godesberg: Federal Ministry of Housing, 1957), Table 1.

Notes: a/ Heinz Umrath, Activities of the European Labor Movement in the Housing Field (unpublished report, Amsterdam, December 1952), p. 36.

b/ Estimated by the author based upon averages of authorizations in 1951 and 1952.

c/ Bundesministerium fur Wohnungsbau, Jahresbericht 1959, Auszug aus Deutschland im Wiederaufbau 1959.

Table V-7

Comparison of Changes in Building Costs and Rents in West Germany, 1950 to 1958

Year	Estimated Cost of an Average Dwelling[a]	Price Index for Dwelling Construction[b]	Rent Index for Upper- and middle-income Groups[c]	Rent Index for Lower-Income Group[c]
		1950 = 100	1950 = 100	1950 = 100
1950	n.a.	100	100	100
1951	n.a.	116	102	101
1952	n.a.	123	104	103
1953	DM 14,130	119	107	107
1954	15,460	120	107	107
1955	17,020	129	110	110
1956	18,800	133	117	117
1957	21,200	140	119	119
1958	23,000	145	120	120

Sources:

a/ Walter Pey, Housebuilding and Finance of Housing in the Federal Republic of Germany in 1956 (Bad Godesberg: Federal Ministry of Housing, 1957), Table 5. See also, Annual Report of the Federal Ministry of Housing for 1958 (Bad Godesberg: 1959), p. 5.

b/ Statistisches Bundesamt, Statistisches Jahrbuch für die Bundesrepublik Deutschland, 1959 (Stuttgart: W. Kohlhammer, 1959), p. 428.

c/ Ibid., pp. 431-33.

average cost per dwelling reflects increases in the size and quality of dwellings as well as the rise in building costs. Recognizing that existing rent restrictions tended to keep rents at an uneconomic level, the Federal Cabinet approved a rent law in September of 1954 that provided for:[36]

1. A 10 percent increase in rents for all dwellings constructed prior to the currency reform. Increases of 15 percent and 20 percent were permitted where these dwellings had central heating and other amenities.
2. Supplementary charges for heating, water supply, and subletting in certain cases for dwellings that had been ready for occupation before December 31, 1949. However, these charges were not to be included in the standard rent on which the permanent increases were to be calculated.
3. The charges to tenants with respect to repairs were increased on older buildings to take account of the increase in repair costs since 1936. The purpose of this legislation was to prevent the dilapidation of older buildings.

As a result of these changes, the index of residential rents for all income groups, which had changed little from 1945 to 1950, and had risen by only seven percent from 1950 to 1954, rose more rapidly to 120 percent of the 1945-50 level by 1958.[37]

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[36] Ibid.

[37] Statistisches Bundesamt, Statistisches Jahrbuch für die Bundesrepublik Deutschland, 1959 (Stuttgart: W. Kohlhammer, 1959), p. 431. See Table VII-7 for a comparison of changes in rents and cost of living.

Changes in rents during the postwar period reflect in part improvements in quality of dwellings built during the postwar period. Although the index of rents paid showed a similar trend for all income groups from 1950 to 1958, rents per square meter of floor area in state-assisted dwellings for low-income persons were approximately 15 percent below the average for all other renters in 1957 and 1958.[38] This reflects the granting of capital and loan subsidies for "social housing."

A new rent regulation made effective on August 1, 1958, codifies and simplifies former rent restrictions on approximately nine million existing dwellings. This represented a further step toward the gradual restoration of free competitive market conditions in privately owned rental housing.

The distinguishing features of West Germany's post-World War II housing policies have been the maintenance of tax and loan subsidies designed to encourage private housing investment in social housing, the encouregement of owner-occupied dwelling construction through tax and loan subsidies, and the gradual elimination of government controls over housing and rents. The following sections will examine specific aspects of West German housing policy in greater detail.

Housing Finance

The general financing of housing in West Germany typically involves a system of multiple mortgage loans and this framework

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[38] Social Housing in 1958, A Special Report Prepared by the Federal Ministry of Housing (Bad Godesberg: 1959), p. 18.

of finance is typical of many European nations. Generally, the capital raised to finance housebuilding in the post-World War II period came from four different sources. A first mortgage was provided from private financial institutions; second mortgage loans were obtained from loans and advancements by commercial banks, by employers, and by tenants and from other private sources. Some capital was raised from the proprietor's own capital resources, and the remainder was provided by public funds from the Federal Government, the Länder and communes, and by the office of the Equalization of Burdens. Tables V-8 and 9 show the sources of housing finance in West Germany between 1950 and 1958.

An important aim of government housing policy has been to insure that the cost of funds for building provided by the capital market should be kept low relative to the normal cost of long-term capital. This was accomplished by forcing the institutional sources of credit to devote a fixed proportion of their funds to housing construction at a maximum interest rate of six percent. Moreover, under the First Law for the Promotion of the Capital Market of December 1952, interest on mortgage banks' bonds was made tax free, provided 90 percent of the loaning capacity was used for housing under the social housing program.

Tables V-8 and 9 reveal the gradually declining importance of public mortgage financing in the postwar period as a percentage of total mortgage lending. Public loans by the Länder and

contribution to plan, exceeding [illegible],000 annually from April 194[illegible] to April 1950.[27] The Bureau of the Census estimated that 2,282,000 nonfarm married couples were living "doubled up" in April 1947, equaling seven percent of the estimated total number of nonfarm families on that date.

As a part of a general government reorganization and also in response to widespread criticism of the program of the National Housing Agency, particularly the attempts to control and direct housing production and the use of government funds to encourage prefabrication, the federal agencies in housing were reorganized as the Housing and Home Finance Agency in 1947. In the same year the Congress reaffirmed the declaration in the Price Control Extension Act of 1946 that "it is its purpose to terminate at the earliest practicable date all Federal restrictions on rents on housing accommodations."[28]

The structure of the Housing and Home Finance Agency as it had evolved by 1953 is shown in Chart VI-2. The significant fact which emerges from Chart VI-2 is that the Federal Government emerged from World War II with a comprehensive government organization and with broad responsibilities for financing, administering, and providing housing. The Veterans' Administration was a key organization in housing finance which retained

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[27] U. S. Bureau of the Census, Current Population Reports - Population Characteristics, Series P-20, No. 94 (Washington: August 24, 1959).

[28] U. S. Office of the Housing Expediter, The Housing and Rent Act of 1947, as Amended, A Collation of Public Laws 129 (Housing and Rent Act of 1947), 422, and 464 (Housing and Rent Act of 1948), 80th Congress, and Public Law 31 (Housing and Rent Act of 1949), 81st Congress (Washington: April 1, 1949), Section 201.

Chart VI-2

MAJOR HOUSING PROGRAMS ADMINISTERED IN 1953 BY THE HOUSING AND HOME FINANCE AGENCY

PUBLIC HOUSING ADMINISTRATION

PHA makes loans and grants and provides services to local public housing agencies to assist in providing low-rent dwellings for low-income families. There were about 319,000 PHA public housing units and about 75,000 more were under construction at June 30, 1953.

PHA held about $587,357,000 of obligations of local public housing agencies and it guaranteed about $1,746,088,000 held by others. Grants of $116,243,037 had been made. PHA has $1,000,000 of capital and it may borrow up to $1,500,000,000 for lending. Grants are financed by appropriations.

PHA also manages and conducts the disposition of housing acquired under the Lanham Act.

4523 employees

HOME LOAN BANK BOARD

HLBB supervises the 11 Federal Home Loan Banks, and it has chartered and regulates 1,597 privately-owned federal savings-and-loan associations.

It supervises Federal Savings and Loan Insurance Corporation which insures about $18,000,000,000 of investors' accounts.

It has been responsible for liquidation of Home Owners Loan Corporation, now completed.

At present all activities of HLBB are financed by the collection of fees and insurance premiums.

444 employees

FEDERAL HOUSING ADMINISTRATION

FHA conducts programs of loan and mortgage insurance on residential properties. It had authority to issue insurance up to a total of about $20,287,000,000 and had used all but about $1,086,000,000 of this total at June 30, 1953.

The present activities of FHA are financed entirely by fee and premium collections. However, the government guarantees about $79,011,000 of FHA debentures issued in payment of claims on defaulted mortgages, and it will guarantee further issues as they occur.

5503 employees

Activities coordinated and supervised by the Administrator

OFFICE OF THE ADMINISTRATOR HHFA

120 employees

Direct operating responsibilities of the Administrator

1300 employees

The secondary mortgage market

FEDERAL NATIONAL MORTGAGE ASSOCIATION

FNMA buys and holds or sells mortgages insured by FHA or guaranteed by VA.

Its authority to buy amounted to $3,650,000,000 and its portfolio contained 349,153 mortgages with balances of over $2,500,000,000 at June 30, 1953. It was committed to acquire $467,000,000 more.

Investment funds are borrowed from the Treasury. Expenses are paid out of interest collections. Reported accumulated net income was $128,236,174, including $35,682,506 set aside as a loss reserve.

Service activities no lending included

HOUSING RESEARCH

At June 30, 1953, HHFA was conducting research activities on behalf of people and institutions engaged in the construction or financing of residential property.

Although statutory authority for the program extends indefinitely, no funds have been appropriated for periods following April 30, 1954.

SCHOOL CONSTRUCTION

HHFA performs certain services for the Department of Health, Education, and Welfare in connection with that department's program of grants to certain school districts for construction of schools on property owned by the Federal government.

World War II

DISPOSITION OF LANHAM ACT HOUSING

HHFA has responsibility for disposing of housing units acquired by the government in connection with World War II under the Lanham Act. At June 30, 1953, 243,361 units remain in the program. Pending disposal, PHA operates these as rental properties for HHFA.

Value of the properties has not been established. After write-offs of about $623,000,000 (estimated), balances of about $853,000,000 remain on the accounting records of the program.

MAINTENANCE AND DISPOSITION OF (LANHAM ACT) DEFENSE PUBLIC WORKS

Before and during World War II, the Federal government built water systems, sewers and other public works where they were needed for the defense effort but where construction was not undertaken locally. At June 30, 1953, assets awaiting liquidation in 130 projects under the program totaled $31,220,000.

Seventeen projects were available for disposition, 49 were leased to others with options to buy, 46 were reserved for other Federal agencies, and 18 were awaiting decision on the disposition of related housing properties.

Current

DEFENSE HOUSING

Under authority of the Defense Housing and Community Facilities and Services Act of 1951, HHFA had constructed, by December 31, 1953, 14,700 temporary housing units located in areas deemed critical to the present defense program.

Development costs were $63,647,000 and administrative expenses were $1,809,000 out of a total of $70,000,000 appropriated for the program.

DEFENSE COMMUNITY FACILITIES AND SERVICES

HHFA makes grants and loans to communities in areas considered critical from the standpoint of the current defense effort, to finance water systems, sewers and streets, and to provide police and fire service.

At June 30, 1953, $20,616,000 had been appropriated for this program. Expenditures or commitments amounted to $16,835,000 in grants and $3,501,000 in loans.

Lending programs exclusive of defense-connected activities

COLLEGE HOUSING

Under authority of the Housing Act of 1950, HHFA may make loans to colleges for periods ranging up to 40 years, to finance the construction of housing facilities for students and faculty members. For this purpose HHFA may, with the President's permission, borrow $300,000,000 from the Treasury.

At June 30, 1953, outstanding loans totaled $14,739,000 and undisbursed loan commitments totaled $71,672,000. The President had approved borrowing up to $150,000,000. Approved borrowing has since been increased to $175,000,000, effective July 1, 1954.

SLUM CLEARANCE AND URBAN REDEVELOPMENT

Under this program loans and grants are made to municipalities for slum clearance and urban redevelopment. For this purpose HHFA may borrow up to $1,000,000,000 from the Treasury. The authority to make grants is limited to $500,000,000.

At June 30, 1953, outstanding loans amounted to $22,036,000 and grants of $7,818,000 had been made. Undisbursed commitments were $33,901,000 for loans and $70,574,000 for grants.

ALASKA HOUSING

This program was undertaken primarily to stimulate construction of housing for civilian families in Alaska, but included $1,000,000 for small loans to improve Eskimo dwellings in remote areas.

A revolving fund of $19,000,000 was provided by appropriation. By June 30, 1953, a total of $14,491,000 had been lent by purchase of obligations issued by the Alaska Housing Authority. Of this amount, $1,299,000 had been repaid. Undisbursed commitments were $3,924,000.

PREFABRICATED HOUSING

In 1950 HHFA became responsible for custody and servicing of the government's loans to enterprises producing prefabricated housing. The $37,000,000 RFC loan to Lustron Corporation was not included.

At June 30, 1953, loans and other assets held by HHFA under this program totaled $15,493,000. Cash totaling $7,640,000 was included in this amount, but there also were undisbursed commitments to make or refinance loans of about $5,854,000.

ADVANCE PLANNING OF NON-FEDERAL PUBLIC WORKS

This program is no longer active. It was a program of interest-free advances (loans) to municipalities and states to finance the planning of projects, construction of which might be undertaken with other than Federal funds as counter-depression activity in case of need. The advances are recoverable only if the projects planned are undertaken.

At June 30, 1953, loans and other assets awaiting disposition under the program totaled $49,147,000. This included cash balances of $10,847,000, but HHFA was committed to further expenditures of about $4,600,000.

Source: Paul F. Wendt, The Role of the Federal Government in Housing (Washington: The American Enterprise Assoc., Inc., 1956), p. 16.

its independence throughout the postwar period. This was of particular importance during periods when the Administration sought to control the over-all levels of housing production, as will be noted below.

In December 1954 the Office of the Administrator was reorganized, following closely recommendations made by the President's Advisory Committee on Government Housing Policies and Programs in its report of December 1953. The present organization of the Housing and Home Finance Agency includes the following constituent agencies: Community Facilities Administration, Urban Renewal Administration, Federal Housing Administration, Public Housing Administration, and Federal National Mortgage Association.[28a]

In his State-of-the-Union message to Congress on January 5, 1949, President Truman called attention to the fact that "five million families were still living in slums and firetraps" and "three million families shared their homes with others." The Congress set forth in the Housing Act of 1949 as a national housing objective "...the realization as soon as feasible of the goal of a decent home and a suitable living environment for every American family..." and described the policy to be used in attaining that objective as follows:

1. Private enterprise shall be encouraged to serve as large a part of the total need as it can.

2. Governmental assistance shall be utilized where feasible to enable private enterprise to serve more of the total need.

[28a] U. S. Housing and Home Finance Agency, Twelfth Annual Report, 1958 (Washington: 1959), p. vii.

3. Appropriate local public bodies shall be encouraged and assisted to undertake positive programs of encouraging and assisting the development of well-planned, integrated residential neighborhoods, the development and redevelopment of communities, and the production, at lower costs, of housing of sound standards of design, construction, livability, and size for adequate family life.[29]

Although the statement of national housing policy emphasized the role of private enterprise, it is significant that the Housing Act of 1949 made provision for large-scale direct federal

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[29] Public Law 171, 81st Cong., 1st sess. (July 15, 1949), "Housing Act of 1949," Section 2.

and local government participation in two important areas of housing:

1. The Act programmed federal subsidized public housing construction designed to provide a maximum of 810,000 subsidized low-rent dwellings over a six-year period.
2. The Act provided under Title I for federal loans of $1 billion and capital grants of $500 million for local slum clearance and redevelopment projects over a five-year period.[30]

In its report to President Eisenhower in December 1953, the President's Advisory Committee on Government Housing Policies and Programs expressed general agreement with the broad housing policies established in the Housing Act of 1949 and recommended that housing objectives be realized through long-established federal housing programs. Among the more significant of the recommendations of this Committee, which included strong representation from the mortgage finance and homebuilding industries, were the following:

1. Increased federal grants and loans to local communities for slum clearance and extension of FHA loan insurance to older areas.
2. Continuance of federally subsidized low-rent public housing with specific provisions for priorities in occupancy for low-income families displaced by slum clearance, rehabilitation or public works.

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[30] U. S. Housing and Home Finance Agency, Third Annual Report, 1949 (Washington: 1950), pp. 2 and 10.

3. Liberalization of terms (increase term of loan and maximum amount of loans) for FHA Title I loans for modernization or repair to existing houses.
4. Formation of a privately owned National Mortgage Marketing Corporation with original capital stock of $50 million subscribed by lenders eligible to use its facilities (the balance of subscriptions required to be subscribed by the Federal Home Loan Banks).
5. Two-year experimentation with 100-percent 40-year FHA loans up to limited dollar amounts.
6. Reorganization of federal housing activities under a single Administrator with clear supervisory authority.[31]

Recommendations on Government Housing Policies and Programs

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[31] The President's Advisory Committee on Government Housing Policies and Programs, [redacted] (Washington: December 1953).

Among other specific recommendations were: that the FHA and VA work out an interagency agreement for FHA to take over technical functions of VA home loan guaranty program, including valuation and appraisal, market analysis, property inspection, construction standards, etc.; that a Federal Home Loan Board be newly established in place of the present Home Loan Bank Board, responsible for the Federal Home Loan Bank System, the Federal Savings and Loan Insurance Corporation, and the newly recommended National Mortgage Marketing Corporation; elimination of a number federal programs administered by the Housing and Home Finance Agency, including Housing Research, Prefabricated Housing Loans, College Housing and School Construction programs, Programming of Defense Housing, Federal National Mortgage Association (Fannie Mae), International Housing Activities, Alaska Housing Program, and others; merger of the group insurance accounts now maintained under the FHA mutual mortgage insurance system into a single insurance fund.

Most of the recommendations of this committee were enacted into law by the Housing Act of 1954. Maximum terms of loans, however, were restricted to 95 percent and 30 years. In addition, the provision for the formation and capitalization of the Federal National Mortgage Association in the Housing Act of 1954 differed from the recommendations in that the Secretary of the Treasury was authorized to subscribe to $21,000,000 of preferred stock,

Post-World War II housing progress in the United States is reflected in the production of new dwellings and in changes in the characteristics of the housing stock as influenced by new production, demolitions, conversions, and improvements to existing structures. The improvement in selected characteristics of the United States housing stock has already been noted in Table VI-5. The combined influence of high rates of new construction, rehabilitation of housing formerly classed as substandard, and removal of substandard units resulted in a decline in the number of substandard units in the United States from 16,400,000 to 13,092,000 by 1956, and it has been estimated that the total of such units will have declined further to 11,500,000 by 1960.[32]

31 (continued)
with the remainder of capital funds accumulated by requiring each mortgage seller to make capital contributions. The control of the Federal National Mortgage Association was vested by the Act of 1954 in a Board of Directors headed up by the Housing and Home Finance Administrator and provision was made for a gradual redemption of Treasury-held stock and a shift to private stock ownership and operation as an independent secondary mortgage facility. After 1954 the Slum Clearance and Urban Redevelopment Agency became known as the Urban Renewal Administration. It remained for the Housing Act of 1955 to provide for the separation of the Home Loan Bank Board from the jurisdiction of the Housing and Home Finance Agency and a change in its name to the Federal Home Loan Bank Board.

[32] Reinhold P. Wolff, "Substandard Dwelling Units and Their Replacements, 1961-70," Study of Mortgage Credit, U. S. Senate Committee on Banking and Currency, Subcommittee on Housing, 85th Cong., 2d sess. (Washington: 1958), p. 45.

A critic of these estimates maintains that Wolff overstates the National Housing Inventory 1950-56 figure for "substandard units rehabilitated and now standard" by 1.1 million units and that as a result Wolff's projection of the number of units to be shifted from substandard to standard during the 1960's (4,600,000 units) is "too optimistic." He expresses the view that "if this gross figure reaches three million the nation would be fortunate." See Frank S. Kristof, Components of Change in the Nation's Housing Inventory in Relation to the 1960 Census, paper presented at the Annual Meeting of the American Statistical Association, December 28, 1959, p. 10.

The contribution of net production, net conversions, and other factors to the changes in the United States housing inventory from 1950 to 1956 was summarized in testimony before the Senate Banking and Currency Committee, as shown in Table VI-6.

It is apparent from these data, abstracted from the 1956 National Housing Inventory, that almost five million substandard units were eliminated from the inventory by repairs and rehabilitation, conversions, and other net losses between 1950 and 1956. Maisel estimated that approximately 11,646,000 of 16,400,000 total substandard dwellings as of December 1950 were nonfarm dwellings and that the total number of nonfarm substandard units would decline to 9,000,000 by 1960. These developments reflect significant housing progress in the United States since the end of World War II.

It is more difficult to assess the relative contribution of government housing policies to this record of accomplishment. The achievement of national housing objectives during the postwar years in the United States has been sought through federal programs in three major areas:

1. Mortgage finance.
2. Public housing.
3. Slum clearance and urban renewal.

In the sections to follow, the accomplishments of government programs in each of these areas will be appraised and an attempt will be made to evaluate their over-all influence upon housing production, costs, and standards.

Table VI-6

Factors of Change in the United States Housing Inventory, 1950 to 1956
(In Thousands)

Condition	1950 Units	Change in 1950 Inventory: Change in Same Units	Net Conversions and Mergers	Net Other Losses	Total	1950 Inventory in 1956	New Construction	1956 Inventory
TOTAL FOR UNITED STATES								
Standard	29,302	+ 2,754	+ 591	- 145	+ 3,002	31,104	9,649	40,753
Substandard	15,400	- 3,187	- 299	-1,268	- 4,754	11,646	983	12,629
Not Reported	1,481	+ 433	- 56	- 190	+ 187	1,668	288	1,956
Total	45,983	.....	+ 36	-1,601	- 1,565	44,418	10,920	55,338
INSIDE STANDARD METROPOLITAN AREAS								
Standard	19,314	+ 1,110	+ 272	- 206	+ 1,176	20,490	6,389	26,879
Substandard	5,335	- 1,099	- 178	- 517	- 1,794	3,771	257	4,028
Not Reported	747	- 11	- 32	- 121	- 164	583	117	700
Total	25,626	.....	+ 62	- 844	- 782	24,844	6,763	31,607
OUTSIDE STANDARD METROPOLITAN AREAS								
Standard	8,788	+ 1,644	+ 119	+ 63	+ 1,826	10,614	3,260	13,874
Substandard	10,065	- 2,088	- 121	- 751	- 2,960	7,875	726	8,593
Not Reported	734	+ 444	- 24	- 68	+ 351	1,085	171	1,256
Total	20,357	.....	- 26	- 757	- 783	19,574	4,157	23,723

Source: Sherman J. Maisel, "Importance of Net Replacements in Housebuilding Demand," Study of Mortgage Credit, U. S. Senate Committee on Banking and Currency, Subcommittee on Housing, 85th Cong., 2d sess. (Washington: 1958), Table 18, p. 40.

Mortgage Finance

The encouragement of homeownership through improving the availability of long-term mortgage funds at low interest rates has been the foundation of United States housing policy since the 1920's. Table VI-7 shows the long-term trend in mortgage status for owner-occupied dwellings in the United States.

The objectives of government housing policy have been to promote greater stability in the flow of residential mortgage funds, longer terms of loans, higher loan-value ratios and lower interest rates. Government housing loan programs have been implemented through four principal agencies:

1. The Federal Home Loan Bank System (FHLB), established in 1932 to provide a reservoir of reserve credit which would be available for savings and loan associations and other institutions investing mainly in residential mortgages.
2. The Federal Housing Administration (FHA), established in 1934 to insure residential loans on new and existing dwellings made by private lenders.
3. The Veterans' Administration (VA), authorized by the Servicemen's Readjustment Act of 1944 to guaranty private lenders against losses on housing loans to veterans of World War II.
4. The Federal National Mortgage Association (FNMA), first organized in 1938 as "The National Mortgage Association of Washington" to aid in the establishment of a

Table VI-7

Mortgage Status of Owner-Occupied Dwelling Units, 1890 to 1950

Census Year	Total Owner-Occupied Dwelling Units	Reporting Mortgage Status	Mortgaged		Not Mortgaged
			Number	Percent	
1950.....	19,801,646	17,795,844	7,825,116	44.0	9,970,728
Urban.....	14,376,594	13,296,133	6,429,743	48.4	6,866,390
Rural Nonfarm...	5,425,052	4,499,711	1,395,373	31.0	3,104,338
1940.....	11,413,036	10,611,259	4,804,778	45.3	5,806,481
1930.....	10,549,972	n.a.	n.a.	n.a.	n.a.
1920.....	7,041,283	6,867,546	2,735,668	39.8	4,131,878
1910.....	5,245,380	5,109,916	1,701,062	33.3	3,408,854
1900.....	3,566,809	3,394,967	1,086,605	32.0	2,308,362
1890.....	2,923,671	2,923,671	809,933	27.7	2,113,738

Source: Richard U. Ratcliff, Daniel E. Rathbun, and Junia H. Honnold. Residential Finance (New York: John Wiley & Sons, Inc., 1957), Table 1, p. 5.

Note: For 1950 and 1940, the mortgage statistics are for owner-occupied dwelling units in 1- to 4-dwelling unit structures without business. For 1920 and earlier, the mortgage data are for owner-occupied units in all types of structures. Although the types of units for which mortgage data were reported are not the same for all censuses, the differences are not large enough to invalidate comparisons.

secondary market for FHA-insured mortgages and to make loans on large-scale rental housing projects under the National Housing Act, and to offer its own obligations for investment by individuals and institutions.[33]

Federal Home Loan Bank System: The Federal Home Loan Bank Act of 1932 provided for the establishment of eleven regional Home Loan Banks authorized to make advances to federally and member state chartered savings and loan institutions. Originally financed by government capital, the Federal Home Loan Banks have been owned by member institutions since 1951. Borrowing member institutions are required to purchase Home Loan Bank stock and the Federal Home Loan Banks are authorized to sell their obligations in the open market. The Federal Savings and Loan Insurance Corporation, an associated agency, insures savings deposits with insured member institutions and has been an important factor aiding in the expansion of individual savings deposits with local savings and loan institutions.

Savings deposits and mortgage loans of member institutions of the Federal Home Loan Bank System have expanded rapidly during the postwar period. Assets of member institutions increased from $10.4 billion in 1947 to approximately $53 billion in 1958. Savings deposits with savings and loan associations increased

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[33] William H. Husband and Frank Ray Anderson, Real Estate (rev. ed.; Homewood, Ill.: Richard D. Irwin, 1954), Chapter XXII.

from $9 billion in 1947 to $48 billion in 1958, while savings deposits in mutual savings banks, which also participate in the mortgage loan market, rose from $17.7 billion in 1947 to $34 billion in 1958.[34] Advances by the Federal Home Loan Banks to member institutions have exceeded $1.2 billion since 1955.

As a result of their more rapid growth, savings and loan associations have gradually increased their share of residential mortgage lending from approximately 30 percent of total annual dollar volume in the period preceding World War II to over 38 percent in 1958 and [redacted] to 40.6 percent in 1959.

Table VI-8 shows the expansion in nonfarm mortgage debt by type of lending institutions from 1940 to 1958. It can be noted that savings and loan associations held approximately 36 percent of the outstanding total home mortgage debt in 1958, compared with approximately 22 percent in 1940.

Between 85 and 90 percent of the dollar volume of mortgage lending by savings and loan associations has been in the form of so-called "conventional" loans, as distinguished from government insured (FHA) or guaranteed (VA) loans. Conventional mortgage loans by savings and loan associations typically bear interest rates above those for government-insured or guaranteed loans. A study of interest rates on conventional loans by savings and loan associations in the spring of 1959 revealed that 55 percent of the number of loans currently being

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[34] United States Savings and Loan League, Savings and Loan Fact Book, 1959 (Chicago: 1959), Table 2, p. 13.

Table VI-8

Mortgage Debt on Nonfarm Homes, by Type of Lender, at Year End, 1940 to 1959
(In Millions)

Year	Savings and Loan Associations	Life Insurance Companies	Commercial Banks	Mutual Savings Banks	FNMA	Individuals and Others	Total Volume
1940	$ 3,919	$ 1,803	$ 2,365	$ 2,162	$ 178	$ 6,966	$ 17,391
1941	4,349	1,969	2,672	2,189	203	6,969	18,351
1942	4,349	2,241	2,752	2,128	206	6,536	18,212
1943	4,355	2,386	2,706	2,033	60	6,271	17,811
1944	4,617	2,485	2,705	1,957	50	6,182	17,924
1945	5,156	2,506	2,875	1,894	7	6,353	18,591
1946	6,840	2,545	4,576	2,033	6	7,034	23,034
1947	8,475	3,497	6,303	2,283	4	7,637	28,199
1948	9,841	4,943	7,396	2,835	198	8,066	33,279
1949	11,117	6,093	7,956	3,364	806	8,283	37,619
1950	13,116	8,478	9,481	4,312	1,328	8,455	45,170
1951	14,844	10,610	10,275	5,351	1,818	8,833	51,711
1952	17,645	11,757	11,250	6,194	2,210	9,444	58,500
1953	20,999	13,195	12,025	7,373	2,358	10,144	66,094
1954	25,004	15,153	13,300	9,002	2,328	10,890	75,677
1955	30,001	17,661	15,075	11,100	2,444	11,969	88,250
1956	34,004	20,130	16,245	12,990	2,866	12,802	99,037
1957	37,996	21,441	16,385	14,110	3,777	13,908	107,617
1958*	42,890	22,374	17,628	15,640	3,580	15,574	117,686
1959*	49,727	23,622	19,240	16,868	4,938	16,749	131,144

Source: United States Savings and Loan League, Savings and Loan Fact Book, 1960 (Chicago: 1960), Table 41, p. 60.

* Preliminary figures.

advanced carried an interest rate of six percent, while 29 percent were at 5 1/2 percent. The median purchase price of single-family homes conventionally financed at savings and loan associations in 1957 was $17,107, while the median loan was $11,131, with a median loan to price ratio of 67.3 percent. This is substantially lower than the loan to price ratio for FHA insured loans shown in Table VI-2 to exceed 80 percent. Higher ratios of mortgage loan to purchase price for government insured and guaranteed loans were also observed in the results of the 1950 census of housing.[35]

Federal Housing Administration: Prior to World War II, the Federal Housing Administration was the principal federal agency insuring residential mortgage loans, and it can be noted from Table VI-1 that insured loans under its programs accounted for approximately 35 percent of recorded loans on new dwellings constructed from 1938 to 1941. During the war years the proportion rose considerably higher because virtually all new private residential construction was

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[35] Richard U. Ratcliff, Daniel B. Rathbun, and Junia H. Honnold, Residential Finance (New York: John Wiley & Sons, Inc., 1957). Table 37 of the above study showed that the median ratio of mortgage loan to purchase price in 1950 were: FHA insured 79 percent, VA guaranteed 91 percent, Conventional 66 percent. Table 34 of the same study showed that the median terms of first mortgage loans on single-family, owner-occupied units were 20 years for FHA and VA loans and only 11 years for fully amortized conventional loans. The median interest rate on conventional first mortgage loans on owner-occupied, single-family units was five percent.

under materials and priorities control administered through the Federal Housing Administration. Since World War II, FHA loan insurance programs have accounted for between 25 and 35 percent of the number of new private housing starts. All classes of mortgage lending institutions originate and hold in their portfolios residential loans insured by the Federal Housing Administration. Over the years, however, life insurance companies, savings banks, and commercial banks, have been the principal holders of loans insured by the FHA. As of December 31, 1959, life insurance companies held approximately 28.4 percent of the total amount of FHA insured mortgages outstanding, commercial banks held 23.8 percent, and mutual savings banks held 21.3 percent. The balance was held by mortgage companies, savings and loan associations and federal agencies (FNMA).[36] As will be noted below, the volume of mortgage insurance under the FHA and other government programs has varied with changes in the interest rate structure and with the market operations of the Federal National Mortgage Association, in large part because maximum interest rates are established by law for government insured or guaranteed loans.

Table VI-9 shows the breakdown of FHA's loan insurance activities since 1934. It will be seen that over 4 1/2 million units have been financed since 1934 in FHA's home mortgage programs, while so-called project mortgage programs (those

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[36] U. S. Housing and Home Finance Agency, Housing Statistics, Historical Supplement (Washington: June 1960), p. 141.

Table VI-9

Mortgages and Loans Insured by U. S. Federal Housing Administration, 1934 to 1959

Year	Total--All Programs	Home Mortgage Programs		Project Mortgage Programs		Property Improvement Loans		Manufactured Housing Loans	
	Amount	Number	Amount	Units	Amount	Number	Net Proceeds	Number	Amount
1934.....	$ 27,406	-	$ -	-	$ -	72,658	$ 27,406	-	$ -
1935.....	297,495	23,397	93,882	738	2,555	635,747	201,258	-	-
1936.....	532,581	77,231	308,945	624	2,101	617,697	221,535	-	-
1937.....	489,200	102,076	424,373	3,023	10,483	124,758	54,344	-	-
1938.....	671,593	115,124	485,812	11,950	47,638	376,480	138,145	-	-
1939.....	925,262	164,530	694,764	13,462	51,851	502,308	178,647	-	-
1940.....	991,174	177,400	762,084	3,559	12,949	653,841	216,142	-	-
1941.....	1,152,342	210,310	910,770	3,741	13,565	680,104	228,007	-	-
1942.....	1,120,839	223,562	973,271	5,842	21,213	427,534	126,354	-	-
1943.....	933,996	166,402	763,097	20,179	84,622	307,826	86,267	-	-
1944.....	877,472	146,974	707,363	12,430	56,096	389,615	114,013	-	-
1945.....	664,985	96,776	474,245	4,058	19,817	501,441	170,923	-	-
1946.....	755,778	80,872	421,949	2,232	13,173	799,304	320,654	-	-
1947.....	1,788,264	141,364	894,675	46,604	359,944	1,247,613	533,645	-	-
1948.....	3,340,865	300,034	2,116,043	79,184	608,711	1,357,386	614,239	3	1,872
1949.....	3,826,283	305,705	2,209,842	133,133	1,021,231	1,246,254	593,744	196	1,466
1950.....	4,343,378	342,582	2,492,367	154,597	1,156,681	1,447,101	693,761	173	569
1951.....	3,219,836	252,642	1,928,433	74,207	583,774	1,437,764	707,070	131	560
1952.....	3,112,782	234,426	1,942,307	39,839	321,911	1,495,741	848,327	85	237
1953.....	3,882,328	261,541	2,288,626	30,701	239,194	2,244,227	1,334,287	40	221
1954.....	3,067,250	214,237	1,942,266	28,257	234,022	1,506,480	890,606	115	356
1955.....	3,806,937	318,500	3,084,767	9,431	76,489	1,024,698	645,645	11	36
1956.....	3,480,468	253,300	2,638,230	11,177	130,247	1,013,086	691,992	-	-
1957.....	3,716,980	202,400	2,251,064	43,609	597,348	1,111,962	868,568	-	-
1958.....	6,328,597	389,400	4,551,483	64,953	908,671	1,038,315	868,443	-	-
1959.....	7,740,742	505,500	6,069,400	43,976	674,700	1,096,635	996,642	-	-
Total...	$61,074,823	5,306,285	$41,430,058	841,488	$7,268,790	23,356,575	$12,370,662	756	$5,317

Sources: 1934 to 1958 - U. S. Housing and Home Finance Agency, Twelfth Annual Report, 1958 (Washington: 1959), Table III-1.
1959 - U. S. Housing and Home Finance Agency, Housing Statistics, Annual Data March 1960 (Washington: 1960), Tables A-46 to A-48.

with eight or more units per project) accounted for approximately 750,000 dwelling units. The number of property improvement loans rose substantially following World War II and has exceeded 1,000,000 per annum in each year since. The dollar amount of the individual loans for property improvement was small as can be seen, averaging less than $500 per loan.

It is more difficult to assess the specific influence of FHA mortgage insurance programs than to recite their volume. Prior to the 1930's, when FHA was established, the average mortgage loan covered about 50 percent of the value of the house with a few savings and loan associations lending as high as 75 percent. Bank and insurance company conventional loans approximated three to six years in duration, while savings and loan companies and mutual savings banks extended mortgage loans to six to 12 years. A study of typical mortgage terms on new homes in 15 metropolitan areas during the last half of 1949 revealed that mortgage loans had an average duration of 22 years, with the initial equity averaging about 26 percent of the average loan of $8,410. One quarter of the loans required no down payment.[37] Although the data do not permit accurate statistical comparison, it is generally acknowledged that interest charges on first mortgage loans 30 years ago ranged from six to eight percent, as compared with average

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[37] Sherman J. Maisel, Housebuilding in Transition: Based on Studies in the San Francisco Bay Area (Berkeley: University of California Press, 1953), p. 366, Table 40.

terms of five to six percent in most areas during the post-World War II years.[38]

Further evidence of the trend toward liberalizing mortgage credit terms is found in the results of the census of housing for 1950, which revealed:

1. A long-run decline in mortgage interest rates from an average of 6.2 percent in 1890 to approximately 5 percent in 1950.
2. A gradual shift to longer term amortized loans in urban areas.
3. A long-term rise in the percentage of dwellings mortgaged and in the average ratio of debt to market value.[39]

Analysis of the characteristics of FHA single-family home loans insured since 1946, shown in Table VI-10, confirms the fact that the term of loans has been in a gradual up-trend from approximately 20 years for newly constructed homes in the immediate postwar years to over 25 years since 1955. Similar trends are evident for loan terms on existing homes. Loan value ratios have remained relatively constant for newly constructed

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[38] Albert Heeley Schaaf, Federal Interest Rate Policy on Insured and Guaranteed Mortgages (unpublished Ph.D. dissertation, University of California, Berkeley, 1955), Chapters II and III; Federal Reserve Bank of St. Louis, Monthly Review, XXXV:9 (September 1953); United States Savings and Loan League, Savings and Loan Fact Book, 1959 (Chicago: 1959), pp. 24-25; Richard U. Ratcliff, Urban Land Economics (New York: McGraw-Hill, 1949), Chapter 9.

[39] Residential Finance, Chapter 2.

Table VI-10

Characteristics of One-Family Home Transactions Under the National Housing Act as Amended, Selected Years

Median	1958	1957	1956	1955	1954	1952	1950	1948	1946
NEW HOMES									
Mortgage:									
Amount	$12,697	$11,823	$11,010	$10,034	$8,862	$8,273	$7,101	$7,058	$5,504
Term in years	27.3	25.3	25.5	25.6	22.9	21.7	24.1	20.1	21.0
Loan-value ratio (percent)	91.5	85.1	86.6	88.7	85.3	83.7	88.0	81.0	87.0
Total monthly payment	$96.10	$90.29	$81.63	$74.14	$68.62	$64.16	$54.31	$58.08	$46.18
Property:									
FHA-estimated value	$14,207	$14,261	$13,203	$11,742	$10,678	$10,022	$8,286	$8,721	$6,558
Market price of site	$2,223	$2,148	$1,887	$1,626	$1,456	$1,227	$1,035	$1,049	$761
Site-value ratio (percent)	15.4	14.9	14.1	13.4	13.1	12.0	12.0	11.7	11.5
Percent with garages	72.7	76.6	72.8	69.8	66.6	53.4	46.7	55.1	58.1
Structure:									
Calculated area (sq.ft.)	1,092	1,105	1,064	1,022	961	923	838	912	n.a.
Number of rooms	5.8	5.8	5.7	5.6	5.4	5.3	4.9	5.4	5.5
Number of bedrooms	3.5	3.5	3.4	3.4	3.3	3.1	n.a.	n.a.	n.a.
Mortgagor:									
Annual effective income	$6,803	$6,632	$6,054	$5,484	$5,139	$4,811	$3,861	$4,000	$3,313
Monthly housing expense	$120.87	$115.17	$104.48	$95.70	$88.91	$83.16	$75.41	$78.64	$62.85
Expense-income ratio (percent)	20.4	19.7	19.5	19.7	19.6	19.6	21.6	21.7	20.8
EXISTING HOMES									
Mortgage:									
Amount	$11,325	$10,498	$10,013	$9,603	$9,030	$8,047	$6,801	$5,969	$4,697
Term in years	24.2	22.5	22.5	22.7	20.1	19.7	20.2	19.3	18.9
Loan-value ratio (percent)	90.2	84.9	82.9	85.0	78.5	77.9	77.8	77.9	78.4
Total monthly payment	$90.30	$85.54	$78.62	$74.57	$74.34	$65.08	$56.65	$49.76	$40.83
Property:									
FHA-estimated value	$12,778	$12,572	$12,261	$11,555	$11,549	$10,289	$8,865	$7,579	$5,934
Market price of site	$2,150	$2,041	$1,951	$1,707	$1,591	$1,296	$1,150	$970	$833
Site-value ratio (percent)	16.5	15.7	15.1	14.2	13.3	12.3	12.4	12.0	13.3
Percent with garages	74.9	78.5	81.1	79.9	79.6	70.7	70.6	70.5	83.4
Structure:									
Calculated area (sq.ft.)	1,053	1,060	1,060	1,030	1,035	992	1,006	972	n.a.
Number of rooms	5.8	5.8	5.7	5.6	5.6	5.5	5.6	5.6	5.9
Number of bedrooms	3.2	3.2	3.2	3.1	3.1	3.1	n.a.	n.a.	n.a.
Mortgagor:									
Annual effective income	$6,502	$6,296	$6,033	$5,669	$5,696	$4,938	$4,274	$3,731	$3,101
Monthly housing expense	$115.31	$110.12	$102.00	$97.34	$97.41	$86.63	$78.99	$71.00	$58.11
Expense-income ratio (percent)	20.4	19.9	19.2	19.4	19.4	19.4	20.3	20.4	20.3

Source: U. S. Housing and Home Finance Agency, Twelfth Annual Report, 1958 (Washington: 1959), Table III-37.

homes at approximately 86 percent of value, but appear to have risen for existing homes from 78.4 percent in 1946 to over 90 percent in 1958. This is a reflection of liberalization of FHA policies with respect to loans for existing homes after passage of the Housing Act of 1954. It is of interest to note that although the estimated value of homes and monthly housing expenses approximately doubled during the period, the ratio of housing expense to income remained virtually constant at about 20 percent. This was a reflection, of course, of the rise in average annual incomes of borrowers during the period, which rose from slightly over $3,000 in 1946 to about $6,500 in 1958.[40] In this connection, it is of interest to note that mean average personal incomes per family (and unattached individual) before income taxes are estimated to have risen from $4,130 in 1947 to $6,130 in 1957.[41]

It is significant to note from the tabulation below that the number of mortgage foreclosures per year has been at

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[40] Twelfth Annual Report, 1958, Table III-37. Monthly housing expense includes total monthly mortgage payment and the FHA estimated cost of monthly maintenance and repair, and heating and utility expenses. Mortgagor's effective income is the FHA estimated amount of the mortgagor's earning capacity before deductions for Federal income taxes that is likely to prevail during approximately the first third of the mortgage term.

[41] Selma F. Goldsmith, "Size Distribution of Personal Income," U. S. Department of Commerce, Office of Business Economics, Survey of Current Business, 38:4 (April 1958), 11.

relatively low levels during the postwar years. Similar trends are revealed in the fact that defaults on FHA home mortgages, in effect, have not exceeded 20,000 at any one time since 1950 and have equaled less than one percent of the mortgages in force in every year since 1951.[42] (See Table VI-11.)

It is clear that FHA's policies have encouraged the granting of liberal terms on long-term mortgages in the postwar housing markets and facilitated the major expansion in home-ownership which has occurred. It is also apparent that these liberal terms have not resulted in any major wave of fore-closures, even during the relatively severe recession of 1958. (The postwar peak in the rate of nonfarm foreclosures was reached in March 1959 when foreclosures totaled 3,933.) The costs of this program and its effect upon mortgage interest rates, stability in residential construction, and upon resi-dential building costs will be explored below.

Veterans' Administration: Title III of the Servicemen's R adjustment Act of 1944 (Public Law 346) provided for federal government guaranty of up to 50 percent of loans by private lenders for the purchase or construction of homes by eligible veterans of World War II. The maximum amount of individual home loans guaranteed by the Federal Government was limited by the 1944 Act to $2,000 or 50 percent of the loan, but this was increased to $4,000 by

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[42] Eleventh Annual Report, 1957, p. 89.

Table VI-11

Average Number of Nonfarm Foreclosures for Five-Year Periods 1931 to 1956 and Annually Since 1950

Year	Average Number of Nonfarm Mortgage Foreclosures
1931-35	230,790
1936-40	126,230
1941-45	31,140
1946-50	14,567
1951-56	23,982
1950	21,337
1951	18,141
1952	18,135
1953	21,473
1954	26,211
1955	28,529
1956	30,963
1957	34,204
1958	42,367
1959	44,075

Sources: Five-year averages 1931-1956: United States Savings and Loan League, Savings and Loan Fact Book, 1957 (Chicago: 1957), p. 29.

Annual data 1950-1957: U. S. Housing and Home Finance Agency, Housing Statistics, Historical Supplement (Washington: December 1958), pp. 140-41; Ibid. (June 1959), p. 37.

amendment in 1945 and to $7,500 or 60 percent of the loan by Public Law 475, passed in 1950. The maximum maturity on a VA home loan was increased from 25 to 30 years by the 1950 law. Prior to October 1950, the Veterans Administration guaranteed so-called Section 505 second mortgage loans which were also secured by a Federal Housing Administration First Mortgage. The extensive use of the Section 505 loan in 1948 and 1949 permitted 100-percent government-underwritten financing on the sale of new tract homes to eligible veteran borrowers. The Veterans Administration has no specific dollar limitation on the amount of a loan eligible for government guaranty although loans above $25,000 are required to have regional office approval.[43] The maximum interest rate on Veterans Administration guaranteed loans was raised from four percent to 4 1/2 percent effective in May 1953, [redacted] to 4 3/4 percent in 1958, and in mid-1959 was raised to 5 1/4 percent.

Up to June 30, 1959, 5,327,157 home loans to veterans totaling 45.8 billion dollars had been partially guaranteed or insured by the Veterans Administration under this program.[44] The average dollar amount of loans guaranteed up to June 30, 1959, was $8,617, although the average size of loans closed in recent years has increased to approximately $13,000.[45]

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[43] Willis R. Bryant, Mortgage Lending (New York: McGraw-Hill, 1956), Ch. 10.

[44] The law as amended provides for insurance as well as guaranty of home loans to veterans. Up to June 30, 1959, however, only .3 of one percent of all loans closed in the program were insured.

[45] U. S. Veterans Administration, Loan Guaranty Highlights (Washington: Veterans Administration, June 1959), p. 2.

Table VI-12 shows the expansion in the number of loans guaranteed under the veterans home loan program in the postwar period, the gradual increase in the average home purchase price with the rise in home prices and building costs, and the lengthening of maturities in recent years. The sharp decline in the number and principal amount of home loans guaranteed in 1948-49, 1952-53, and in 1957-58 was primarily a reflection of the unattractiveness of Veterans Administration guaranteed loans bearing a fixed maximum interest rate during periods of general credit restrictions.

Up to September 30, 1960, 1,637,162 Veterans Administration home loans amounting to 10.5 billion dollars had been paid in full. Although defaults were reported on 845,269 loans over the period from 1946 to September 30, 1960, these were "cured" without loss to the government in over 86 percent of the cases and actual guaranty claims were paid by the Federal Government in only 63,874 cases totaling $279.8 million, a default percentage representing approximately one-quarter of one percent of the original total amount of loans guaranteed and approximately one-half of one percent of the original guaranty amount.[46]

The veterans home loan program, which was originally enacted as a temporary measure to effect the orderly readjustment of veterans of World War II to civilian life, is presently slated to terminate on July 25, 1962, for World War II veterans and on January 31, 1965, for veterans of the Korean conflict. It has

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[46] Loan Guaranty Highlights, September 1960, p. 2. Refunds and recoveries amounted to $237.2 million, leaving a net loss of only $42.6 million as of September 30, 1960.

Table VI-12

Number and Characteristics of VA-Guaranteed Loans for New and Existing Homes, 1946 to 1959

Year	Section 501 Number of Loans Closed	Principal Amount of Loans Partially Guaranteed ($000,000)	Average Purchase Price	Average Loan as a Percent of Purchase Price	Percent of Total VA Loans with Maturity 26-30 years
1946	442,037	2,302	n.a.	n.a.	n.a.
1947	531,217	3,286	n.a.	n.a.	n.a.
1948	349,565	1,881	n.a.	n.a.	n.a.
1949	276,795	1,424	n.a.	n.a.	n.a.
1950	497,596	3,073	n.a.	n.a.	n.a.
1951	447,373	3,614	n.a.	n.a.	n.a.
1952	306,466	2,718	n.a.	n.a.	n.a.
1953	322,053	3,061	11,117	86.4	5.4
1954	410,746	4,256	11,548	90.4	24.8
1955	649,412	7,154	12,026	92.4	44.7
1956	507,500	5,886	12,857	90.8	38.6
1957	306,437	3,758	13,715	90.6	47.3
1958	143,519	1,864	14,034	92.0	61.4
1959	210,511	2,788	13,979	95.0	72.0

Sources: 1946-1957: U. S. Housing and Home Finance Agency, Housing Statistics, Historical Supplement (Washington: December 1958), pages 195, 196, and 200.
1958: Ibid., (June 1959), pp. 60-61.
1959: Housing Statistics, May 1960, P. 62; Housing Statistics, Annual Data, March 1960, p. 49.

been estimated, however, that approximately 10 million veterans still remained eligible for benefits under the program. [redacted]

A special sample study of home loans guaranteed by the Veterans Administration during 1954 and 1955 revealed that the average age of veteran home purchasers was 32.1 years and the average estimated monthly housing expenses for veteran families participating in the program in those years was $96.75, equivalent to 19.6 percent of the average monthly income of $493.80.[47] Over 50 percent of the veterans home loans guaranteed during these years were to veterans with incomes between $300 and $499 per month, while only between three and four percent of the number of loans were to those with incomes below $300 per month. The remainder of the loans were to veterans with incomes above $500 per month. The ratios of housing expense to monthly income varied from approximately 13 percent for veterans with incomes of $800 per month and over to 29 percent for those with monthly incomes of less than $300 per month.[48] Similarly, the average purchase prices for veterans with incomes exceeding $800 per month were in excess of $16,000, while those with incomes of less than $300 purchased homes averaging approximately $8,300.

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[47] Special Study of GI Home Loans Guaranteed by the Veterans Administration in 1954 and 1955. Veterans Administration, Department of Veterans Benefits, Loan Guaranty Service, April 25, 1956. Monthly housing expenses include principal and interest repayments on mortgages, the estimated cost of property taxes, insurance, heat and utilities, and an allowance for maintenance costs.

[48] Ibid.

The Veterans Administration home loan program has been of broad significance to the postwar housing market. Not only have a large number of veteran home buyers taken advantage of the program to acquire homes, but the generous mortgage credit terms available through this program have been transmitted to the home market generally through resale of homes by veterans, the new purchaser carrying the existing loan on the property. As will be noted presently, the Veterans Administration home loan program, operated in conjunction with the secondary mortgage market facilities of the Federal National Mortgage Association, provided long-term amortized mortgage credit on low downpayment and monthly payment terms for an important segment of the housing market. The unattractiveness of fixed interest rate government-guaranteed or -insured loans during the period of rising interest rates in recent years has reduced the volume of Veterans Administration guaranteed loans to a small percentage of former levels, as shown in Table VI-12.

Federal National Mortgage Association: The Federal National Mortgage Association was established in 1938 as successor to the RFC Mortgage Company to provide a secondary market for government insured mortgage loans. The Federal National Mortgage Association has not functioned exclusively as a secondary mortgage market facility, but rather has served as a flexible instrument for implementing federal mortgage credit policy. Table VI-13 summarizes the annual purchases and sales of mortgages by FNMA and year-end portfolios from 1948 to 1959. It can be noted that mortgage

Table VI-13

Combined Purchase and Sale Operations of the FNMA, 1948 to 1959
(In Millions)

Year	Purchases			Sales			Balance of Mortgages Held on December 31		
	Total	FHA	VA	Total	FHA	VA	Total[c]	FHA	VA
1948	$ 197.9	$ 186.8	$ 11.1	$.....	$.....	$.....	$ 199	$ 188	$ 11
1949	672.2	252.7	419.5	19.8	19.4	0.4	828	403	425
1950	1,044.3	49.3	995.0	469.4	261.4	208.0	1,347	169	1,178
1951	677.1	74.3	602.8	111.1	28.2	82.8	1,850	204	1,646
1952	537.9	167.8	370.1	55.9	35.7	20.2	2,242	320	1,922
1953	542.5	355.1	187.4	221.1	32.3	181.4	2,462	621	1,841
1954	658.1[b]	353.6	260.8	525.2	134.3	381.1	2,476	802	1,632
1955	411.4	184.6	226.9	61.8	13.9	46.9	2,656	901	1,714
1956	608.7	153.2	455.6	5.0	2.9	11.7	3,086	978	2,069
1957	1,096.0	313.4	782.7	2.9	2.0	0.8	4,012	1,237	2,737
1958	622.8	469.4	153.4	482.3	155.4	326.8	3,938	1,484	2,418
1959	1,922.4	1,157.3	765.1	4.5	3.5	1.0	5,649[a]	2,713[a]	2,864[a]

Sources: United States Savings and Loan League, Savings and Loan Fact Book, 1959 (Chicago: 1959), p. 107; U. S. Housing and Home Finance Agency, Housing Statistics, Annual Data (Washington: March 1960), p. 52.

Note: All FNMA activity was with FHA-insured mortgages prior to July 1, 1948. The breakdown of purchases and sales between FHA and VA loans as reported in the Savings and Loan Fact Book, 1959, does not equal the totals reported in Housing Statistics because of rounding and other miscellaneous adjustments.

a/ February 28, 1960: Housing Statistics (May 1960), p. 71.

b/ Includes a transfer of Defense Homes Corporation notes and Reconstruction Finance Corporation mortgages totaling $43,700,000.

c/ Total includes direct mortgages and Defence Homes Corporation notes from 1954 to 1959.

purchases have been confined to government-insured and-guaranteed mortgages bearing fixed maximum interest rates. The volume of FNMA purchases of mortgages has varied with the availability of funds in the private lending market. A 1955 report by a non-partisan task force on government lending agencies concluded as follows:

> In effect, the operations of FNMA have been a form of direct lending of public funds to maintain a par market for FHA-insured and VA-guaranteed mortgages. Private investors have found it profitable to turn over their holdings of such loans to FNMA whenever the fixed interest rate has been less than the comparable return available from other investments. In this way, the borrowers on FHA-insured and VA-guaranteed mortgages have been subsidized to the extent of the difference.[49]

Important adjustments were made in the character of FNMA operations by the Housing Act of 1954, which divided the operations of FNMA into three categories, "secondary market operations," "portfolio management and liquidation," and "special assistance functions." Funds to finance secondary market operations, which were envisaged in the Act as a privately financed activity, are derived from the sale of stock to lenders who sell mortgages to FNMA in the amount of three percent (reduced later to two percent) of the unpaid principal of the mortgages involved, and from the issuance of obligations of the Federal National Mortgage Association to private holders upon approval of the Secretary of the Treasury. Although obligations of the Association may be issued to the Secretary of the Treasury, they

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[49] Commission on Organization of the Executive Branch of the Government, Task Force Report on Lending Agencies (Washington: Government Printing Office, 1955), p. [illegible].

are not guaranteed by the United States Government.[50]

Under its new plan of operation as a secondary market facility, FNMA was directed to purchase only such mortgages as are of a quality to meet the purchase standards required of private investors and to proceed with the general liquidation of its $4 billion portfolio.

Under the program of Special Assistance Functions, FNMA may purchase or make commitments to purchase, such mortgages as the President of the United States shall determine to be in the public interest. An original limit of $300 million (raised in 1958 to $500 million) was placed on the total of mortgages held under the program, plus commitments to purchase. Government funds borrowed from the Treasury are used in financing this phase of the program.[51] Emergency housing legislation in 1958 increased the total authorization of funds under the direction of the President for special assistance programs to $500 million and initiated a new $1 billion program requiring FNMA to buy FHA and VA mortgages up to $13,500 at par under special assistance programs. An additional $25 million was authorized for mortgage purchase by FNMA for military housing and $25 million for housing at research and development centers.[52] Based upon the experience in recent

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[50] Ibid., p. 35.
As of December 31, 1958 the Secretary of the Treasury owned preferred stock in the Federal National Mortgage Association amounting to $143 million. Common stock issued to mortgage sellers totaled $38 million, while funds borrowed from the U. S. Treasury amounted to $1.2 billion and debentures in the hands of the public totaled $797 million.

[51] "The Urban Residential Mortgage Market - Recent Experience," Federal Reserve Bank of St. Louis, Monthly Review, November, 1955, pp. 127-29.

[52] House and Home, April 1958, pp. 52-53, and July 1958, p. 47.

years, the federal government will employ the special assistance program as a means of stimulating the flow of mortgage funds for such special phases as housing for the aged, military housing, cooperative, and other housing for low and moderate income groups.

Changes in the status of the FNMA in 1954 envisaged the development of this agency as a privately financed secondary mortgage market facility. Experience to date suggests that this function will be overshadowed by use of FNMA by the Federal Government as an instrumentality for stimulating the flow of credit into residential mortgage markets during periods of credit stringency and as a means of financing special government assisted housing programs.

Evaluation of Federal Mortgage Credit Programs

It was stated earlier that the central and continuing objectives of federal government housing policy have been to promote greater stability in the flow of residential mortgage funds, and to assure liberal credit for residential construction and home purchases. It is apparent that mortgage loan credit generally has been available for longer terms, with higher loan value ratios and lower interest rates during the post-World War II years than prevaled in the decades of the 1920's or even in the 1930's. It is more difficult, however, to assess the contribution of federal government programs to these developments, since it can be maintained that more generous credit terms would have prevailed through normal competition among private lenders. There is some basis

for contending that the large expansion in individual saving through life insurance companies and savings institutions during and after World War II provided the basis for a large flow of these savings into the residential mortgage market after World War II. However, it is equally clear that the Federal Housing Administration and Veterans Administration loan insurance and guaranty programs facilitated and encouraged the flow of funds into these markets. Further, it is evident that the operations of the Federal Home Loan Bank System and of the Federal Savings and Loan Insurance Corporation augmented the flow of savings into savings and loan institutions and the ability of these institutions to accommodate the demand for mortgage funds.

It is even more difficult to determine whether the more liberal mortgage credit terms induced by federal loan insurance and guaranty programs resulted in a higher level of housing production during the postwar years than would have otherwise prevailed. Some students of this question have argued that residential construction following World War II was less than might have been expected in view of trends in population and family formation, relative to prewar levels, and that the primary effect of the government's credit liberalization program was to bring about a more rapid rise in construction costs and prices of housing relative to other goods.[53] Although many would agree that one result of federal mortgage finance policies has been to

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[53] R. J. Saulnier, Harold G. Halcrow, and Neil H. Jacoby, Federal Lending and Loan Insurance (Princeton: Princeton University Press, 1958), pp. 341-47.

[illegible] construction costs and labor prices [illegible] have [illegible], the evidence presented in support of the contention that federal programs failed to stimulate housing production is unconvincing.[illegible]

In evaluating the effect of government housing credit policies Grebler concludes that "federal credit aids since the middle thirties have probably accelerated the decline in residential mortgage interest rates and the amortization of other contract terms," but that "these advantages were at least

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[illegible] The authors present data comparing residential building activity from 1923 to 1929 in comparison with activity from 1948 to 1950 as a basis for the conclusion that "the boom of the late forties proves to be less in comparison with that of the twenties, despite the intervention in the form of a period of federal programs of credit aid." Although it is clear from the data presented that privately financed residence dwelling production was lower in 1948-50 than in 1923-29 relative to the housing stock and to the increase in population, it does not follow that federal credit aids failed to stimulate housing production. In the first place, the comparison of production is made over a longer period, e.g., 1948 to 1950 as compared with 1921 to 1929. Production in the postwar decade makes a much more favorable comparison with that of the earlier period. Second, the authors [illegible] other factors equal we should expect a higher rate of new building in 1950 than in 1929, assumes away a host of demographic and economic factors which influence the volume of housing production in a given year. Third, in arguing that the result of federal mortgage finance policies has been to cause a rise in construction costs and home prices rather than a rise in production, it seems [illegible] that the price [illegible] effect on the [illegible] in housing construction volume [illegible] the rise in home prices and construction costs has provided a [illegible] for mortgage lenders and has also furnished incentives [illegible] to take advantage of inflationary price [illegible].

partially cancelled by price effects.[55] Commenting in another paper on the contribution of government policies to stability in residential construction, Grebler concluded as follows:

> All that can be said with a degree of confidence is that recent governmental policies have done nothing to prevent fluctuations as great as, or even greater, than those observed in previous periods. They have certainly contributed to the sharp increase in building costs and in prices of new as well as existing houses.[56]

In an analysis of veterans home loan purchases in the San Francisco Bay Area from 1947 to 1949, Rathbun concluded that "over one half of these homebuyers could not have purchased the homes they bought if down payments had not been reduced or eliminated through the veterans home loan program.[57] Although conceding that the federal home loan guaranty program probably resulted in increases in building costs and home prices and that the excess of market over fixed rates on government-guaranteed loans was added to the price of homes purchased by veterans, Rathbun's over-all evaluation of the program was that it has been

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[55] Leo Grebler, The Role of Federal Credit Aids in Residential Construction, Occasional Paper 39 (New York: National Bureau of Economic Research, 1953), p. 53.

[56] Leo Grebler, "Stabilizing Residential Construction--A Review of the Postwar Test," American Economic Review (September 1949), p. 909. See also, Leo Grebler, "The Role of Residential Capital Formation in Postwar Business Cycles," Conference on Savings and Residential Financing 1959 Proceedings (Chicago: The United States Savings and Loan League, 1959).

[57] Daniel B. Rathbun, "The Veterans' Home-Loan Program: Success or Failure?" The Appraisal Journal (July 1954), p. 438. Rathbun found that 71 percent of the veterans using Section 501 loans during the years 1947-49 in the San Francisco Bay Area had incomes of $4,000 or less and that 75 percent of them had liquid assets of less than $2,000.

successful in broadening the housing demand of low- and middle-income veterans.

It must be acknowledged that any final conclusion as to the effect of government housing finance policies upon the volume of housing production would require substantial additional knowledge concerning the price and income elasticities of housing demand and supply. The weight of evidence would seem to support the view that government loan insurance and guarantee programs have encouraged lenders to extend loan terms that have greatly magnified consumers' purchasing power in the housing market.[58] Some consumers have undoubtedly taken advantage of this expansion in purchasing power to increase expenditures for automobiles, travel, and for other goods, since studies have shown wide variations in consumer expenditures for housing.[59] Sustained high levels of single-family housing production suggest that many family groups have taken advantage of generous government loan insurance or guaranty programs to acquire new or used housing during the post-World War II years.

Some observers have called attention to the illogic of a dual federal mortgage loan system involving the Federal Housing Administration, with its emphasis upon the security of the mortgage instrument, and the Federal Home Loan Bank System, emphasizing a strong system of home mortgage lending institutions.

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[58] Albert H. Schaaf, "Federal Mortgage Interest Rate Policy and the Supply of FHA-VA Credit," The Review of Economics and Statistics (November 1958), pp. 384-89.

[59] Sherman J. Maisel and Louis Winnick, "Family Housing Expenditures: Elusive Laws and Intrusive Variances," unpublished paper presented at Conference on Consumption and Saving, University of Pennsylvania Wharton School of Finance and Commerce, March 30, 31, 1959 (Berkeley: Real Estate Research Program, University of California, 1959).

The Veterans' Administration home loan guaranty program must be viewed as a "temporary" government mortgage loan facility. The question at issue is whether the Federal Home Loan Bank System could or should perform the entire function of providing residential mortgage credit.[59a] Although this is debatable, it must be agreed that, lacking an effective secondary mortgage market, the Federal Housing Administration has been an effective instrument for channeling institutional funds into the mortgage market. Its major shortcoming, as has been observed, has been the instability in the flow of mortgage credit over time.

It can be argued that any major reorganization of the federal mortgage lending program should provide for an improved secondary market facility. This might imply that the operations of the Federal National Mortgage Association should not be confined to FHA and VA mortgage paper, since this excludes the bulk of mortgage paper originated through the Federal Home Loan Bank System. The solution to this problem would appear to require either an extension of FNMA operations to the conventional loan market or the creation of an additional secondary market facility through the Federal Home Loan Bank System. It is the view of many that a new secondary mortgage market facility is needed to compensate for the complexities and rigidities of the present instrumentalities.[59b] This would permit FNMA to be used in the implementation of broader programs of federal assistance and might provide a solution for the lack of a secondary market for conventional mortgage paper.

[59a] Husband and Anderson, op. cit., pp. 405-07.

[59b] Edward E. Edwards, "Improvement of Federal Home Loan Bank Program," Study of Mortgage Credit, U. S. Senate Committee on Banking and Currency, Subcommittee on Housing, 85th Cong., 2d sess. (Washington: 1958), pp. 265-70; Kurt F. Flexner, "A Program for the Federal Home Loan Bank System Designed to Improve the Distribution of the Pool of Credit Available for New Residential Construction," Ibid., pp. 271-76; Robinson Newcomb, "Changes in Federal Home Loan Bank Programs," Ibid., pp. 277-82; Miles L. Colean, "A More Effective Mortgage Insurance System," Ibid., pp. 289-313.

Public Housing

Congress sounded the keynote which continues as the guide for low-rent public housing policy in the opening section of the Housing Act of 1937:

> It is the policy of the United States to promote the general welfare of the nation by employing its finances and credit to assist the several states and their political subdivisions to alleviate present and recurring unemployment and to remedy the unsafe and unsanitary housing conditions and the acute shortage of decent, safe and sanitary dwellings for families of low income in rural or urban communities which are injurious to the health, safety and morals of the citizens of the nation.

The dire fiscal straits of state and local governments during the depression and the fact that the federal public housing program was conceived primarily as an employment stimulus account for the fact that all but five states enacted legislation to permit municipalities to build and operate public housing with the aid of the Federal Government during the 1930's.

Although it has been recommended that local and state governments assume greater financial responsibility for meeting the housing needs of low-income groups, only a few states in the heavily urbanized areas of the Atlantic coast have initiated programs of state assistance for low-income housing.[60]

Federal public housing legislation, as amended, provides for federal loans up to 90 percent of construction costs and

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[60] Delmont K. Pfeffer, Public Housing - History, Present, State and Federal Programs Prospective Financing, a lecture at the Graduate School of Banking of the American Bankers Association, Rutgers University, June 20, 1951. Mr. Pfeffer pointed out that Connecticut, New Jersey, Massachusetts, and New York had initiated sizeable programs prior to 1951, while Pennsylvania and New Hampshire had more modest programs. California and Texas have statutes requiring local referendum before construction of public housing, while Ohio has resisted public housing and does not exempt public housing from property taxes. Other states which have no laws authorizing the organization of local housing authorities in 1951 were Iowa, Kansas, Utah, Oklahoma, and Wyoming.

for annual subsidies to local housing authorities to make up the difference between the level of economic rents based on cost of facilities and the rents which low-income families are able to afford.

Under the 1937 Act the local government was required to contribute 10 percent of the cost of construction of the project and 20 percent of the annual subsidy. The former could be borrowed while subsidy contributions could be in the form of tax exemptions. The upper limit of rentals in public housing must be 20 percent below rents in "decent, safe, and sanitary" privately owned housing units. The Housing Act of 1949 was amended to require only that federally aided low-rent housing projects be exempt from local property taxation. Offsetting this the law provides for payment by the Federal Government of a payment in lieu of taxes of 10 percent of shelter rents provided the local contribution through tax exemption less federal payments in lieu of taxes equaled at least 20 percent of federal annual contributions to be made. Under the United States Housing Act, local authorities must establish minimum rents at a level high enough to cover all operating expenses and payments in lieu of taxes.

The construction cost limits under the 1937 Act of $1,000 per room were raised to $1,750 per room by the Housing Act of 1949, with a provision for increases of $750 per room where necessary. Maximum costs were increased by an additional $250 per room by the Housing Act of 1957. Original loan amortization periods of 60 years were reduced by the Housing Act of 1949 to 40 years. Federal legislation requires that families be living in substandard housing to be eligible for admission, with

special preferences given to veterans families and to those displaced by urban redevelopment projects.

Income limits for admission and continued occupancy in public housing are set by local housing authorities, subject to PHA approval, and vary according to family size and local economic conditions. Local housing authorities select the tenants for low-rent housing, but are required to re-examine annually the status of each family to determine its eligibility for continued occupancy. Eligibility for continued occupancy is based upon a separate set of income limits which are generally 25 percent higher than those established for admission. As of December 31, 1959, the median income limit for admission to public housing was 3,000 annually for an average size family. About 17 percent of the localities with low-rent public housing programs had limits of $2,500 or less, while about 24 percent had limits as high as $3,500.[61] The median gross monthly rent of families admitted to public housing during the first half of 1959 was 38.

As of December 31, 1959, approximately 1.9 million persons were housed in 585,212 federal low-rent dwelling units. The capital investment of local housing authorities exceeded $3 billion, represented primarily by obligations of local housing authorities in the hands of private investors.[62] During the

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61 Housing and Home Finance Agency, Thirteenth Annual Report (1959), p. 200

62 Ibid., p.

fiscal year ended June 30, 1959, contributions to local authorities for subsidizing rents totaled over $115 million and the cumulative deficit in this federally subsidized program totaled over $185 million.

Table VI-1 shows that the volume of construction of public [redacted] housing reached its peak in 1940 and 1941 as a result of the urgency of housing needs in war affected communities. It will be recalled that an additional one million units of "temporary" war housing were added prior to and during World War II. The Housing Act of 1949 reaffirmed the need for federal aid to low-rent public housing and provided that the Public Housing Administration could authorize local authorities to commence the construction of 135,000 units each year in each of the succeeding five years. The Housing Act of 1954 (Public Law 560, 83rd Congress) lowered the public housing goals of the 1949 Act and authorized 35,000 low-rent public housing units to be placed under annual contributions contract during the fiscal year 1955 and authorizations for the year 1956 were limited by the Housing Amendments of 1955 (Public Law 345, 84th Congress) to not more than 45,000 units. The Housing Act of 1956 authorized the Public Housing Administration to enter into contracts with local authorities for 35,000 units each during the fiscal years 1958 and 1959.

It can be noted from Table VI-1 that the maximum number of low-rent public housing units started during any postwar year was in 1951, when 71,000 units were started. Under the stimulus of the depression year, 1958, Congress extended existing but unused authorizations for one year and authorized an additional

35,000 low-rent units to be put under contract any time prior to July 1, 1962. It will be noted from Table VI-1 that, although 68,000 public housing units were started in 1958, over one-half were military housing. During the calendar year 1958 local governments asked for authority to build more than 48,000 low-rent public housing units. It can also be seen that military housing accounted for almost one-half of total public housing construction in 1959.

The failure of the federal low-rent public housing program to make a greater contribution to the nation's housing supply can be attributed to two principal factors:

1. Many citizens, including influential real estate and construction industry groups, oppose in principle any programs for direct federal subsidies for housing.
2. Opponents of public subsidies for housing low-income groups view the federal program as a failure and its advocates recognize its basic shortcomings.

Although the opposition of industry groups to federally subsidized public housing has been an important factor, it is probably true that the widespread criticism of the administration and leadership in the federal low-rent program has been the principal factor accounting for its lack of public support. It is notable, for example, that the President's Advisory Committee on Government Housing Policies and Programs, in its 1953 report, recommended a continuation of the public housing program, but recommended changes to alter its institutionalized character.[63] Sociologists have pointed out that the combination of bureaucratization in public housing management, restrictions upon earnings and initiative of occupants and the fact that "inadequate

[63] Recommendations on Government Housing Policies and Programs (Washington, 1953), p. 16.

personalities and problem-type persons tend to accumulate in public housing" supports the view that "public housing has been and is still characterized by a confusion in its basic objectives."[64] One of the staunch leaders of the public housing movement in the United States commented in a similar vein in a recent appeal for a fresh approach to the public housing problem.

> Life in the usual public housing project just is not the way most American families want to live. Nor does it reflect our accepted values as to the way people should live. ...Public housing projects tend to be very large and highly standardized in their design...their density makes them seem much more institutional and... any charity stigma that attaches to subsidized housing is thus reinforced. Each project proclaims visually, that it serves the "lowest income group."[65]

Some insight into the attitudes of former public housing residents can be secured from the results of a 1957 Public Housing Administration survey of 2,044 families who had recently moved from public housing projects in nine cities.[66]

The survey revealed that the move-out rate for public housing rose nationally from 13 percent to 28 percent per year in 1954 and declined slightly from 1954 to 1957.

With the rise in incomes and more rigid enforcement of income limits upon occupancy, the percentage of families found ineligible to remain in public housing declined from 22 percent of those reexamined in 1949 to 12 percent in 1951 and to only four percent in 1956.

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[64] H. Warren Dunham and Nathan D. Grundstein, "The Impact of a Confusion of Social Objectives in Public Housing: A Preliminary Analysis," Marriage and Family Living, 17:2 (May 1955), 103-13.

[65] Catherine Bauer, "The Dreary Deadlock of Public Housing," Architectural Forum, 106:5 (May 1957), 141-42.

[66] U. S. Housing and Home Finance Agency, Public Housing Administration, Mobility and Motivations...Survey of Families Moving from Low-Rent Housing (Washington: April 1958), pp. 1-66.

Income limits were raised with the increase in the cost of living and wages. Between 1949 and 1956 the median income of eligible families in public housing increased from $1,700 to to $2,164, a rise of 27 percent.

Table VI-14 shows a percentage distribution of the major causes of move-outs for the sample families surveyed during the six-months period ended June 1, 1957.

In view of the criticisms of public housing, it is interesting to note that approximately one-quarter of those leaving public housing were dissatisfied. It can be surmised that a substantial proportion of those shown as moving for "cause not ascertained" may also have been dissatisfied.

It is of further interest to note that 25 percent left at the request of management with a high and low range of 41 percent and 13 percent and that a substantial proportion of these were evicted because of nonpayment of rent.

In view of the strong arguments referred to below against the use of a rent certificate plan, it is of extreme interest to note that many needy families are forced to leave low-rent public housing because of nonpayment of rent.

In the author's experience, local housing authorities tend to select public housing tenants much as a private landlord would, seeking the most stable, happily married, educated wage earners who will minimize management problems. This conception of public housing management negates to a degree the

Table VI-14

Why Families Move From Low-Rent Housing

	Mean	Range	
		High	Low
Total move-outs	100%	--	--
By request of management:	25	41%	13%
Ineligibility	9	20	2
Other reasons	16	24	5
Due to changes in personal circumstances:	36	50	27
Left area	18	38	11
Circumstances made move necessary	18	29	8
By choice:	26	40	18
Desire for other housing	4	9	1
Dissatisfied	22	35	14
Already returned to public housing	2	3	0
Cause not ascertained:	11	17	5
Scattered or no member able to give information	4	12	a/
Could not be located	6	10	0
Information refused	1	2	0

Source: U. S. Housing and Home Finance Agency, Public Housing Administration, Mobility and Motivations...Survey of Families Moving From Low-Rent Housing (Washington: April 1958), p. 15.

a/ Less than .5%.

basic principle of federal aid to low-rent housing, namely, that it will serve the needy and the indigent.

A former Assistant Commissioner in the Public Housing Administration criticized the federal leadership recently holding that the Public Housing Authority "is very largely to blame" for the fact that "the whole public housing program is sick unto death" and that the federal administrators have displayed a "bankruptcy of leadership, inflexible and beaucratic supervision and a smug and complacent attitude."[67]

The findings of a 1960 conference on Housing the Economically and Socially Disadvantaged in the Population emphasized the need for improved federal and local administration of the federal public housing program, less institutionalism in public housing, and wider experimentation with rehabilitation and purchase of old and new private projects.[67a]

The author of a recent study of public housing in Pittsburgh, Pennsylvania, concludes:

> ...the public housing program has not made any substantial inrodes into the problem of supply a "...decent home and a suitable living environment for every American family"--this, despite the addition of 489,744 units of public housing space. The program, to date, has apparently failed to achieve even a temporary solution to the housing

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[67] "ASPO Hears Public Housers Blame PHA for Their Troubles," House and Home, XIV:1 (July 1958), 61.

[67a] Metropolitan Housing and Planning Council of Chicago, in cooperation with Action, Inc. of New York, The National Council for Good Cities, Interim Report on Housing - The Economically and Socially Disadvantaged Groups in the Population. Proceedings and Working Papers of Conference held February 26-27, 1960, in Highland Park, Illinois, pp. 2-3.

problems of the majority of the low-income group, let alone a lasting solution.[68]

As a result of the widespread criticizm of the federal public housing program, fundamental changes in its character and operation have been recommended. In The Role of the Federal Government in Housing, the author recommended experimentation with a variety of alternative solutions to the low-income housing problem including tax subsidies, family income subsidies, and increased reliance upon locally initiated and controlled programs for renovating existing housing.[69]

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[68] Robert K. Brown, Public Housing in Action: The Record of Pittsburgh (Pittsburgh: University of Pittsburgh Press, 1959), p. 79.

[69] Paul F. Wendt, The Role of the Federal Government in Housing (Washington: American Enterprise Association, 1956), Ch. III and IV.

In a special report to the U. S. Housing Administration in January 1960, Dr. Ernest M. Fisher recommended the development of a single closely knit federal housing agency, the relaxation of federal controls over local housing programs, and the development of integrated, broadened, and diversified housing programs on the local level.[70] The implications of the lack of success of federal programs for improving the housing of low-income groups in the United States will be explored further below.

Causes of Slums and Blight

Cities undergo constant change with growth and shifts in economic functions, obsolescence, and changes in technology. The development of great American cities has resulted from a continuous and dynamic succession of land uses through public and private investment. It is in the nature of this process that segments of cities will be old and worn out at any given time and that inevitably some cities will decline in area and importance. The problem of urban slums and blight arises when the processes of renewal through private investment appear to be permanently interrupted. It has long been recognized that any realistic program for the improvement of urban housing would require a broad-scale attack upon this problem.

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[70] Ernest M. Fisher, A Study of Housing Programs and Policies (Washington: U.S. Housing and Home Finance Agency, January, 1960), p. v.

See also Views on Public Housing, Symposium of Letters Written at the request of Norman P. Mason, U. S. Housing Administrator (Washington: U.S. Housing and Home Finance Agency, March 1960).

The problems of urban blight go far beyond the consideration of housing low-income families living in slums, and their causes must be sought in the complexity of factors affecting urban real estate investment. One of the underlying causes of the interruption of private investment in urban real estate is found in the serious financial problems which have plagued American cities and in the fact that cities have relied so heavily upon real estate as the basis for municipal revenues. Allied to this is the cumulative obsolescence which has occurred in streets, transportation services, schools, and other public facilities within cities. Undoubtedly the tremendous stimulus to homeownership through federal mortgage insurance programs has combined with the forces of industrial and commercial dispersion to direct residential investment to ownership housing in outlying areas beyond the reach of the central city taxes. A third basic cause of slums is to be found in the conditions of housing shortage which have prevailed in many large American cities for almost half a century. These conditions have had particular impact upon racial minorities and low-income groups with less residential mobility than others.

As a result of housing shortages, landlords have received continuous incomes from substandard properties; city officials have failed to establish and enforce minimum housing standards, and the slums endure. The imposition of federal rent controls during World War II and its aftermath and their continuance in some cities and states reduced maintenance standards in urban rental housing and probably deterred new investment or renovation

of substandard housing. Another obstacle to the functioning of the renewal processes is to be found in the diversity of property ownership in cities and in the fact that owners hold out for high prices in the expectation of the growth of new commercial or residential areas.

The attack on the problem of slums and blight has been complicated not only because of its complexity but because of the wide differences in point of view of those concerned with the problem. Professional "housers" view slums primarily as an arena for public housing:

> Comprehensive redevelopment, ...could never become a reality in most localities without a continuous public housing program on a major scale. 71

Downtown merchants support urban redevelopment in order to draw population and purchasing power back to the central city. Investors and property owners view it as a means of bolstering property values and municipal finances but are strongly opposed to public housing. City planners look upon urban redevelopment as a golden opportunity to achieve more rational land use in central areas of cities. Recently homebuilding and real estate groups have mobilized strongly behind urban renewal as a means of revitalizing the filtering processes in housing and forestalling public housers. These differences in viewpoints have prompted the comment that, "Seldom has such a variegated crew

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71 Coleman Woodbury and Frederick Gutheim, Rethinking Urban Redevelopment, Urban Redevelopment Series, No. 1 (Chicago: Public Administration Service, 1949), p. 13.

of would-be angels tried to sit on the same pin at the same time."[72]

Federal Aid for Slum Clearance and Redevelopment

It was noted above that the entry of the government into the field of local slum clearance was primarily a depression pump-priming measure and that the accomplishment was negligible. The Housing Act of 1937 approached the problem of urban blight as a housing problem alone and sought to remove slums by requiring that a substandard dwelling be eliminated for every low-rent public housing unit built. This "equivalent elimination" doctrine has served to link slum clearance with federal public housing ever since the passage of the 1937 Act.

In the Housing Act of 1949 the Congress recognized that a comprehensive attack upon the slum problem must be broader than was possible under a public housing program alone and provided for participation by private enterprise in the redevelopment of slum areas. The Act authorized the HHFA to make loans up to $1 billion and grants up to $500 million to localities to assemble land, clear slums, and make the areas available for redevelopment by either public or private enterprise.

The Housing Act of 1949 continued the former emphasis upon the provision of public housing in redevelopment by requiring that adequate housing must be made available to all families displaced by redevelopment projects under the Act. The standards of "adequacy" in terms of quality, location, and rentals

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[72] Catherine Bauer, "Redevelopment: A Misfit in the Fifties," in The Future of Cities and Urban Redevelopment, edited by Coleman Woodbury (Chicago: University of Chicago Press, 1958), p. 9.

were such that they could be satisfied only by public housing in most localities. In order to link public housing more closely with federal redevelopment, the Act required that (except in the case of veterans for a five-year period) admission to low-rent housing should be restricted to families coming from substandard dwellings and that families displaced by redevelopment should be given preference for admission to public housing in each locality.[73]

In setting up an "Urban Renewal Fund," the Housing Act of 1954 liberalized the conditions under which the HHFA could make advances, loans, and grants to communities for planning and carrying out urban renewal and set forth the criteria to be used by the Administrator in determining whether or not a city had undertaken a "positive program" for the prevention of blight and a "workable program" for dealing with slums and blight.[74] The 1954 Act continued the limitation in former laws that occupancy of new public housing be limited to displacees from governmental redevelopment or to families coming from substandard dwellings.[75]

Acting upon the recommendations of The President's Advisory Committee on Government Housing Policies and Programs, Congress also provided for FHA insurance of long-term loans for the rehabilitation of existing dwellings and construction of new

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[73] U.S. Housing and Home Finance Agency, The Relationship Between Slum Clearance and Urban Redevelopment and Low-Rent Public Housing (Washington: [redacted], 1950).

[74] Public Law 560, 83rd Congress, 2d Session, Sections 100-01.

[75] "Housing law: after long labor, a mouse," House and Home, VIII:3 (September 1955), [redacted]. 39-40.

dwellings in urban renewal areas in the Housing Act of 1954 (Section 220) and for the provision of low cost housing for relocation of families displaced from urban renewal areas (Section 211).

The main features of the federal government's current program for aiding in slum clearance and urban renewal are:

1. Federal capital grants to local redevelopment agencies to aid in the acquisition of land for redevelopment in the amount of two-thirds of the difference between acquisition cost of the land and its value for sale for future development (net project cost);
2. Sale of land acquired by public condemnation to private developers at prices designed to encourage private investment;
3. Federal loans and technical aid for surveys, plans, and other assistance to local governments in the elimination of slums and blighted areas;
4. Encouragement of the adoption of "positive"and workable" programs for the prevention and elimination of slums and blight through the requirement of such programs as a condition for receiving federal assistance;
5. Emphasis upon relocation of former slum dwellers as a major feature of any federally aided redevelopment plans.

It was reported as of June 1955 that 99 urban redevelopment projects had reached the project execution stage in the nation, 104 were in the final planning stages and 94 were in preliminary

planning stages and that two-thirds of the states had enacted legislation authorizing local public agencies to undertake slum clearance and urban redevelopment projects.[76]

By December 31, 1959, the total number of "well advanced" federally assisted urban renewal projects in progress was 437, representing total net project costs in excess of $1 billion, of which the federal share was $853 million. According to the Housing and Home Finance Agency, 186,760 dwelling units were substandard out of a total of 235,173 reported in 426 of these projects. It was estimated that 106,213 families of a total of 187,487 were eligible for public low-rent housing.[77] As a reflection of the slowness with which the urban renewal program has progessed, only Twenty six projects were completed from 1949 to 1959.

Urban Renewal and Rental Housing

The use of eminent domain to facilitate assembly of land for redevelopment is considered the most important single factor

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[76] U. S. Housing and Home Finance Agency, Urban Renewal Administration, Urban Renewal Project Characteristics (Washington: June 30, 1955), p. 55, Table 1.

U. S. 83rd Congress, 2d Session, Hearings Before the Committee on Banking and Currency, House of Representatives on H. R. 7839, Housing Act of 1954, Testimony of Hon. James W. Follin, p. 127. Currently cities are experiencing a surge in public and private investment. It is notable, however, that most of the new investment is in commercial and public buildings rather than in rental housing. Federal loans, grants, and technical aid and local redevelopment agencies have undoubtedly played an important part in encouraging this new investment. See "Rebirth of the Cities," Time, December 5, 1955, pp. 25-28.

[77] U. S. Housing and Home Finance Agency, Thirteenth Annual Report, 1959 (Washington: 1960), pp. 271-72.

encouraging new private investment in slum and blighted areas. The success of urban renewal programs, by common agreement, however, depends upon the encouragement of large-scale private investment in rental housing.[78] In the light of this it is discouraging to note that federal housing policies during most of the postwar period failed to attract large-scale investment in rental properties.[79] This is of significance, not only in connection with the record and prospects for urban renewal, but also in accounting for the predominance of single-family house construction in the United States during the post-World War II years.

Any evaluation of national progress in urban renewal must conclude that government aided programs have been more promising than productive thus far. The long-standing controversy over public housing in urban areas was an important factor in delaying the initiation of renewal in many cities. The failure of

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[78] The President's Advisory Committee on Government Housing Policies and Programs, in its Recommendations on Government Housing Policies and Programs, estimated that the cost of removing an estimated 5 million substandard dwelling units requiring demolition would probably equal $15 billion and that at the rate of clearance then current it would take over 200 years to do the job. In addition to costs of removal, it was estimated that public improvements required would equal an additional $9 billion. These estimates do not include the costs of rehabilitation or construction of new dwelling units themselves. [redacted]., pp. 110-11. Supra

[79] Miles L. Colean, "Impotency of FHA Policies on Apartment Finance," Architectural Forum, 102:6 (June 1955), p. 110. "The whole FHA rental housing experience, including the aftermath of investigation, accusation, black-listing and general hubbub, is a perfect example of missing the main point... The problem of equity investment in rental property is not one of getting the money in but of getting it out."

government programs to stimulate large-scale private investment in rental housing has been a related and an important influence. A wave of public interest in renewing America's slum areas has been accompanied by vigorous efforts in many cities to accelerate urban renewal programs. The rapid increase in applications for federal aid appear to augur greater progress in the next decade.

Fundamental questions concerning federal urban renewal programs remain unanswered. Why is it particularly desirable to stimulate investment in existing downtown areas? Would it not be more efficient in the long run to rebuild outside existing cities? Can the assembly of land by public agencies for sale to private developers below cost be rationalized as an appropriate use of public funds? Will such a program actually result in any substantial change in the rate of new investment in existing cities? What, if any, is the true relationship between federal housing programs and urban renewal? How effective will code enforcement be in improving housing standards in the absence of programs to stimulate new housing production? What effects will it have on the total housing market and new construction? Is it efficient and economical to encourage rehabilitation of slum dwellings? These and a host of similar questions plague the critical analyst of federal urban renewal programs, and may account for some of the delay and confusion that underlies federal urban renewal programs. In addition they point up the obvious fact that federal urban renewal legislation is only in minor part a housing program.

Costs of Federal Housing Programs

Estimation of the total costs of federal housing programs during the post-World War II period is very difficult. Table VI-15 shows the administrative and other direct costs of major government housing programs from 1950 to 1958. It will be noted that the income from Federal Housing Administration insurance fees, premiums, and investments of reserve funds approximately offset the administrative and other direct costs of government housing programs from 1950 to 1953. Since that time the income from Federal Housing Administration operations has increased only moderately, while substantial increases have occurred in the annual cost of the federal urban renewal and public housing administration programs. It must be recognized that the cumulative excess in Federal Housing Administration fees over expenses is set aside in reserves of the Title I Housing Insurance Fund, the Mutual Mortgage Insurance Fund, and other miscellaneous funds for the reimbursement of claims made to FHA by lenders. Total reserves in these insurance funds amounted to approximately $643 million on June 30, 1958, of which $406 million was represented by reserves in the Mutual Mortgage Insurance Fund.[80]

It can be noted from Table VI-15 that the operating and administrative costs of federal housing programs rose from $98.5 million in 1950 to $392 million in 1958. It can also be seen that these costs exceeded income from mortgage insurance fees and other premiums by $234 million by 1958.

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[80] U. S. Housing and Home Finance Agency, Twelfth Annual Report, 1958 (Washington: 1959), p. 147. As of June 30, 1959, these reserves totalled $758 million, of which $476 million was represented by the Mutual Mortgage Insurance Fund. Ibid., Thirteenth Annual Report, 1959, p. 153.

Table VI-15

Estimated Direct Costs of Federal Government Housing Programs, 1950 to 1958 7 (In Millions)

Year	Veterans Administration Loan Guarantee Program a/	Public Housing Administration b/ Administrative Expenses	Public Housing Administration b/ Annual Contributions	Urban Renewal Administration Capital Grants Disbursed c/	Federal Housing Administration d/ Operating Expenses	Federal Housing Administration d/ Total Income from Fees, Premiums, and Investments	Total Expenses, Columns 1 thru 4
	(1)	(2)		(3)	(4)	(5)	
1950	$ 59	$ 6.3	$ 5.7	$	$ 27.5	$ 85.7	$ 98.5
1951	90	9.7	9.1		31.3	98.0	140.1
1952	78	9.3	12.6		30.6	103.0	130.5
1953	66	8.2	25.9	8.7	31.3	115.3	140.1
1954	45	6.6	44.5	12.6	31.4	125.2	140.1
1955	29	7.4	66.6	37.6	36.2	138.8	176.8
1956	40	9.1	81.7	16.1	40.6	145.5	187.5
1957	60	10.0	90.6	30.2	41.3	147.0	232.1
1958	80	11.6	98.7	49.7	45.5	157.2	285.5
1959	121	12.4	115.4	78.5	[redacted] 52.8	[redacted] 181.5	[redacted] 380.1
Total	$[redacted] 603	$ 90.6	$ 550.8	$ 233.4	$ [redacted] 368.5	$ [redacted] 1,297.2	$ [redacted] 1,911.3

Sources: a/ U. S. Bureau of the Census, Statistical Abstract of the United States, 1960 (Washington: 1960), p. 252.

b/ Robert Moore Fisher, Twenty Years of Public Housing (New York: Harper, 1959), Table 10.

c/ U. S. Housing and Home Finance Agency, Thirteenth Annual Report, 1959 (Washington: 1960), p. 275.

d/ Ibid., p. [redacted] 151.

The indirect costs of federal housing programs are more difficult to determine. The increased interest cost to the federal government on its total debt resulting from the federal guarantee of local housing authority obligations and those of the Federal National Mortgage Association is probably minimal, although the actual effect is indeterminate. The exemption of local housing authority obligations, which exceeded $3 billion at the end of 1957, from federal income taxation undoubtedly results in an undeterminable tax revenue loss to the federal government. The disbursement of payments by the federal government to local housing authorities in lieu of local property taxes represents a cost to the federal government and an offsetting revenue to local governments. A 1952 study by the Public Housing Administration revealed that the federal government made payments in lieu of taxes amounting to $3,398,000 on 412 projects covering 143,430 dwelling units. The dwellings included accounted for somewhat less than one-quarter of the total number of dwelling units in the federal low-rent housing program.[81] Operating expenses of the Federal National Mortgage Association are omitted from Table VI-15 because the operations of that agency have been required to be self-supporting since its reorganization in 1954.

On the whole it would appear that the total costs of federal housing programs in the United States have risen quite

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[81] Robert Moore Fisher, Twenty Years of Public Housing, (New York: Harper, 1959), p. 199. It was estimated that the payments in lieu of taxes by the federal government represented approximately 27 percent of the full taxes which would have been payable if the projects were privately owned.

rapidly in recent years, primarily attributable to rising expenditures for urban renewal and public housing programs.

Total expenditures by state and local governmental units for housing and community redevelopment ranged between $450 and $630 million from 1950 to 1957, which predominately represented expenditures for provision of local public housing.

Evaluation

It has been seen that postwar housing policy in the United States has been keyed to the following principles:

1. Primary reliance upon the stimulation of a high volume of privately owned and occupied single-family houses.
2. Federal insurance and guaranty of loans to encourage the granting of loans on generous terms by private lenders.
3. Special interest rate subsidies for veteran groups.
4. The provision of publicly owned housing at subsidized rents for low-income groups occupying substandard housing.
5. Federal loans and grants for urban renewal and slum clearance.

The evidence reviewed above has shown that these programs, aided by a major expansion in family incomes, have resulted in a sustained high volume of new housing production during the postwar years, a large increase in homeownership, and a major improvement in housing standards in the United States.

A review of specific criticisms of federal housing policies provides a suitable framework for evaluation of housing policies in the United States.

Criticism 1: Federal Mortgage Insurance programes have not met the needs of families most in need of housing.

The housing status of nonfarm family units in the United States for selected years is shown in Table VI-16. It can be noted that the percentage of homeownership has increased rapidly during the postwar years for all family income segments except the two lowest quintile income segments.[82] The relatively high percentage of homeowners in the lowest income group can be explained in part by the large numbers of retired family heads typically owning their own homes and reporting minimum incomes. As will be noted presently, data on the number of nonmortgaged homes in the lower price ranges suggest that many of the lowest income families own their homes free of any mortgage debt. Table VI-16 also reveals the tendency for many low-income families to share homes with others either from choice or necessity. The substantially lower percentage of nonwhite families owning their own homes is indicative of the concentration of such families in the lower-income groups. It is important to realize that the percentage data in Table VI-16 should not be allowed to obscure the fact that large absolute increases have taken place in the number of low-income families owning their own homes in the postwar years.

In considering the impact of government programs on these

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[82] As of 1957, one-fifth of total families had incomes under $2,500, while another one-fifth had incomes between $2,500 and approximately $4,500. U. S. Bureau of the Census, Current Population Reports--Consumer Income, Series P-60, No. 30 (Washington: December 1958), p. 21, Table 4.

Table VI-16

Housing Status of Nonfarm Family Units Within Specified Groups[a]
(Percentage Distribution)

Group Characteristic	All Cases	Owns			Rents[b]			Others[c]		
		1959	1954	1949	1959	1954	1949	1959	1954	1949
All nonfarm family units[d]	100	58	56	51	35	37	40	7	7	10
Nonfarm family income quintiles:[e]										
Lowest	100	46	45	40	36	34	38	18	22	22
Second	100	42	46	43	48	47	46	9	7	11
Third	100	59	51	47	37	44	43	4	5	8
Fourth	100	63	65	55	34	32	41	4	3	4
Highest	100	79	71	69	20	28	28	1	1	2
Age of head of family:										
18-34	100	16	17	21	57	58	48	26	25	31
35-44	100	42	42	35	52	52	53	6	6	12
45-54	100	63	57	53	33	38	42	5	5	5
55-64	100	64	63	59	31	31	34	5	5	7
65-74	100	69	66	62	25	28	32	6	6	6
75 and over	100	66	63	59	24	23	27	10	14	14
Occupation of head of family:										
Professional and semiprofessional	100	54	58	48	37	36	38	9	6	14
Managerial	100	70	59	66	27	37	30	2	4	4
Self-employed businessman	100	80	76		19	22		1	2	
Clerical and sales	100	58	55	46	38	37	41	4	8	13
Skilled	100	63	54	52	33	41	44	4	6	4
Semiskilled	100	54			42			4		
Unskilled and service	100	43	41	40	43	42	43	14	17	17
Retired	100	68	65	60	23	21	25	9	14	14
Race of head of family:										
White	100	60	57	53	33	35	38	7	8	9
Nonwhite	100	40	40	31	52	52	51	8	8	18

Source: "1959 Survey of Consumer Finances, Housing of Nonfarm Families," Federal Reserve Bulletin, September 1959, p. 1107, Supplementary Table 1.

a/ As of date of interview, early in year indicated. b/ This group differs from that in other years because it excludes family units that rent part of another family unit's dwelling. If these units were included, the proportion renting in 1959, 1954, and 1949 would increase by 2, 3, and 4 percentage points, respectively, and the proportions in the "other" group would decrease correspondingly. c/ Family units that rent part of another family unit's dwelling, receive housing as part of compensation, live temporarily in houses they have sold, etc. d/ A family unit includes all persons living in the same dwelling who are related by blood, marriage, or adoption. Single-person family units are included. e/ Quintiles were obtained by ranking nonfarm family units according to money income before taxes in the preceding year.

Note: Details may not add to totals because of rounding.

trends, it should be observed that less than 22 percent of the total dollar volume of mortgage debt outstanding at the end of 1945 was government-insured or-guaranteed. The proportion had increased to approximately 32 percent by 1950, and by December 1959 [redacted] the total amount of government underwritten mortgage loans totaled $[redacted] 53.8 billion or [redacted] 41 percent of total mortgage debt outstanding in the United States.[83] These trends of course provide no conclusive evidence of the particular impact of government loan programs upon homeownership trends for low-income groups.

It is important to observe from Table VI-17 that approximately 45 percent of the single-family owner-occupied homes were not mortgaged in 1955 and that a substantial proportion of these were homes with relatively low market values and presumably occupied by low income groups.

The distribution of mortgage loans outstanding on December 31, 1956, by type of loan and income of family, also shown in Table VI-17, shows that less than a half a million families owning single-family mortgaged homes and having incomes below $4,000 held government-insured or-guaranteed loans, and that only 1,267,000 homeowning families with incomes under $5,000 held government-insured or-guaranteed loans. In contrast, 1,260,000 families owning single-family homes with incomes under $4,000 held conventional mortgage loans, while over two million families with incomes under $5,000 had conventional mortgage loans. Thus

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83 Federal Reserve Bulletin, [redacted] Oct, 1960, p. [redacted] 1163

statistics can be compared with the most recent estimates that approximately 16 million American families had annual incomes in 1957 of less than $4,000 and that 22,059,000 families had annual incomes of less than $5,000.

The data in Table VI-17 confirm earlier data from the 1950 census of housing which showed that purchases of homes in 1949 and 1950 financed with government-insured or-guaranteed loans were concentrated in the $6,000 to $12,000 price classes and that substantially larger percentages of low-priced homes were financed with conventional loans.[84] The evidence would appear to demonstrate that small percentages of low-income families were borrowers under federal loan programs.

It can also be noted from Table VI-17 that the average family income, purchase price, estimated market value, and amount of original loan were lower for borrowers on conventional mortgages than for either FHA or VA borrowers. These differences reflect the influence of several factors:

1. Greater proportionate volume of government loan activity at the higher postwar price levels.
2. Greater proportionate volume of government loan activity in the new versus the existing home market.
3. More generous loan terms in the government sector.
4. Concentration of low income purchasers on conventional borrowing in the lower priced, older home field. (Many such homes fail to meet minimum construction requirements of FHA and VA).

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[84] Leo Grebler, The Role of Federal Aids in Residential Construction, Occasional Paper 39 (New York: National Bureau of Economic Research, 1953), pp. 24-25.

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[84] Leo Grebler, The Role of Federal Aids in Residential Construction, Occasional Paper 39 (New York: National Bureau of Economic Research, 1953), pp. 24-25.

Table VI-17

Property and Mortgage Characteristics, Property with One Dwelling Unit, 1956

Subject	Market Value of Property						
	Total	Less Than $8,000	$8,000 to $12,999	$13,000 to $20,000	More Than $20,000	Not Reported	Median Market Value
Mortgaged	12,713,028	2,541,780	4,422,808	4,005,374	1,688,917	54,149	$12,416
Nonmortgaged	9,950,333	3,772,289	3,004,615	1,588,535	1,142,362	442,532	$ 9,611

Subject	Type of First Mortgage, With No Second Mortgage				
	Total	FHA	VA	Conventional	Not Reported
Owner Characteristics					
Total	12,713,028	1,998,461	2,890,339	5,968,442	989,248
Income of Family					
Less than $2,000	442,247	40,341	36,089	269,843	60,288
$2,000 to $2,999	493,266	29,397	48,757	506,056	68,910
$3,000 to $3,999	1,248,478	113,932	187,242	684,662	159,621
$4,000 to $4,999	1,898,220	312,536	498,709	815,966	122,350
$5,000 to $5,999	2,110,479	328,037	657,914	855,561	155,210
$6,000 to $6,999	1,527,595	348,814	382,314	598,592	95,809
$7,000 to $7,999	1,213,346	191,870	391,417	469,563	86,189
$8,000 to $8,999	712,770	139,600	158,814	332,765	43,284
$9,000 to $9,999	462,910	73,538	102,338	232,245	17,026
$10,000 or more	1,326,428	194,678	201,454	746,720	75,287
Not reported	1,277,289	225,718	225,291	656,669	105,274
Median income	$5,775	$6,178	$5,854	$5,677	...
Property Characteristics					
Median purchase price	$10,237	$10,894	$11,092	$9,362	...
Median market value	$12,416	$13,144	$12,695	$12,360	...
Median loan	$7,765	$8,477	$9,879	$6,206	...
New or Previously Occupied By Year Acquired					
1955 to 1956:					
New	1,877,724	304,310	695,474	668,711	82,233
Previously occupied	2,186,247	289,675	508,286	992,675	148,626
1950 to 1954:					
New	2,656,167	566,729	823,558	1,042,150	115,153
Previously occupied	2,918,037	438,713	542,144	1,473,235	240,050
1949 or earlier:					
New	288,941	51,514	18,383	159,125	43,287
Previously occupied	2,737,739	341,958	300,185	1,611,539	340,703
Not reported	48,173	5,562	2,309	21,007	19,196

Source: "Financing of Owner-Occupied Residential Properties," 1956 National Housing Inventory (Washington: [redacted] Bureau of the Census, 1958), Volume II, pp. 17, 20, 22, 23.

U.S. Bureau of the Census

The conclusion from the data of Tables VI-16 and 17 that low-income home purchasers have been served primarily in the conventional loan market does not establish that government loan programs have had no effect upon the credit terms available to them in that market as well as in the government loan sector. To the extent that government loan insurance and guaranty programs have actually attracted funds to the residential mortgage market which would not otherwise have been available, it can be argued that government programs have resulted in an increase in the total supply of mortgage funds and hence have improved the general terms of availability to all income groups. Specifically, the program of The Federal Savings and Loan Insurance Corporation has been an important factor undergirding the expansion in conventional lending. Further, the Federal National Mortgage Association, through its programs of extending loan commitments and purchasing government-insured and-guaranteed loans in the secondary market has made it possible for conventional and government-insured lending to increase. It can also be argued that more favorable competitive loan terms in the government sector of the market have encouraged conventional lenders to offer credit on more liberal terms than would otherwise have been available. Although it is impossible to measure the indirect effect of government mortgage loan policies upon the terms of lending in the conventional market, it can be assumed to have been substantial.

No conclusive evidence is at hand to determine the proportion of American families <u>potentially</u> assisted by federal

mortgage insurance programs, and the views expressed on the question vary widely. One critic pointed out in 1950 that "only about 11 million of the 37 million American nonfarm families (about 30 percent) were within reach of the private builders' market."[85]

In contrast with the above view, another authority argued in 1951 that:

> The generalization that houses can be and are being built only for the upper income groups is incorrect. It is more accurate to state that if existing veteran terms of no or low downpayments, 4 percent interest rates, and thirty year amortization were made available to all, nearly every family receiving a minimum full-time income could afford to purchase a house if it so desired. This desire would require those lowest on the income scale to spend average or above amounts for housing and to accept a suburban house. [86]

Assuming that families could pay 25 percent of their income to cover mortgage and tax payments, Maisel concluded that under the above assumptions, approximately 80 percent of all American families with "minimum full-time incomes" could be served by federal loan insurance or guaranty programs.[87]

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[85] Charles Abrams, "The Residential Construction Industry," in The Structure of American Industry, Walter Adams, ed. (New York: Macmillan, 1950), p. 131.

More recently the same author cited that fact that "half of all spending units in the United States had an income of less than $4,350 in 1957, while less than 6 percent of all new one family homes purchased with FHA insurance in the same year were bought by families with annual incomes of less than $4,200 as additional evidence to support his earlier contention. Study of Mortgage Credit, pp. 81-82.

[86] Sherman J. Maisel, "Policy Problems in Expanding the Private Housing Market," American Economic Review, May, 1951, p. 599.

[87] Ibid., pp. 601 and 606. If monthly housing expenditures for mortgage payments and taxes were reduced to 20 percent of family incomes, Maisel estimated that about 10 percent of those otherwise eligible would be kept from the market.

The differences in these two points of view can be explained in part by differences in definitions and assumptions. Abrams was referring to the percentage of all families which would be able to purchase new housing under existing FHA loan terms. Maisel's estimates excluded family units without full-time incomes and postulated the generous conditions of credit availability under Veterans Administration 100-percent, 30-year loans at four percent interest. It should also be noted that Abrams' estimates of median income are lower than the most recent estimates by the Bureau of the Census. The median income of all families in the United States for the year 1957, shown in Table VI-18, was estimated to be $4,971. Families with a head shown as a year-round full-time worker had median incomes of $5,718, while urban families had median incomes of $5,359.

Table VI-18 shows the importance of the exclusion of family units without full-time incomes in Maisel's analysis and focuses attention upon the specialized nature of the housing problem for many low income groups. According to Bureau of the Census estimates, over 20 percent of the total number of families in the United States in 1957 were classified as "not in the labor force, unemployed, or in the Armed Forces." Of greater significance is the fact that almost half of the families in the lowest one fifth

Table VI-18

Families by Total Money Income in 1957, for the United States, Urban and Rural, by Region and Color

Total money income	United States			Northeast	North Central	South			West
	Total	White	Nonwhite			Total	White	Nonwhite	
FAMILIES									
United States									
Total number (000)	**43,714**	**39,692**	**4,022**	**n.a.**	**n.a.**	**n.a.**	**n.a.**	**n.a.**	**n.a.**
Percent	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Under $500	3.0	2.5	7.8	1.5	2.7	5.1	3.7	12.1	2.0
$500 to $999	3.4	2.7	10.8	1.5	2.5	6.8	4.8	16.8	1.7
$1,000 to $1,499	4.0	3.5	9.2	2.9	3.6	6.2	5.0	11.8	2.5
$1,500 to $1,999	4.5	4.1	8.2	3.3	4.3	6.1	5.6	8.8	3.4
$2,000 to $2,499	5.2	4.6	10.3	3.7	4.4	7.5	6.6	11.6	4.6
$2,500 to $2,999	4.4	4.2	7.0	3.6	4.4	5.4	4.9	7.7	4.1
$3,000 to $3,499	5.7	5.5	7.8	4.9	5.3	7.2	7.2	6.9	5.1
$3,500 to $3,999	6.1	6.0	7.0	5.7	6.3	6.7	6.9	5.8	5.0
$4,000 to $4,499	7.3	7.4	5.9	8.0	7.5	6.5	7.1	3.8	7.3
$4,500 to $4,999	6.8	7.0	5.1	7.2	7.0	5.8	6.4	2.8	7.8
$5,000 to $5,999	14.5	15.1	8.8	17.0	14.8	12.5	13.9	5.4	13.9
$6,000 to $6,999	10.3	10.9	4.5	11.1	11.0	8.0	9.0	3.2	12.2
$7,000 to $9,999	16.3	17.4	6.3	19.1	17.4	10.9	12.5	2.9	20.4
$10,000 to $14,999	6.5	7.1	1.2	8.1	6.9	4.3	5.1	0.4	7.5
$15,000 to $24,999	1.4	1.5	...	1.7	1.6	0.8	0.9	...	1.7
$25,000 and over	0.5	0.5	...	0.6	0.5	0.2	0.3	...	0.8
Median income	$4,971	$5,166	$2,764	$5,453	$5,135	$3,925	$4,373	$2,022	$5,468
Head year-round full-time worker									
Percent of total	65.4	67.2	47.9	67.8	67.9	61.2	64.5	45.1	64.2
Median income	$5,718	$5,836	$3,741	$6,008	$5,769	$4,949	$5,240	$2,764	$6,331
Urban									
Median income	$5,359	$5,557	$3,352	$5,464	$5,556	$4,623	$5,013	$2,622	$5,793
Rural Nonfarm									
Median income	$4,894	$5,037	$2,440	$5,626	$4,979	$4,130	$4,449	$2,047	$5,025
Rural Farm									
Median income	$2,490	$2,833	$919	$3,535	$3,056	$1,936	$2,259	$906	$3,797
UNRELATED INDIVIDUALS									
United States									
Total									
Percent	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Under $500	16.8	16.2	20.8	13.5	17.0	24.2	22.7	28.1	11.4
$500 to $999	20.6	19.3	28.9	20.0	21.9	25.1	20.0	39.3	13.7
$1,000 to $1,499	12.7	12.9	11.8	13.4	10.5	10.7	10.2	12.1	17.8
$1,500 to $1,999	8.5	8.7	7.8	8.6	8.6	7.3	8.5	3.9	10.1
$2,000 to $2,499	7.6	7.3	9.2	8.1	7.0	6.3	7.0	4.3	9.2
$2,500 to $2,999	5.5	5.6	5.2	6.1	5.3	5.0	5.4	3.9	5.8
$3,000 to $3,499	5.6	5.6	5.5	7.1	5.4	3.8	4.2	2.8	6.1
$3,500 to $3,999	5.0	5.1	4.5	5.2	4.4	4.6	5.7	1.5	6.3
$4,000 to $4,499	4.7	5.0	3.2	4.8	5.3	3.3	3.5	2.8	5.7
$4,500 to $4,999	3.1	3.4	1.3	4.2	3.7	1.7	2.3	0.2	2.7
$5,000 to $5,999	4.4	5.1	0.8	3.6	5.4	4.4	5.7	0.9	4.1
$6,000 to $6,999	2.1	2.4	0.5	2.0	2.2	2.0	2.7	...	2.2
$7,000 to $9,999	2.0	2.3	0.3	2.4	1.6	1.0	1.3	0.2	3.7
$10,000 to $14,999	0.9	1.0	...	0.7	1.5	0.5	0.7	...	0.7
$15,000 to $24,999	0.2	0.2	...	0.2	0.1	0.1	0.2	...	0.4
$25,000 and over	...	0.1	...	0.1	0.1	...	...	...	...
Median income	$1,496	$1,592	$1,013	$1,680	$1,535	$1,033	$1,358	$779	$1,851
Year-round full-time workers									
Percent of total	38.8	39.5	34.3	45.3	37.1	34.1	36.3	27.7	38.5
Median income	$3,214	$3,362	$2,251	$2,934	$3,585	$2,877	$3,437	(1)	$3,448
Urban									
Median income	$1,716	$1,838	$1,256	$1,699	$1,937	$1,338	$1,770	$868	$1,869
Rural Nonfarm									
Median income	$1,037	$1,132	(1)	$1,847	$886	$842	$914	(1)	$1,647
Rural Farm									
Median income	$945	$1,129	(1)	(1)	(1)	$634	(1)	(1)	(1)

[1] Median not shown where there were fewer than 100 cases in the sample.

Source: U. S. Bureau of the Census, Current Population Reports - Consumer Income, Series P-60, No. 30 (Washington: December 1958), p. 28.

by income class were in these classifications.[88] The exclusion of approximately 4.2 million families without full-time incomes or unemployed represents almost one-half of the approximate number of 8.7 million families with annual incomes less than $2,500. Further examination of the characteristics of the family structure in the United States, as shown in Table VI-18, reveals that a substantial proportion of the families with incomes below $2,500 are concentrated in rural farm areas, with a similar number residing in rural nonfarm housing. Although it is inappropriate to dismiss the problem of rural housing from consideration in evaluating public policies, it can be argued that the entire structure of incomes, housing standards, and construction costs differs markedly for residents of rural areas and that this aspect of the national housing problem must

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88 U. S. Bureau of the Census, Current Population Reports--Consumer Income, Series P-60, No. 30, (Washington: December 1958). The term family used in the above reports refers to a group of two or more persons related by blood, marriage, or adoption and residing together. The estimates include money income prior to deductions for taxes. The total number of families was estimated at 43,714,000, of which 27,486,000 were classed as urban, 11,418,000 as rural nonfarm and 4,810,000 as rural farm families. The incomes of an estimated additional 10,313,000 "unrelated individuals" were shown separately. Of the total number of families, 34,496,000 were headed by an employed civilian, 2,341,000 by an unemployed head, 6,077,000 were headed by a person "not in the labor force," and 800,000 were headed by a member in the armed forces. (See Table 9).

be considered separately.[89]

Other studies have shown that many of the lowest income families are older person households with a nonworker or female head or are nonwhite households.[90] Although annual income may be an unsatisfactory determinant of financial ability for persons in older age groups, it is significant to note that over half of the 5,818,000 families with the age of the head 65 years and older in 1957 were estimated to have incomes below $2,500. Over 87.5 percent of the 3,419,000 so-called unrelated persons in this age group, i.e., those not living with any relatives were estimated to have incomes below $2,500 in 1957.[91]

Further evidence of the nature of the low-income housing problem in the United States is found in the observation from Table VI-16 that over four million nonwhite families reported a

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[89] See Glenn H. Beyer, "Demand and Need Factors--United States Farm Housing 1961-70," Study of Mortgage Credit. The author reviews the factors leading to the decline the number of farm households has taken from 6,275,000 in 1950 to an estimated 5,218,000 in 1957 and forecasts annual net losses of 24,500 to 55,200 in the decade from 1961-70. He draws attention to the higher rates of dilapidation for rural farm and nonfarm housing and to the relative lack of facilities in farm housing. He forecasts that the number of substandard units can be expected to remain around four million for the coming decade and recommends special federal programs for strengthening the economic position and improving housing and living standards for the small farm family.

[90] Selma F. Goldsmith, "Size Distribution of Personal Income," Survey of Current Business, April 1958; see also "Income Distribution by Size 1955-58," Ibid., April 1959.

[91] U. S. Bureau of the Census, Current Population Reports--Consumer Income, Series P-60, No. 30 (Washington: December 1958), p. 21, Table 4.

median income in 1957 of $2,764, approximately one-half that for white families.[92] It is also important to note the wide variations which exist in the level of incomes of nonwhite families in different regions of the United States. The median annual income for nonwhite families with a full time worker head ranged from $3,352 in urban areas to $2,440 in rural nonfarm areas and $919 in rural farm areas.

These data suggest that a large proportion, probably over 75 percent of these families in the lowest one-fifth by income class in the United States represent highly specialized housing problems calling for special assistance programs and cannot be served on any extensive basis by existing federal mortgage loan insurance programs designed to aid in promoting homeownership. Indeed, they suggest that it is unrealistic to expect that large numbers of families in the lowest income group would be homeowners. If the lowest one-fifth by income class (those with incomes in 1957 below $2,500) of all families in the United States were excluded from consideration in terms of the effectiveness of federal mortgage loan insurance programs, it can be estimated that homeownership is within reach of over 75 percent of the remaining American families. The rapid postwar increases in homeownership by American families in the income groups earning above $4,500 bears testimony to the fact that homeownership had been realized by 60 percent of the families with median incomes ($4971) and by substantially higher proportions of those in the upper two-fifths by income groups.

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[92] Ibid., Tables 2 and 12.

In summary it must be concluded with the critics that federal mortgage insurance programs have not specifically met the needs of the families most in need of housing, those with incomes below $2,500. It has been noted, however, that for many of these homeownership is not practical and that others represent special groups in the population, calling for specialized programs of assistance. Although it has been seen that direct participation in federally insured mortgage lending has been substantially greater by those with incomes of $5,000 and over, substantial proportions of families with incomes below $5,000 have been able to secure mortgage credit and achieve homeownership during the postwar years. To the extent that federal mortgage loan insurance programs have improved the general availability of mortgage credit, they have aided in this development.

It can also be argued that the maintenance of fixed interest rates on government underwritten mortgages has limited the availability of FHA-insured and VA-guaranteed loans in sections of the United States suffering from a shortage of savings relative to the demand for funds. The secondary market activities of the Federal National Mortgage Association have not been wholly effective in facilitating the flow of funds to areas of shortage. Improved secondary mortgage market facilities for both conventional and government-insured loans are needed, therefore, in order to provide greater stability in the flow of funds into residential mortgage markets.

Criticism 2. <u>Undue emphasis in federal housing policies has been placed upon the stimulation of single-family, owner-occupied home construction.</u>[93]

It can be noted from Table VI-1 that multi-family rental housing construction reached substantial levels only during a brief period from 1948 to 1950 and in 1958 and 1959. The relatively high levels of activity from 1948 to 1950 may be accounted for by the granting of the 30-year low- or no-equity FHA-insured "608" loans which were based upon 90 percent of current construction costs, calculated in such a manner that many builders were able to acquire title to apartment properties with little or no equity. Congressional investigations in 1953 and 1954 brought to light that the Federal Housing Administration had guaranteed "608" loans "on more than 700 projects running to millions of dollars in excess of the cost of the projects" and that "unconscionable profits have been made by many in construction projects sponsored by the Federal Government under

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[93] Charles Abrams, <u>The Future of Housing</u> (New York: Harper, 1946), pp. 224-25.

its housing programs."[94] As a result of the "608" scandals, the FHA rental housing program fell into disrepute and the terms and conditions for government loan insurance was so altered as to discourage apartment house promotion.

A recent analysis of the opportunities for private investment in rental housing in the United States attributes the lack of large-scale apartment house production during the postwar years to the following factors:[95]

1. The strong preference of American families for homeownership.
2. A long period of prosperity which enabled most consumers to realize their goal for homeownership.
3. The relatively low returns realized by investors in rental housing since the 1920's, and the consequent disappearance of the small apartment house investor.
4. Experience with federal rent controls during and immediately following World War II deterred many individuals and institutions from making long-term capital commitments in rental housing.
5. The failure of government housing programs to attract equity capital to rental housing field.
6. The effectiveness of government programs to stimulate homeownership lessened the demand for rental housing.

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[94] Housing Act of 1954 FHA Insurance Provisions: Hearings before the Committee on Banking and Currency, United States Senate, Eighty-Third Congress, Second Session on S 2889, S 2938, S 2949, Part 3. Statement by Senator Harry F. Byrd, Chairman of the Joint Committee on Reduction of Nonessential Federal Expenditures, April 13, 1954, p. 1307.

[95] Louis Winnick, Rental Housing (New York: McGraw-Hill, 1958), Ch. 9.

7. The tax benefits available to home owners furthered homeownership.

8. Demographic changes in the postwar period favored ownership housing.

The prospects for rental housing construction in the future, however, as they may influence progress in urban renewal, appear somewhat brighter, as indicated by the substantial revival in rental construction in 1958 and 1959.[96] Winnick points out that the liberalized mortgage lending terms of the Housing Act of 1956 together with the removal of many of the irksome FHA restrictions on the operation of completed projects have resulted in an increase in investor interest in FHA rental programs. He forecasts that continued prosperity, the growth in small private housekeeping family units (both young and old) and a "back to the city movement" encouraged by the growing shortage of land in the suburbs, may result in substantially increased levels of apartment house construction.[97] Federal and local government subsidies and other aids for urban renewal will undoubtedly encourage this trend.

Recent revivals in rental housing construction lend credence to Winnick's forecast. Privately owned multiple dwelling construction reached its postwar peak in 1958 at 170,000 units and

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[96] According to Housing Statistics, Historical Supplement, June 1960, pp. 7 and 11, published by the Housing and Home Finance Agency, a total of 195,400 multi-family units were started in 1958, of which 170,000 were privately owned. A total of 231,400 multi-family units were started in 1959, of which 214,900 were privately owned. Also see, Miles L. Colean, "Impotency of FHA Policies on Apartment Finance," Architectural Forum, June 1955, p. 110.

[97] Winnick, op. cit., pp. 23-40.

reached the highest level since the 1920's for the year 1959 when 214,900 units were started. It is significant, however, that less than 15 percent of the total of 170,000 privately owned multi-family dwellings started in 1958 and less than 12 percent of those started in 1959 were financed through government-insured loans.[98] It was noted earlier that lenders have preferred conventional loan contracts during recent years because of the low fixed interest rate on government-insured or guaranteed loans. There is also some evidence that lenders and some borrowers prefer the flexibility and lack of red tape in conventional loan contracts to government-insured loans. The postwar record would seem to justify the conclusion that government mortgage loan policies can be effective in stimulating multi-family residential construction, but that effectively designed federal loan programs to achieve the objective have not been in effect for any sustained period since World War II. The revival of private investment in rental housing in recent years can be attributed in major part to the postwar rise in incomes and the upward movement in rents. It can be expected that this sector of the housing investment market will be highly sensitive to changes in business conditions, population mobility, interest rates, and changes in incomes and rents.

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[98] Housing Statistics, Historical Supplement, June 1960, pp. 7, 11, and 16.

After taking into account the greater expected instability in multifamily housing construction, it must be concluded that federal loan programs have been less effective in stimulating multifamily housing construction than in the single-family home field. In accepting this conclusion, however, it should be recognized that one of the principal objectives of national housing policy for the past three decades has been to stimulate homeownership in the United States. Viewed in this light, the criticism loses some of its force. As will be noted presently, however, the failure of government programs to stimulate the production of low-rent housing has particular consequence for important segments of the low-income group who are logical occupants of rental housing.

Criticism 3. The federal low-rent public housing program in the United States has failed to solve the housing problems of low income groups and urban renewal programs have done little to aid in their solution.

Over 8.7 million families in the United States had incomes below $2,500 in 1957. Approximately 20 percent of families with incomes below $3,000 occupied substandard housing in 1950.[99] As of December 1957, only approximately one half million low-income families were housed in federal public housing. Although it is apparent that the federal public housing program has not directly affected the housing standards of a large segment of the low-income population, it has been instrumental in effecting the

[99] 1950 Census of Housing, Vol. 2, Part 1, Table B-4.

removal of about 400,000 unsafe or unsanitary urban dwellings over a 20-year period and in providing housing of acceptable physical standards for approximately 500,000 low-income families, most of them with children.[100] Despite this accomplishment, the consensus of views would certainly be that the federal public housing program has not and, as presently conceived, probably will not solve the housing problems of low-income groups. This failure focuses attention upon other recommendations for improving low-income housing standards.

The diversity of the housing problems of special groups suggests that a combination of solutions is required. It is evident that the housing needs of low-income groups should be met in part by ownership and in part by rental housing. The President's Advisory Committee on Government Housing Programs and Policies included the following in its 1953 recommendations:

1. Grant liberal FHA mortgage insurance for rehabilitation of sound existing structures.
2. Extend 40-year, 95-percent loans for new, low-cost, single-family dwellings for owner occupancy at current interest rates on government bonds.
3. Continuation of the public housing program as contained in the Housing Act of 1949 with administrative changes to modify the institutional character of public housing, including the use of rehabilitated dwellings, and smaller, lower density projects on scattered sites.

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[100] Robert Moore Fisher, Twenty Years of Public Housing (New York: Harper, 1959), Ch. 8.

Congressional legislation since 1954 has liberalized mortgage insurance terms for rehabilitation and for new construction of low-cost single-family dwellings, (Section 220), and for low-cost relocation housing (Section 221), but mortgage lending under these programs has been limited to less than 18,000 units by December 1958.

The reasons for the failure of FHA mortgage insurance programs under Sections 220 and 221 of the Housing Act of 1954 are complex. Basically, FHA loans have not been attractive to private lenders during the tight money market conditions which have generally prevailed since 1954 Loans to low income borrowers are also generally regarded as less attractive to private lenders than loans for middle- or upper-income housing. Further, the standards of FHA appraisals have resulted in relatively low valuations for properties to be occupied by low income groups. Controversies over appraisals for Section 220 and 221 loans have frequently resulted in long delays in securing FHA commitments and in additional reluctance by private lenders to make loans.

The recent initiation of special federal mortgage insurance programs for the aged, for cooperatives, and for residents of and those displaced from urban renewal areas is a recognition of the specialized needs of these groups. Apparently investors and private lenders have been reluctant to take advantage of loans under Sections 220 and 221 and the administrative difficulties in gaining FHA approval for such

loans have been a further limitation on volume. Good arguments can be made for direct government lending or for outright purchase by the government of housing for resale on favorable loan terms to low-income groups not adequately served by private investors or lenders. The success of California's veterans' home loan program, which provides for the outright purchase and sale of housing to eligible veterans on contracts of sale, illustrates the possibilities of successful state administration of special housing aid programs and provides a useful pattern for special housing subsidies where needed.[101]

Direct government lending, however, has significant disadvantages. First, it would be costly and difficult to assure that direct government loan subsidies benefitted low-income families only. This would be particularly difficult in the use of direct government loans for rental housing. Second, large-scale government lending programs frequently lend themselves to bureaucracy and inefficiency. A third disadvantage is that direct government lending would be in competition, to a degree at least, with private lenders.

In view of these shortcomings, alternative solutions to raising low-income standards should be considered. Improvement in the quality and quantity of privately owned rental housing for low-income groups would seem to depend upon:

1. Increasing the rent paying ability of low-income families to a level required by current construction costs.
2. Making production of low-rent housing attractive to investors.

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[101] See Study of Mortgage Credit, pp. 389-93.

3. Strict enforcement of minimum housing standards. If it is assumed that the present federal low-rent housing program is unsatisfactory, an alternative technique for subsidizing the incomes of low-rent families should be considered. Direct family housing subsidies have worked effectively in Sweden for many years and would have many advantages over the present federal system. Variations of direct family rent subsidies have been proposed to the Congress as substitutes for federal public housing programs by several trade organizations active in the real estate, mortgage lending and homebuilding industries on several occasions since 1936.[102]

A [redacted] report, prepared by the Legal Division of the Public Housing Administration, summarized the objections to family rent subsidy plans by several welfare agencies as presented to the Subcommittee on Housing and Urban Redevelopment in 1947, as[103] follows:

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102 The Presidents Advisory Committee on Government Housing Policies and Programs. A Report to the President of the United States, December, 1953, Exhibit 21, "Congressional consideration of Rent Certificate Plans in Developing Legislation on Public Housing for Low-Income Families." Among the private business groups cited as advocating such plans the National Association of Real Estate Boards, The United States Chamber of Commerce, The United States Building and Loan League, the Homebuilders Association of Metropolitan Washington, The Producers Council. According to the above report, no favorable action has ever been taken by any committee of either the House of Representatives or the Senate since 1936 on such recommendations.

103 The statement of objections, according to the report, was approved by the executive committees of the Family Welfare Association of America, the American Public Welfare Association, The American Association of Social Workers, and the National Committee of Housing Associations and the Board of Governors of the National Association of Housing Officials.

(1) A large number of individuals would be added to the rolls of the relief agencies.

(a) Millions of persons who need improved housing, including many who are otherwise financially independent, would be forced to accept rent relief through welfare agencies in order to pay rents sufficient to obtain housing which meets a minimum standard as defined by the respective municipalities.

(b) There would be many complex difficulties in establishing and maintaining the eligibility requirements governing assistance in the form of rent certificates.

(2) Local administration of the plan would be costly and complicated.

(a) Recurrent inspection of dwellings scattered throughout the city, record-keeping, income checks, investigations for millions of families living in substandard housing would involve a vast expenditure of public funds.

(b) Local welfare agencies would be able to cope with the administrative problems of this plan only if provided with largely increased appropriations for additional staff and facilities.

(c) Local welfare agencies would be forced to engage in the granting of relief in kind, a practice that is now being given up as unsound welfare policy.

(3) The rent certificate plan would be more costly to the taxpayers than the existing public housing program.

(a) The rentals of private housing meeting a minimum standard are about $15 per month in excess of the unsubsidized rents of public housing. Therefore, the rent certificate plan of assistance would necessitate a very great increase in subsidy if the same standards are to be met.

(b) Public subsidy to low-income families to enable them to obtain adequate housing would continue. The burden of an increased subsidy, however, would fall on the taxpayers who support local welfare agencies. There is question as to whether sufficient funds would be allocated to welfare agencies for such a program.

(4) A needed new supply of low-rent housing would not be provided.

(a) The present program of rent allotments by welfare agencies often results in the housing of welfare clients in slum housing.

(b) The rent certificate plan would not provide the means for the construction of low-rent housing.

(c) Unless the supply of new low-rent housing is increased, progress cannot be made toward solving the problem of providing adequate housing for all families of low income.

(5) Substandard housing would not be eliminated.

(a) Even with the increased rents paid under the rent certificate plan, the improvement of blighted neighborhoods would not be assured, and there is no positive provision for the redevelopment of the slums.

(b) Localities would need improved housing codes and methods of enforcement. The facts are that few localities have adequate housing codes and enforcement experience. It is unreasonable to expect that the housing regulation activities of cities can suddenly be vastly improved and expanded. Vigorous enforcement of adequate housing regulations would result almost immediately in a shortage of housing accommodations. In all areas where the percentage of vacancies of low-rental housing is low, excessive rents would prevail unless effective rent control were established; otherwise, public funds would be paid to the owners of substandard buildings, thus subsidizing and perpetuating poor housing and blighted areas.

The author of a recent study of public huusing in Pittsburgh argues that most of the above stated disadvantages may be viewed as advantages and recommends a rent subsidy program as an alternative to the present federally subsidized low-rent housing program.[104]

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[104] Robert K. Brown, Public Housing in Action, The Record Pittsburgh (Pittsburgh: University of Pittsburgh Press, 1959), Chap. 9.

In the views of the present author, some of the above objections to adoption of programs of direct family rent subsidies are unreasoned and others unjustified. First: It is probably true that more eligible families would actually receive housing subsidies under a direct family income subsidy program since the availability of public housing units acts as a rationing device. This, however, may be viewed as an argument in favor of such subsidies. Second: Recurrent inspection of dwellings is a key requirement for the elimination of substandard housing and, as such should be included in any local housing program regardless of the methods of subsidizing low income housing needs. As will be suggested below, rent subsidies need not be granted in kind. Third: The implication that direct rent subsidies would be "more costly to the taxpayers than the existing public housing program" cannot be established and implies without foundation that private housing cannot be provided at costs competitive with publicly owned housing. Assuming programs of comparable scope, the relative costs to taxpayers would depend in the final analysis upon the relative costs and efficiencies of private and public enterprise in providing housing accommodation. The exemption of local housing authority obligations from income taxation or the granting of federal subsidies to local housing authorities cannot be viewed as a cost advantage to the taxpayer in favor of public housing because any federal expenditures must be made up for in other taxation. Fourth: To argue that a program of family rent subsidies will not provide a new supply of

low-rent housing or eliminate substandard housing is not a logical argument against the use of such subsidies in combination with other public measures to accomplish these specific ends. In theory, family rent or income subsidies should provide additional demand for rental housing and stimulate its production. This tendency would be increased under strict code enforcement of minimum housing standards to eliminate substandard housing. The objections to the improvement of housing codes and to the practicality of improving methods of code enforcement sound like voices from the dark ages.

It is of interest to note that a group of housing experts recommended a variation of the rent certificate device at a 1960 conference on Housing the Economically and Socially Disadvantaged Groups in the Population.[104a]

The three Plans recommended for simultaneous experimentation were as follows:

Indent quote

Plan "A"

This approach would provide federal loans for new construction of housing by private builders, for rent or sale, subject to government supervision with the requirement that a given proportion of the occupants hold housing certificates as "disadvantaged" families. Basic rents or sales prices, including a fair profit, would be established subject to government approval. Specific families, based on their income and ability to pay, would receive "housing certificates." The Federal government would pay

Indent quote

[104a] Interim Report on Housing the Economically and Socially Disadvantaged Groups in the Population, pp. 3-4.

a subsidy making up the differential between the established rent or mortgage payment, and the individual family's ability to pay, pursuant to the certificate. If the owner's mortgage were held by the Federal government, the subsidy would be paid by crediting its amount on the payment of debt service next due under the mortgage.

Certificates would be renewed annually, with any modifications proper to reflect changes in the family's status, so long as assistance was necessary. It was suggested that Plan A would encourage a democratic admixture of families of various income levels, and result in making available a variety of locations, types, designs, and choices of dwellings in the private housing market.

Plan "B"

While not directly serving the hard core of disadvantaged families, a second approach, by stimulating construction at the intermediate level, would accelerate the filtering down of units for the lower income groups. This program would serve the demand for suburban, single-family detached houses for sale. Any efficient builder would be allowed Federal National Mortgage Association commitments for 25 to 50% of his normal production, at interest rates of from 1% to 4% to families requiring such loans in order to obtain new housing. Each mortgage would be subject to revision of interest rate every 5 years, depending on the family's credit standing at the time.

Plan "C"

A third suggested innovation proposed direct Federal loans to non-profit and cooperative corporations, for 60 year terms, at interest rates comparable to those on loans made under the Rural Electrification Act of 1936. Loans would be limited to housing of sound standard, but subject to suitable cost limitations; and where maximum self-help and maintenance would be required. Structural and exterior maintenance would be the responsibility of the corporation rather than the occupant.

Limitation of loans to non-profit corporations would assure the maximum reduction in monthly charges, but not preclude the full utilization of private builders and private management companies in the construction and management of such projects, for reasonable fees.

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It is believed that many of the objections of welfare agencies to "rent certificate" plans as proposed in the past could be overcome by modifications in administration of family housing subsidies. The use of federal income tax credits provides a medium through which low-income housing subsidies could be made available for both rental and owner-occupied housing. The eligibility of families for housing subsidies could be determined by local housing and welfare agencies, based upon standards of federal assistance established by federal law. Federal assistance as a proportion of rents or housing costs would be granted to eligible families by federal income tax credit. Families with incomes below those requiring filing of income tax returns could claim housing allowances on income tax forms as a special credit to be paid directly to them. This method of reporting and granting subsidies would provide a technique for enforcement of legal standards of assistance through cooperation between the

Bureau of Internal Revenue and local housing authorities. Families receiving credit for housing subsidies would be required to report rents paid or housing costs if based upon owned homes. Indigent families with no income would be required to give an accounting of the use of federal housing subsidies to the local relief agency.

This type of housing subsidy program would provide freedom for the low-income family to seek housing in the private rental or ownership market or in existing public housing. It would dispel the present concentration of low-income families in public housing. It would overcome the objections to rent certificate programs as a form of the dole. Family housing subsidies, in combination with federal income tax subsidies to private investors and low-income home owners, should stimulate private investment in low-rent housing. The enforcement of minimum housing standards, as suggested above, would be a key element in the success of this combined approach to the problem of housing low-income groups. The requirement that families receiving such subsidies occupy housing of minimum standards would do much to encourage private rehabilitation of housing and public enforcement of minimum housing standards.

Under such a family housing subsidy program, increasing reliance would be placed upon the "filtering down" of the existing housing inventory for use by low-income groups. Although Ratcliff and others have argued that filtering is "a totally inadequate remedy for the acute problem of substandard housing,"

their arguments have leaned heavily upon such critical assumptions as constant family incomes, constant proportions of incomes spent for housing and the assumption that a surplus of housing at any level will serve as a check on new production.[105] Although it is not feasible to explore these arguments in detail here, it is maintained that during the postwar period none of the limiting assumptions in Ratcliff's analysis was present. High levels of new house production have continued in the upper- and middle-price ranges even though surpluses have been evident in the used house market. High postwar housing production has been accompanied by fairly large-scale removal of government temporary war and other marginal housing and with rising incomes; meanwhile, it has been seen that housing standards have been improved for low- as well as for upper-income groups. The data in Table VI-5 suggest that "filtering" has to a degree operated to improve housing standards in the postwar period. Under the program proposed, it would be assumed that the Federal Government would continue and expand its programs of special mortgage assistance to private housebuilding, thus encouraging the maintenance of new production. Future improvement in housing standards for low-income groups is much more likely to occur if family incomes continue to rise more rapidly than housing costs and if the amounts spent for housing by low-income groups are increased through a rent certificate plan.

Criticism 4: Federal housing credit policies have led to instability in residential construction, and have contributed to inflationary cost increases in building and in the economy generally.

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[105] Richard U. Ratcliff, Urban Land Economics (New York: McGraw-Hill, 1949), pp. 321-34.

This criticism, which was touched upon earlier in the evaluation of federal mortgage credit policies, poses the following basic and controversial questions:

1. To what extent is stability in residential construction per se desirable? Should it be subject to the over-riding objectives of stability in total construction activity or general economic stability?
2. What should be the criteria for measuring stability in residential construction--stable unit production? a constant dollar volume of expenditures? a constant real volume of expenditures? a constant percentage relationship between residential construction and the gross national product? a constant relationship between new starts and new households established? or should a level of residential construction be sought which would result in over-all stability in housing prices and rents?

It was noted earlier that the achievement of stability in residential housing production has been a general objective of national housing policy ever since the passage of the National Housing Act of 1934 and was re-affirmed in the statement of national housing policy in the Housing Act of 1949. Federal mortgage credit programs have been designed to provide a continuous flow of mortgage funds to aid in the achievement of this objective.

The arguments in support of the view that stabilization of the total volume of all construction is of key importance have been set forth by Colean and Newcomb as follows:

1. It would encourage the development of stable construction organizations with greater continuity of experience.
2. It would induce a greater capital investment in such organizations and hence speed the mechanization of construction operations.
3. It would encourage greater investment in research in design, construction methods, and materials.
4. By removing the fear of serious depressions, the scramble for higher wages and high profits during a boom period would be lessened.
5. As a result of all this, the cost of construction might be lowered, the effective demand for it gradually broadened, so that the long-term trend would rise rather slowly.
6. As a consequence, the intensification added by construction movements to general economic fluctuations would be eliminated and, instead, a stabilizing influence would be introduced into the economy as a whole, with special reference to the savings-investment process.[106]

It is obvious that some degree of stability in the housing market generally is a sine qua non to the achievement of stability in residential construction under private enterprise.

In discussing the role of federal housing programs in

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[106] Miles L. Colean and Robinson Newcomb, Stabilizing Construction: The Record and Potential (New York: McGraw-Hill, 1952), pp. 126-27.

economic stabilization policy, Grebler has presented the view that general economic stability is an over-riding national objective in cogent fashion. His conclusions can be summarized as follows:

1. Federal housing programs should be used as tools of stabilization policy only sparingly and with great caution.
2. Temporary relaxation of permanent stimuli to residential construction during periods of general economic prosperity in the interest of general economic stability can be justified.
3. Occasional restraint of activity in the housing sector can be considered good housing policy as well as a necessary or desirable tool of economic stabilization policy. Maximum output of new residential construction is not the only criterion of good housing policy, at least in the short run. Another valid objective of good housing policy is maintenance of reasonable stability in the housing market itself.
4. A policy of incessant stimulation of housing may adversely affect the flow of funds into other "high priority" sectors of the economy.

5. Maintenance of economic stability and growth is an over-riding national objective.[107]

Examination of the record of postwar housing production in Table VI-1 reveals fairly substantial fluctuations in the annual volume of dwellings started, although fairly large percentage errors are implicit in the annual data. Completion data would probably reveal a smaller degree of variation in the annual figures. The data show greater stability of production in the past decade than during any of the three previous decades. Brief reflection suggests, however, that neither unit volume of production or current dollar volume of expenditures can serve as adequate measures of the degree of stability in housing production. Unit production fails to account for differences in size and character of dwellings produced, while current dollar expenditures would reflect changes in the price level.

Expenditures for residential construction in current dollars as a percentage of the Gross National Product and as a percentage of private fixed capital investment represent more suitable measures of the degree of stability in housing production relative

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107 Leo Grebler, "The Role of Residential Capital Formation in Postwar Business Cycles," Conference on Savings and Residential Financing, 1959 Proceedings, pp. 76-77. Grebler stated more recently that federal policies "geared solely to the objective of a sustainable level of home building would appear to be both fair and feasible, although the determination of sustainable levels at any given juncture would be beset with difficulties." But that efforts to support a given volume regardless of effective demand would encounter serious practical difficulties. Thus, he argues, "stability of residential construction in a literal sense is a highly impractical objective." Housing Issues in Economic Stabilization Policy, Occasional Paper 72 (New York: National Bureau of Economic Research, 1960), pp. 109 and 110.

to the economy as a whole. These measures, summarized in Table VII-6 for the United States, reveal considerable stability in residential building over the postwar years. It is also significant to note that comparison with prewar periods indicates that residential construction has been more stable during the postwar years than for any period for which comparable data are available.[108]

Grebler mobilizes some evidence in a recent work to show that during the period from 1953 to 1957 stable or expanding expenditures for residential construction tended to moderate the downward pull of recessionary forces in other sectors of the economy and that on the whole the residential construction industry was no more unstable in the 1953-58 cycle than in earlier postwar cycles.[109] He argues, however, that examination of quarterly changes in GNP and residential construction expenditures do not reveal a systematic contracyclical behavior of residential construction from 1953 to 1957. He points out that spending on total new construction in the 1955-57 period was in fact highly stable.[110] He implies, however, that during this period any contribution of federal housing policies toward improving stability in residential construction was an unintentional result of maintenance of fixed interest rate policies on government underwritten loans.

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108 Compare Leo Grebler, David M. Blank, and Louis Winnick, Capital Formation in Residential Real Estate, Trends and Prospects, Study by the National Bureau of Economic Research (Princeton: Princeton University Press, 1956), p. 194.

109 Housing Issues in Economic Stabilization Policy, Occasional Paper 72 (New York: National Bureau of Economic Research, 1960), pp. 101-03.

110 Ibid., p. 116

It has been argued that in terms of the economy as a whole the behavior of mortgage credit and residential construction has exerted a stabilizing influence during the postwar period. The Federal Reserve Bank of New York commented on the postwar trend as follows in April 1959:

> ...But, in striking contrast to most other industries the surges in residential construction have usually begun during periods of economic recession, and then have moved sideways or declined once the rest of the economy reached levels of high prosperity. Probably the major factor in this contracyclical pattern has been the changing availability of mortgage credit, as competing demands for long-term funds tended to rise and fall with the cyclical swings of the economy. In terms of economic activity as a whole, the behavior of mortgage credit and residential construction would thus appear to have exerted a stabilizing influence. 111

The author accepts Grebler's views that stability in residential construction in the literal sense is probably an impossible goal. Stability in residential construction must be subject to the achievement of stability in the economy as a whole, and in a private enterprise economy subject to over-all stability in the housing market.

It is the author's conclusion that federal housing credit policies have not led to any greater degree of instability in residential construction than would be expected in the absence of federal programs in the field. It is clear that rapid changes in federal housing credit policies have contributed to some short-run instability during the postwar years and that the major contribution of government policies to stability (the fixed interest rate policy) may be construed as unintentional.

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111 Federal Reserve Bank of New York, Monthly Review (April 1959), pp. 60-61.

It can also be argued that under a flexible mortgage interest rate policy the volume of government underwritten loans would probably have been more stable and this might have contributed to greater stability in total residential construction. On the whole, however, residential construction has been stable in the postwar period relative to the gross national product and to its prewar record.

It appears virtually impossible to isolate the relative inflationary and deflationary effects of housing credit programs upon building costs and the price level generally from other influences having their origins in monetary and fiscal policy. Although it is evident that federal housing policies and programs have from time to time contributed to price and cost increases in housing, they have also brought about improvements in production, marketing, and designing of houses and, through their effect on volume of production, have probably contributed to important cost reductions.[112]

In summary, it would appear that the notable accomplishments of national postwar housing policy in achieving high levels of new housing production, expanding homeownership, and improving housing standards generally must be offset against significant failures. High levels of new house production during the postwar years have undoubtedly made it possible for many low-income families to acquire used housing through the

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[112] Sherman J. Maisel, "Policy Problems in Expanding the Private Housing Market," American Economic Review, XLI:2 (May 1951), 603.

filtering process. However, substantial proportions of low-income and minority groups still lack adequate housing, and the quantity and quality of rental housing available to low-income groups continues to be inadequate. The fundamental problem has been that many families lack sufficient incomes to command housing of acceptable quality. Wartime rent controls resulted in unsatisfactory investment experience for many landlords and contributed to the decline in the quality of rental housing. Federal loan programs in the rental housing field have been characterized by conflicting aims and unsatisfactory results, while programs designed to produce publicly owned low-rent housing have been relatively ineffective and are judged by most to have serious social and economic shortcomings. As a result of these and other factors, private investment in rental housing has been sporadic and in general directed toward higher-income families. The lack of progress in slum clearance has impeded the operation of the filtering processes in housing. Although housing production has been maintained at high and relatively stable levels in comparison with the pre-World War II years, absolute stability in housebuilding probably cannot be achieved. Federal housing policy has also undoubtedly contributed in a measure to the rise in building costs and to the general inflationary tendencies in the economy in the postwar years.

CHAPTER VII

EVALUATION OF POST-WORLD WAR II HOUSING POLICIES

The establishment of criteria to be used for evaluating national housing policies is fraught with subjective difficulties. [redacted] It is possible to evaluate housing policies solely in terms of their relationship to stated housing objectives or their short-run effect upon national housing standards. More broadly, an evaluation might consider the effects of housing policy upon long-run real housing costs, mortgage financing institutions, the housebuilding industry, and the stability of the residential construction industry or upon the economy as a whole.

Although admittedly ambitious, it is proposed to evaluate post-World War II housing policies of West Germany, Sweden, England, and the United States from several points of view. Initially, the evaluation will include consideration of the objectives of each nation's housing policy, a review of the relationship between policies and stated objectives, and an evaluation of the administration of policies and programs. Consideration will then be given to the effect of policies upon housing standards, stability of residential construction, organization and efficiency of the building industry, strength of mortgage finance institutions, and housing costs. In summary, an attempt will be made to evaluate the influence of housing policies upon

[illegible] only those policies and practices which, in the light of the foreign experiences, appear to have been most effective in an overall sense.

Housing Objectives and Post-World War II Policies

The achievement of a high level of housing production was a common objective of the housing policies of the United States, Sweden, West Germany, and the United Kingdom. It was observed in Chapter II that the immediate post-World War II housing shortage was more critical in West Germany than in either Sweden, the United States, or the United Kingdom. Relative to other nations, the ratio of dwellings per thousand inhabitants in the early 1950's was relatively high in the United States and Sweden, about average in the United Kingdom, and low in West Germany. These comparisons are borne out when consideration is also given to the size and quality of the housing inventory in these countries.

West Germany: In the light of her relative housing situation, it is understandable that the housing policies of West Germany should have emphasized more than those of the other countries the early achievement of a high volume of housing production. The objective of realizing the production of 1,800,000 low-income or "social housing" units over a six-year period was clearly established as the central goal of West Germany's housing policy by the First Housing Act of 1950. Further, the emphasis on stimulation of housing production was consistently adhered to as the target was raised to 350,000 units annually

from 1953 to 1956 and maintained at 300,000 units annually until 1962. Total annual housing production rose from 362,000 in 1950 to 561,000 in 1957. Following a decline to 518,000 in 1958, housing production reached a new high record of 580,000 dwellings in 1959.

Collateral objectives of West Germany's housing policy were to encourage private investment and private ownership of housing. The latter objectives were consistent with over-all national economic policies during the post-World War II years, which emphasized fiscal control of inflationary tendencies, tax incentives to encourage private saving and investment, and restrictive wage policies.

The most important features of West Germany's postwar housing policies were the granting of low-interest rate public loans for social housing and the maintenance of tax subsidies designed to encourage the flow of private mortgage funds into social and other housing. Following the passage of the Homebuilding Premium Law of 1952 and the Second Housing Act of 1956, direct subsidies and tax incentives were extended to encourage construction of owner-occupied, single-family homes.

Tax subsidies played a major role in channeling interest-free second-mortgage loan funds into social housing when long-term mortgage funds were limited and in great demand. Interest-free loans for mortgage purposes could be fully deducted from taxable income by corporations and individuals in the year in which they were granted under Section 7c of the tax law. Under

The First Capital Development Law of 1952 interest income from mortgages paying between five and 5 1/2 percent for social housing was also exempt from both personal and corporate income taxation.

Although social housing was subject to strict rent controls, rents on other dwelling were gradually increased after 1954 and the privately owned housing market has been gradually freed from rent restrictions. Social housing occupancy was limited to families with basic income of less than 6,000 DM until 1957 when the limit was raised to 9,000 DM, with added allowances for dependents and disabled veterans.

It can be argued that West Germany's post-World War II housing objectives not only reflected needs but were internally consistent and not in conflict with other important national objectives and programs. Housing policies were well designed to meet the objectives established of stimulating a high volume of low-income "social housing" and at the same time encouraging construction of other privately owned rental and owner-occupied housing. Low-interest rate third-mortgage public loans reduced the risks of primary and secondary lenders, and tax subsidies proved a powerful instrument for channeling private funds into the second mortgage market at relatively low interest rates. The encouragement offered to savers through income tax subsidies contributed to the over-all national objective of controlling inflation and provided an indirect form of capital rationing.

The Federal Ministry of Housing exercised a considerable degree of control over the formulation of broad national housing policies designed to achieve housing objectives. The individual Länder were directly responsible for drawing up annual programs to be financed in their separate jurisdictions by the Länder or communes. Since the nature of the housing problem varied considerably among the different Länder, this provided much needed flexibility in carrying out national objectives, permitting greater emphasis upon social housing in some of the heavily populated industrial centers and upon owner-occupied dwellings in other sectors. Although no extensive research was carried on in the field of public administration of West Germany's housing policies, the author gained the general impression that the basic decentralization of responsibilities among the individual Länder resulted in high levels of housing production and, in a broad sense, effective administration of national housing policies.

Table VII-1 shows that West Germany was the only nation of those studied which realized substantially higher levels of housing production in the post-World War II period relative to prewar years. In part this reflects the limited attention devoted to stimulating prewar housing production in Germany and, to a greater degree perhaps, the severity of the post-World War II housing shortage, resulting from war destruction and heavy in-migration from East Germany.

Table VII-1

New Dwellings Completed in Four Countries, 1948 to 1958, Per Thousand Persons

Country	Prewar Annual Average Over Four Best Years	1948	1950	1952	1954	1956	1957	1958
Sweden	9.5	6.9	6.4	6.1	8.2	7.9	8.8	8.5
West Germany	5.1	n.a.	7.7	9.1	10.3	11.0	10.3	9.4
United Kingdom	7.5	4.8	3.9	5.2	7.0	6.1	6.0	5.5
United States	7.7	6.3	9.2	7.2	7.5	6.6	6.1	6.9

Sources: 1948-52: U. S. Office of Information, Research Branch, Postwar Housing Trends in Seven Countries of Western Europe, SRE/Paris, June 4, 1953

1954-56: United Nations, European Housing Trends and Policies in 1956, Geneva, July 1957, E/ECE/292, Table 1.

1957: United Nations, European Housing Trends and Policies in 1957, Geneva, 1958, E/ECE/329, Table 1.

1958: United Nations, Quarterly Bulletin of Housing and Building Statistics for Europe, VII:2 (Geneva: 1959), Table 1.

1948-58: Population of United States, end of year (excludes armed forces overseas), U. S. Bureau of the Census, Current Population Reports, August 17, 1950, and January 14, 1960. Number of new nonfarm dwellings started, U. S. Bureau of the Census, Statistical Abstract of the United States: 1959 (80th ed.; Washington: 1959), p. 761.

It can also be noted from Table VII-2 that West Germany, and Sweden to a lesser degree, in relation to the United States and the United Kingdom, devoted higher proportions of the gross national product to fixed capital formation, higher proportions of fixed capital formation to residential construction, and, as would follow, higher proportions of gross national product to residential construction. This, of course, is a reflection of the general investment climate in West Germany and these countries during this period, as well as of national housing policies. Table VII-2 indicates that housing investment was somewhat more stable as a percentage of the gross national product in Sweden than in the other countries studied, but that the ratio showed a considerable degree of stability in the four countries studied. Reasons for the greater apparent fluctuations in the United Kingdom are found in the shift in housing policies with the change in governments and in government measures to restrict housing production as an inflation control device.

It has been seen that low-interest rate mortgage loans and income tax subsidies were highly effective in stimulating production of "social" housing. The owners of low-income or "social" housing built with government aids accepted restrictions upon rents charged and eligibility of occupants as a quid pro quo. Table VII-3 shows that publicly owned housing represented less than three percent of West German housing production during the post-World War II years. In evaluating the data in Table VII-3 it should be emphasized that, as shown earlier in Table V-8, a substantial proportion of Germany's housing production from 1950

to 1958 was financed through direct government loans, or aided through government tax concessions. In addition, it will be noted that Housing Associations and Cooperatives, which are quasi-public organizations, accounted for approximately a third of total housing production.

Table VII-2

Relationships Between Gross National Product, Gross Fixed Investment, and Residential Construction for Sweden, West Germany, United Kingdom, and the United States, 1950 to 1958

	1950	1951	1952	1953	1954	1955	1956	1957	1958
Percent of GNP at factor costs devoted to Gross Domestic Fixed Capital Formation:									
Sweden	20.4	19.8	20.3	22.4	22.7	21.9	22.1	22.1	23.2
West Germany	21.8	21.6	22.2	23.4	24.5	26.4	26.7	25.5	25.7
United Kingdom	15.2	15.1	15.3	16.1	16.4	17.0	17.4	17.8	17.8
United States	19.0	17.9	17.3	17.6	18.1	18.8	19.2	19.2	17.9
Percent of Gross Domestic Fixed Capital Formation devoted to Residential Construction:									
Sweden	26.1	24.2	23.2	24.3	25.7	25.7	25.9	26.0	25.1
West Germany	27.1	25.9	24.1	27.2	27.6	25.4	26.1	26.4	n.a.
United Kingdom	19.1	19.7	23.2	26.5	25.0	21.6	19.9	17.9	16.5
United States	30.5	25.9	26.1	25.8	27.4	28.9	25.4	23.5	27.2
Percent of GNP at factor costs devoted to Residential Construction:									
Sweden	5.3	4.8	4.7	5.4	5.8	5.6	5.7	5.7	5.8
West Germany	5.9	5.6	5.4	6.4	6.3	6.7	7.0	6.7	n.a.
United Kingdom	2.9	3.0	3.6	4.3	4.1	3.7	3.5	3.2	2.9
United States	5.8	4.6	4.5	4.5	5.0	5.4	4.9	4.5	4.9

Source: Organization for European Economic Cooperation, OEEC Statistical Bulletin, General Statistics 1960, No. 1. (Paris: OEEC, January 1960), National Accounts.

Table VII-3

Dwelling Construction Completed by Category of Builder in Sweden, West Germany, United Kingdom, and United States, 1954 to 1958

Country	Category of Builder	1954	1955	1956	1957	1958
Sweden:	Total Number Dwellings (000's)	58.2	57.0	56.9	64.5	62.2
	Percentages:					
	State	0.8	0.8	0.9	0.6	0.8
	Municipalities	31.4	29.9	29.4	29.5	29.6
	Cooperatives	24.7	20.3	25.2	27.2	27.8
	Private: a/					
	Owner-occupiers	20.2	25.5	24.1	21.7	24.3
	Others	22.9	23.5	20.4	21.0	17.5
United Kingdom:	Total Number Dwellings (000's)	354.1	324.4	307.7	307.6	278.6
	Percentages:					
	Local Authorities	67.2	60.4	55.5	55.1	51.4
	Other Authorities	6.2	3.8	3.4	3.0	1.9
	Private Persons b/	26.6	35.8	41.1	41.9	46.7
West Germany:	Total Number Dwellings (000's)	542.9	541.7	558.9	528.9	486.4
	Percentages:					
	Public Authorities	3.4	2.8	2.7	2.5	2.6
	Housing Associations and Co-operatives c/	30.2	29.0	28.4	30.4	30.5
	Private: d/					
	Individuals	59.6	59.6	60.6	60.3	58.9
	Housing Corporations	4.2	4.0	3.8	3.6	4.1
	Enterprises	2.6	4.2	4.5	3.2	3.9
United States:	Total Number Dwellings (000's)	1220.4	1328.9	1118.1	1041.9	1209.4
	Percentages:					
	Public Authorities	1.5	1.4	2.1	4.7	5.6
	Private Owners and House-builders e/	98.5	98.6	97.9	95.3	94.4

Sources: United Nations, European Housing Trends and Policies in 1957, E/ECE/329 (Geneva: 1958), Table 3.
Walter Fey, "Merkmale und Finanziering im Jahre 1958," Bundesbaublatt, 1959.
United Kingdom - Central Statistical Office, Annual Abstract of Statistics, 1959, No. 96 (London: H.M.S.O., 1959), p. 61. Percentages calculated by the author.
Sweden, 1957 and 1958 - Statistisk Årsbok För Sverige, 1959 (Stockholm: 1959), p. 185. Percentages calculated by the author.

a/ More than 90 percent aided by State.
b/ Principally for owner occupiers.
c/ Almost all with aid.
d/ Individuals partly with and partly without aid; housing corporations and enterprises; mostly without aid.
e/ Of the totals the following percentages were constructed with government insured or guaranteed mortgage loans: 1954 - 47.8%; 1955 - 50.3%; 1956 - 41.1%; 1957 - 44.1%; and 1958 - 30.7%.

deductions for homeowners and for those depositing savings with mortgage lending institutions proved effective in stimulating housebuilding for higher-income groups not eligible for direct public low-interest rate loans.

The Federal Government in West Germany retained control over the volume of housing investment through its power to alter income tax subsidies, which were the most forceful stimulants to housing investment. Permitted income tax deductions for funds deposited without interest in mortgage lending institutions offered an inducement to private saving and made it possible for the West German Government to reduce private consumption at the same time private investment in housing was increased. This was undoubtedly a key factor in aiding the control of inflation in West Germany during the postwar period.

It is not surprising to find that the country which showed the most impressive growth in housing production during the postwar years assumed a relatively high burden of costs by national, state, and local governmental units. It can be noted in Table VII-4 that the costs of its housing programs to the Federal Republic of West Germany ranged between three and four percent of the total Federal Government expenditures in recent years. In addition, it was estimated that approximately eight percent of the state government expenditures were for housing purposes (principally loan subsidies), and many local governmental units maintained active loan subsidy programs.

Table VIII-4

Percentages of Government Expenditures Devoted to Housing, Sweden, West Germany, United Kingdom, and United States, 1950 to 1957

Country	1950	1951	1952	1953	1954	1955	1956	1957
Sweden[a/]					4.5	5.4	5.6	4.2
West Germany[b/]					3.2	2.9	3.2	6.0
United Kingdom[c/]	.7	.7	.7	.8	.9	.9	.9	.9
United States[d/]			.2	.4	.2	.3	.4	.5

Sources:

a/ See Chapter on Sweden, Table IV-13. Includes total state expenditures in operating budget, plus portion of housing advances devoted to supplementary loans and noninterest portion of homeownership loans. Excluding "Supplementary" state loans the percentages would be: 1954 - 1.7%; 1955 - 1.7%; 1956 - 1.4%; and 1957 - 1.7%. The data do not include family and child welfare allowances which have accounted for over six percent of total current expenditures by the central government since 1952. Total expenditures of the Ministry for Social Affairs have accounted for approximately a third of current central government expenditures and 11 percent of the national income since 1955. Supra, Chapter IV.

b/ Handbook of Economic Statistics, Federal Republic of Germany and Western Sectors of Berlin (Bonn-Bad Godesberg: Economic Affairs Section, American Embassy, November 1, 1959), p. 35. Includes Federal housing construction and settlement.

c/ United Kingdom calculated by the author. See Table III-6 Column 6 for central government grants to local governments for housing by fiscal years. For total central government expenditures, see Central Statistical Office, National Income and Expenditure, 1959 (London: H.M.S.O., 1959), Table 4. Central government expenditures are for calendar years. These estimates do not include central government administrative expenses for housing.

d/ United States calculated by the author. Total government expenditures, see U. S. Department of Commerce, Statistical Abstract of the United States, 1959 (Washington: 1959), Table 463. Housing expenditures, see Table VI-14, Supra.

Substantial indirect costs were assumed by the West German Government in the postwar years through the granting of income and property tax subsidies. It has been estimated that tax incentives were responsible for over DM 18.2 billion or over one-half of all private savings used in the West German mortgage market from 1950 to 1956.[1] Wertheimer estimated that the Federal Government and the Lander lost DM 1.5 billion in potential income tax revenues from 1948 to 1957 and that local governments lost approximately DM 3.7 billion in temporary exemption from real estate taxes. In addition, he estimated that Section 7c tax deferrals had equaled approximately DM 9 billion up to 1957. It is difficult to defend the view, however, that the total amount of income tax credits allowed represented a net loss to federal and state governments, since the subsidized housing investment undoubtedly contributed to the total taxable income in the nation.

One authority has advanced the theory that the astounding economic advances in West Germany during the post-World War II period can be attributed to the fostering of competition in a free enterprise economy.[2] Although this point is arguable, it would appear that West Germany's housing policies were consistently applied over the entire postwar period and encouraged competition and private investment in the housing sector.

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[1] Robert G. Wertheimer, "The Miracle of German Housing in the Postwar Period," Land Economics, XXXIV:4 (November 1958), 342 and 345.

[2] Egon Sohmen, "Competition and Growth: The Lesson of West Germany," The American Economic Review, XLIX:5 (December 1959), 986-1003.

United Kingdom: The objectives of postwar housing policy in the United Kingdom have undergone important changes with the shift from Labour to Conservative Governments. The critical postwar housing shortage dictated that the Labour Government take steps to supply the maximum number of houses in the minimum period of time. In order to achieve this objective the Labour Government relied primarily upon local authorities to initiate publicly owned rental housing with the aid of Exchequer subsidies and low-interest rate loans. Rent and price control of newly built houses were key features of the Labour Government's policy. Scarcity of labor and materials and the serious dollar shortage which plagued England in the immediate postwar years were factors which necessitated rationing of materials and labor during this period. Inevitably, the Labour Government's concern with the nationalization of land development values and with the planning of "New Towns" became intertwined with its housing policies and objectives.

In October 1951 the newly elected Conservative Government assumed a production goal of 300,000 houses a year, or 50 percent above the production of 1950 under the Labour Government. The policies of the Conservative Government were to re-direct housing policy gradually toward greater reliance upon free markets and the building of houses by private enterprise for owner occupancy. The Conservative Government increased Exchequer subsidies initially to encourage production, but these were subsequently reduced and limited after 1956 to housing built in special needs categories.

Although both the Labour and Conservative Governments held as a major objective the production of a high volume of housing, the type of housing encouraged and the policies for achieving high levels of production were quite different. The Labour Government relied upon public enterprise through the local authorities and emphasized production of publicly subsidized rental housing. The Conservative Government shifted the emphasis in its policies to privately initiated single-family housing for owner occupancy, although it continued to subsidise publicly owned housing for New Towns and other special needs.

Rents of prewar houses, which were generally based upon 1939 levels at the close of the war, were rigidly controlled under the Labour Government, and great disparities existed between the rents of new houses and prewar houses when the Conservative Government took over. Beginning in 1952, the Conservative Government took steps to encourage local authorities to adjust rents upward and general rent increases were granted by Rent Tribunals from 1954 to 1956. The Rent Act of 1957 removed over 4 1/2 million owner-occupied homes from rent controls and was the initial step in the Conservative policy of gradually abolishing rent controls in England.

It was concluded in Chapter III that the housing policies of the Labour Government were poorly adapted to the achievement of a high level of housing production, since they excluded private building and were grounded in a maze of bureaucratic rationing and price controls. Defenders of the Labour Government's

policies have argued that the immediate postwar years necessitated primary reliance upon public housing, rationing, and price controls and that the policies would have achieved greater success if capital rationing had been extended to all sectors of the British economy. These observations emphasize the fact that housing policy must be consistent with general economic policy and that the lack of this consistency was the key element in the failure of the Labour Government's housing policy. The post-World War II record suggests that, whatever the reasons may be, the Labour Government's housing policies fell far short of achieving the objectives of a high level of housing production. Further, the program of subsidies on which they were based added a substantial burden to Treasury and local government expenditures which will continue for many years. In addition, the maintenance of rent controls reduced typical housing expenditures to levels which were too low to maintain the quality of existing rental housing or to induce private investment in rental housing.

The policies of the Conservative Government represented a return to the doctrine that the citizen who is able to do so should pay the cost of his own housing and that it was his responsibility and not that of the local authority to arrange for his housing needs. The traditions of homeownership are still strong in England, and thus far the Conservative Government's policy of a gradual return to a private enterprise housing economy appears to have the support of the voters. The Labour Government's policies, however, have left a legacy of large annual government subsidy payments, uneconomic rents, and a large segment of the population who regard the provision of housing as an obligation of the local authority. These elements promise to haunt

[illegible] to restore housing [illegible] prewar [illegible]

The consistency in policies and success in housing production in West Germany can be contrasted with the shifting policies, relatively mediocre record of housing production and high long-term costs of housing progress to both central and local governments in the United Kingdom during the post-World War II decade. Housing quality and density compare favorably with West Germany and Sweden. The record of postwar housing production in the United Kingdom in relation to prewar levels and as a percentage of gross national product is, however, relatively unimpressive.

Government subsidies to public authority housebuilding in the United Kingdom resulted in a major increase in the role of local authorities in producing publicly owned housing but total housing production did not equal the 1937 prewar record level of 347,000 units until 1954. The relatively unfavorable record of total housing production in the United Kingdom shown in Table VII-1, particularly during the years prior to 1953, appears to be most directly attributable to central government cutbacks in total national housing programs, necessitated by critical dollar shortages and by early and sharp increases in building costs and in the general price level. Centralization of public lending authority in the Public Works Loan Board, control of the level of subsidies through the Ministry of Housing, and licensing of private housebuilding made it possible for the central government to

[illegible] as [illegible] inflationary conditions in the general economy [illegible].

The rise in housing investment in the United Kingdom as a percentage of gross national product in 1953 and 1954, shown in Table VII-2, resulted from the early action taken by the Conservative Government to increase the general needs subsidies and to free private housebuilding from licensing. The subsequent decline in housing investment can be attributed in part to the gradual reduction and eventual elimination (by the Housing Act of 1956) of the general needs subsidies for housing and to the exercise of general credit controls via the "Bank rate" by the Conservative Government. The failure of private housebuilding to increase rapidly enough to offset the decline in public authority housing in more recent years is due in part to the lack of inducements to private housebuilding throughout much of the postwar period. The most important restraint upon private housebuilding (other than central government subsidies to local authority housing and licensing restrictions upon private housebuilding which were in existence through much of the period) has been the maintenance of rent controls and of low levels of rents in both privately and publicly owned housing before and since World War II. This has undoubtedly made housing investment relatively unattractive in comparison with alternative investments.

Publicly initiated houses accounted for over 85 percent of total dwelling construction in the United Kingdom from 1945 to

[illegible] for over one half of annual volume through 1956. The abrupt reversal in central government housing policy under the Conservative Government altered the relative participation of private and public capital in housing, modified antiquated rent controls, and halted the rapid growth in the burden of public housing subsidies. Viewed over the entire postwar period and as an over-all program, however, it is not at all clear that a high level of private unsubsidized housing investment can be maintained in combination with an encompassing program of publicly owned housing at subsidized rentals. Viewed in this light, it can be argued that British postwar housing policy has been relatively ineffective as compared with the more consistent and better integrated policies in Sweden and West Germany.

British housing throughout the postwar period has been subject to a complex structure of national and local governmental controls. Enmeshed in this bureaucracy, postwar achievements in improving housing standards are a tribute to the integrity, skill, and patience of the British civil servants and the housebuilding industry.

<u>Sweden</u>: Sweden's post-World War II housing objectives emphasized stability of housing production and costs, raising space and equipment standards, reduction of family housing expenditures, control of rents, and activation of the role of local authorities. Higher ratios of dwellings to population reflected a less critical post-World War II supply situation in

Sweden and account in part for the lesser attention to the stimulation of house production as a goal in itself. The objectives of Swedish housing policy were clearly set forth in 1946 and have been maintained consistently, although a special parliamentary commission recommended a review of basic government rent policies in 1956.

Sweden's post-World War II housing policies were integrally related to the broad social welfare programs adopted by the Socialist Government. The principal features of Swedish postwar housing policy were low-interest rate third mortgage loans extended by the national government with preference in terms given to municipalities and nonprofit builders, supplementary loans bearing no interest or amortization granted by the national government to equalize the gap between the level of controlled rents and current building costs, comprehensive family income subsidies, and rent controls. This policy structure provided a centralization of control over housebuilding in the Royal Housing Board which was in a position to influence greatly the rents, amount, and characteristics of housing built, as well as relative participation of public and private enterprise in housebuilding. In view of the over-all objectives of Swedish government housing policy, it can be maintained that policies and programs were reasonably well adapted to their realization. The emphasis upon the control of rents while allowing other prices to rise aided in the achievement of one of the major goals of Swedish housing policy, the reduction of the percentage

of income spent for housing. At the same time it created the need for continuously increasing housing subsidies and forced restrictions upon other investment. Meanwhile, the combination of favored loan terms to publicly owned housing and rigid rent controls discouraged broad participation by private builders for profit. One of the unhappy results of rent control in Sweden, of course, has been the virtual abandonment of the market mechanism as a means for resource allocation. Lundberg has concluded that:

> The relatively low level of rents [in postwar Sweden] thus without doubt helped to perpetuate the housing shortage and to prevent the creation of a housing reserve....
>
> Both Swedish agricultural and housing policy thus give examples of social policy which....seeks to influence the distribution of income and the direction of consumption, yet by these very means contributes to an inoptimal allocation of the community's productive resources.[2a]

Sweden's housing programs and policies have been well administered. The small size of the country contributes to ease of centralized administration. Total annual national production approximates that of the Los Angeles metropolitan area. The Swedes are accustomed to extensive government control over economic life. Government housing officials are competent and decision-making has been effectively decentralized.

The record of housing production in Sweden during the postwar years seems to establish that over-all housing standards can

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[2a] Erik Lundberg, Business Cycles and Economic Policy, Translated by J. Potter (Cambridge: Harvard University Press, 1957), p. 330.

be improved markedly by efficient public control over house-building and financing, in combination with a vigorous co-operative program and generous state subsidies. The volume of housing investment relative to prewar years and to the gross national product exceeds that for the United States and the United Kingdom but is less than for West Germany. Although densities are substantially higher and the percentage of the total housing stock with modern conveniences is less than for the United Kingdom and the United States, major improvements have been achieved in overall standards of convenience and is space standards during the post-World War II years. The improvement in the quality of housing built for the average family was due in large measure to the strict control of dwelling construction standards by the Swedish central government.

A severe climate and traditionally crowded housing conditions underlie the strong housing demand in Sweden. Because Sweden was able to produce a substantial volume of housing during the war years, the housing shortage was less acute at the end of World War II than for other European nations. The combination of rent controls and family housing subsidies has maintained housing demand at high levels during the postwar decade.

Municipalities and cooperatives have accounted for over half of the total volume of housebuilding in Sweden in the postwar decade. Municipalities occupy a key position in housebuilding in Sweden because of their exclusive control over public improvements for land development. Land use control by municipalities has resulted in rational and economical land use patterns in striking contrast with those in the United States, where local governments have assumed a more passive role.

Cooperatives have accounted for approximately 25 percent of postwar housing production in Sweden and have been progressive in house planning, construction, financing, and management. Cooperative housing ownership has to a degree provided a substitute for private individual ownership of housing in Sweden because participants in cooperative housing projects have been able to acquire a transferable interest in housing units.

As a result of climatic, historical, topographical, and institutional factors, Swedish housing has been dominantly for

multifamily rental occupancy. Recent trends indicate a shift in public preference in favor of single-family owner-occupied housing. The reduced importance of the speculative builder in Sweden has eliminated the beneficial effects of competition in furnishing housing accommodation and, it can be argued, has resulted in a degree of unresponsiveness to changes in public demands. It has also been observed that the "institutionalization" of housing in Sweden has left its marks in the sameness of Swedish housing. The type of housing one occupies is not a measure of status to the same degree as in the United States, because of the limited range of housing types available in Sweden and the restrictions upon incomes.

The cost of Sweden's housing programs as a percentage of national and local government expenditures has been greater than any of the other countries examined and rose steadily in the postwar years until 1957, when subsidies were reduced. It was noted in Table VII-3 that the inclusion of family and child welfare allowances for Sweden, which have exceeded six percent of central government expenditures in recent years, would result in very much higher imputed costs for Sweden's housing program. There is some evidence linking the rise in building costs and in the cost of living generally to the program of housing subsidies in Sweden, although it is difficult to segregate the influence of housing subsidies from the many other family income subsidy programs. Swedish housing policies, unlike those in West Germany, did not provide for

tax inducements to encourage private saving or for reductions in private consumption as inflation control devices.

Critics of the government housing policy maintain that direct state loans for housing have restricted the availability of funds for other forms of investment and that these restrictions are having an unfavorable effect upon Sweden's capacity to compete for export markets with West Germany and other nations. More fundamentally they argue that the government's housing and public investment policies since 1955 have involved a combination of inflationary pressure and government allocation of funds in the capital market and that these trends have tended to destroy the effectiveness of market mechanisms in allocating investment in accordance with profitability. Supporters of the government's program, on the other hand, maintain that any withdrawal of state housing subsidies is unwarranted in view of the continuing need to improve housing standards and that investment in the housing sector should not be evaluated on the basis of profitability.

The United States: As in the European countries, the immediate objective of post-World War II housing policy in the United States was to satisfy the emergency housing needs of the veterans. Encouragement of homeownership has been the central objective of federal housing policy since the 1920's. The period of emergency action was followed by the establishment of a statement of national housing policy in the Housing Act of 1949, setting forth both general and specific objectives. The

general objective of national policy was established in the Housing Act of 1949 as the achievement of "a decent home and a suitable living environment for every American family..." Among the more specific objectives of the Act were the following: elimination of instability in residential construction; reduction in residential building costs; elimination of substandard dwellings; and improvement in housing environment and in the structural amenities of dwellings.

During the postwar period of "emergency" housing action, the Democratic Administration sought to achieve high levels of housebuilding rapidly by control over nonessential construction and by channeling materials into low-cost housing, federal assistance for production of prefabricated dwellings and by adaption of various types of temporary war housing for civilian needs. Federal rent controls were continued during this period. Accomplishments under this program were disappointing and a major reorganization of the National Housing Agency ensued in 1947. The immediate postwar experience in the United States was somewhat parallel to that in the United Kingdom inasmuch as the housing programs in both countries bogged down amid detailed and extensive national controls and bureaucracy.

Following the reorganization of the National Housing Agency and the passage of the Housing Act of 1949, federal housing policies were re-oriented to provide for more extensive reliance upon free markets and private investment. This reorientation was reflected in the gradual decontrol of rents,

congressional limitations upon the volume of publicly owned housing authorized, gradual liberalization of government mortgage loan insurance and guaranty terms, and government support of the market for federally insured or guaranteed mortgages on privately owned single-family units. The combined effect of these policies during the postwar decade was to encourage private lenders to extend more generous loan terms and to encourage private homeownership.

Although it is evident that federal policies were associated with high levels of housing production, a rapid expansion in homeownership and an over-all improvement in housing quality during the postwar years, it has been pointed out that the achievement of these objectives was offset by significant failures in accomplishing other objectives of national housing policy, namely, the elimination of instability in residential construction, the reduction in house building costs, the improvement in the general housing environment, and the solution of the problem of housing low-income families. Many would maintain that federal housing policies have not been appropriately geared to the latter objectives. For example, it can be argued that the liberalization of mortgage credit terms during certain years in the postwar period has led to unnecessary cost increases, that the aim of maximizing annual production has resulted in instability in housing production, that federal housing policies have been in general directed toward assistance of higher income families, and that federal policies and programs designed to

stimulate production of privately owned and publicly owned housing for low-income groups have been most ineffective. Some of these shortcomings will be examined in more detail below.

Post-World War II housing objectives and policies have been further criticized on the grounds that at times they have been inconsistent with an overriding objective, over-all economic stability. Defendants of government policies would counter that although liberal housing credit policies may from time to time have a de-stabilizing short-run influence on the economy, the over-all postwar record indicates that government housing policies have contributed to national economic stability. The evidence cited in support of this position shows that postwar peaks in housing production have been reached in years in which industrial production was declining. For instance, as seen in Table VII-2, residential construction increased its share in total GNP during the recession in 1958 in comparison with 1957.

Many lay the blame for shortcomings in national housing policies at the door of the public administration of federal housing policy. Federal organization for administering national housing policies has been much less well integrated in the United States than in the other nations considered. In part this may reflect the greater size and complexity of the task as well as the traditional turnover and general mediocre quality of federal public administration in the United States. However, closer study and comparison suggests that the irrational separation of policy-making functions between the Housing and Home Finance Agency and its semi-autonomous Federal Housing Administration, the Veterans Administration, the

Federal National Mortgage Association, and the Federal Home Loan Bank System has added greatly to the problems of administering long-range housing policies in the United States. Problems of coordinating and integrating federal housing policies were magnified, of course, by the administration of general credit and monetary controls through the Board of Governors of the Federal Reserve System, which from time to time exercised both direct and indirect controls over federal mortgage lending policies during the postwar years. The attendant problems were the basis for a recommendation in 1953 by the President's Advisory Committee on Government Housing Policies and Programs that federal housing activities be reorganized under a single administrator with clear supervisory authority. This much-needed change has not been effected, and federal housing policy in the United States continues to suffer from the lack of centralized authority and an organization well designed for policy implementation.

Residential construction accounted for a higher proportion of total fixed investment in the United States, Sweden, and West Germany during the post-World War II years as compared with the United Kingdom, as shown in Table VII-2. The proportion of the gross national product devoted to fixed capital formation was lower in the United States and in the United Kingdom as compared with Sweden and West Germany, however, as was the proportion of the gross national product devoted to residential construction. During the boom years of 1950 and 1955, residential construction in the United States rose to 5.8 percent and 5.4 percent of the gross national

product, but declined in each instance in the years following. Residential construction was also less stable as a percentage of the gross national product in the United States during the post-World War II years than in West Germany or Sweden. The differences not accounted for by variations in statistical measurement can be attributed to the differences in the nature of the subsidy devices employed and in the degree of central government control over housing investment in the United States as compared with the European countries. Primary reliance in the United States was placed upon monetary policy as a means of controlling the over-all volume of fixed investment, and the determination of the areas within which reductions in investment took place was left to market determination. The net result was that housing investment, which has proven to be highly sensitive to changes in credit terms, was reduced during periods of general monetary stringency.

Postwar housing production has been preponderantly single-family owner-occupied housing initiated by the private house-building industry. Government housing programs have concentrated upon aids to the flow of mortgage funds into residential construction.

The degree to which government insurance and guarantee of mortgage loans has increased total postwar housing investment in the United States is arguable, as noted in Chapter VI. A priori reasoning and statistical data support the author's conclusion that these programs have resulted in an expanded volume

of housing investment during the postwar years coupled with a degree of inflation in building costs and housing prices. Conclusions as to the effects of government housing policies upon the residential construction industry and the economy as a whole will be explored below.

Comparative Changes in Housing Standards

Inter-country comparisons of housing standards are extremely difficult because of differences in climate and customs and because the sources and methods of gathering housing data and their accuracy vary widely between countries. The measures used in comparing the postwar changes in housing standards in the United States with those in the United Kingdom, West Germany and Sweden are:

1. New dwellings produced per capita.
2. Size of new dwellings produced.
3. Percentages of new production and total housing inventory with modern conveniences.

Table VII-1 shows the relative growth in housing production in these four countries in relationship to their population. It is apparent that West Germany is the only country of the four included which has shown a notable expansion in the number of dwellings completed per thousand of population compared with pre-World War II levels. This can be explained in part by the relatively low levels of dwelling construction in Germany, relative to population prior to World War II. High dwelling construction in the United States per thousand of population in

1950 reflected the influence of high postwar demand and the Korean War inflation in the United States. The rise in production in the United Kingdom was undoubtedly due in part to the revival of investment confidence and the impact of housing policy changes instituted by the Conservative Governement.

In interpreting these figures, it should be recognized that the number of new dwellings constructed provides no indication of the size or quality of housing provided. Table VII-5 reveals that housing production in Sweden and West Germany was concentrated in small flats of three rooms or less from 1948 to 1955. A gradual shift toward construction of larger units is apparent in the years 1956 and 1957 in Sweden and West Germany, reflecting changes in housing policy discussed above. A trend toward lower space standards in the United Kingdom, noted in Chapter III, resulted in part from specially favorable government subsidies in that country to encourage the construction of small flats.[3]

Housing production in the United States was concentrated in the single-family houses of five rooms or more during the entire postwar decade. A revival in multifamily construction in the United States was started in 1957, and this trend has continued through 1959. The effect of this has been to reduce slightly the relative production of dwellings with five or more rooms in recent years.

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[3] <u>Supra</u>, pp. III-48-49.

Table VII-5

Percentage of Dwellings Completed in Four Countries, by Number of Rooms, 1948 to 1958

Year	United Kingdom						West Germany						Sweden						United States a/				
	1	2	3	4	5	6 or more	1	2	3	4	5	6 or more	1	2	3	4	5	6 or more	1	2	3	4	5 or more
1948	-	-	3	13	81	3	-	-	-	-	-	-	-	-	-	-	-	-					
1949	-	-	6	16	75	3	-	-	-	-	-	-	10	9	35	30	11	5					
1950	-	-	7	23	66	4	-	-	-	-	-	-	10	7	34	30	13	6					
1951	-	-	8	29	60	3	-	-	-	-	-	-	10	8	33	29	13	7					
1952	-	-	7	35	55	3	1	15	47	28	6	3	16	8	35	26	10	5					
1953	-	-	8	37	53	2	1	13	45	32	6	3	17	8	38	24	9	4					
1954	-	-	8	36	54	2	2	10	40	37	7	4	12	9	36	26	11	6					
1955	10		36		53	2	1	9	36	40	14		11	10	32	25	14	8					
1956	11		35		55		10		33	41	16		9	9	9	31	28	15	2.7	7.9	14.5	32.3	42.5
1957	13		36		51		9		31	42	18		11	9	25	31	16	8					
1958	18		36		46		9		27	42	22		9	8	20	34	20	9					

a/ Urban and Rural Nonfarm Estimates for period 1945 to 1950 based upon unpublished sample from the U.S. Census on Housing. See Grebler, Winnick, and Blank, Capital Formation in Residential Real Estate, National Bureau of Economic Research (Princeton: Princeton University Press, 1959), Table J-2.

Sources: 1948-54: United Nations, European Housing Progress and Policies in 1955, E/ECE/259 (Geneva: August 1956), Table 4.
1955-57: United Nations, European Housing Trends and Policies in 1957, E/ECE/329 (Geneva: 1958), Table 2.
West Germany: See Table V-8.
1958: United Nations, European Housing Trends and Policies in 1958, E/ECE/365 (Geneva: 1959), Table 3.

It has already been noted that postwar houses in Sweden, West Germany, and in the United Kingdom have been constructed with higher standards of conveniences than were typical for the housing stock in the prewar period. Table IV-9 showed that 98 percent of the new urban dwellings constructed in Sweden in the period from 1946 to 1955 had central heat and private water closet and 85 percent had private bath. The percentage of new Swedish rural housing units with these conveniences was almost as high in the postwar decade. The effect of this has been to increase substantially the proportion of total dwellings with these conveniences in Sweden. It can be seen, however, that the percentages with such conveniences are still low relative to the United States or the United Kingdom, particularly in rural areas. Similar trends are evident in West Germany. Although less than 20 percent of total dwelling units in West Germany had a private bath in 1950 (see Table VII-6), it is reported that over 75 percent of newly constructed dwellings in the postwar decade were equipped with this facility.[4] It was noted in Chapter III that separate inside bathrooms are presently recommended in all local authority housing in the United Kingdom and that it is within the discretion of local authorities whether or not to provide a second water closet for houses with three bedrooms.[5] It can be assumed that virtually all new permanent

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[4] United Nations, The European Housing Situation, E/ECE/221 (Geneva: January 1956), p. 19.

[5] Supra, p. III-49.

private housing in the United Kingdom and in the United States has all of the facilities shown in Table VII-6.

Table VII-6 indicates in a broad manner the relative quality standards achieved in the four countries under consideration by the early 1950's. The measures shown do not, of course, adequately reflect housing standards because they do not fully reflect the extent of obsolescence in the housing inventory. The data do indicate, however, a relative ranking of housing standards in terms of modern conveniences with West Germany lowest, followed by Sweden, the United Kingdom, and the United States.

To many observers, the statistical comparison in Table VII-6 is misleading because most modern Swedish houses appear to be better planned and constructed and to have more modern conveniences than do modern houses in the United Kingdom. This observation leads to the hypothesis that a greater amount of resources are employed in the average dwelling in the United States, Sweden, and Germany than in the United Kingdom.

This hypothesis was tested by dividing the figures in Table VII-2 showing housing investment as a percentage of the gross national product by the "new dwellings per 1,000 persons" shown in Table VII-1. This results in indexes which measure the relative investment per dwelling for the four countries. These indexes, which are shown for 1956 and 1957 below, confirm the view that the average housing investment per dwelling in real terms is highest in the United States, about the same in Sweden and West Germany, and lowest in the United Kingdom.

Housing Investment as a Percent of Gross National Product Divided by New Dwellings Per 1,000 Persons

	1957	1956
United States	74	74
Sweden	65	72
West Germany	65	64
United Kingdom	53	57

Although the proportion of dwellings over 100 years old in West Germany is not available, it is estimated to be relatively low due to the extent of war destruction and to the rapid population growth within the present borders of West Germany during the last 100 years.[6] It would appear, therefore, that lower densities and higher percentages of dwellings with modern conveniences in the United Kingdom are offset by greater average age of dwellings and by higher proportions of obsolescent dwellings. International comparisons of relative percentages of dwellings viewed as obsolete are particularly hazardous, because standards vary so widely. It was estimated in 1954 that 6.5 percent of the total number of dwellings in the United Kingdom were "unfit for human habitation."[7] It was noted in Chapter VI that an estimated 13 million dwelling units were

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[6] The European Housing Situation, p. 19.

[7] Supra, p. III-50.

Table VII-6

Measures of Housing Quality in Four Countries, Selected Years

Measures of Quality	West Germany, 1950			Sweden			United Kingdom, 1951			United States, 195[illegible]		
	Total	Rural	Urban	Total 1954	Rural 1956	Urban 1956	Total	Rural	Urban	Total	Urban and Rural Nonfarm	Rural Farm
Percent with Electricity	98.4	97.9	99.1	93.7	96.2	99.6	88.0			94.0	96.6	77 [illegible]
Percent with Inside Running Water	78.0	66.3	95.6	74.0	48.0	91.0	94.0	79.0	99.0	88.8	96.4	77 [illegible]
Percent with Bath	19.7	13.2	29.6	34.0	18.0	46.0	62.0	53.0	65.0	83.0 g/	90.4 g/	[illegible]
Percent with Central Heating	7.0			45.5 b/	36.0	72.0	1.0			50.4 h/	55.3	18 [illegible]
Average Number of Persons per Room	1.11 a/			.93			.77			.69 f/	.69 f/	[illegible]
Percent Dwellings with More than Two Persons per Room	10.5 a/		8.8 a/	11.0 b/			3.6			1.8 f/	1.4 f/	[illegible]
Percent Dwellings over 100 Years Old	n.a.			17.91 c/	9.99 c/	24.45 c/	20.8			n.a.	n.a.	u[illegible]
Estimated Percent Dwellings Delapidated or Unfit for Occupancy				g/			6.5 d/			9.4	8.2	[illegible]

Sources: West Germany, Sweden, and United Kingdom: United Nations, The European Housing Situation, E/ECE/221 (Geneva January 1956), Table 13. See also Table IV-9 for Sweden, 1956.
United States: See Table VI-5. Also, U. S. Bureau of the Census, 1956 National Housing Inventory, Characteristics of the 1956 Inventory, Vol. III, Part 1, Table 1.

a/ Total 1953, Urban 1950. b/ 1955. Owe Lundevall, Swedish Housing Market, p. 31. c/ Percent over 65 years old, 19[illegible]
d/ England and Wales only. e/ Excludes units lacking hot water, private toilet or bath and units not reporting.
f/ 1950 nonfarm housing. According to the census of 1950, 6.2 percent of all occupied dwellings had over 1.51 persons per room--5.6 percent of urban and rural nonfarm housing and 10.2 percent of rural farms had 1.51 persons per room or more.
g/ The Royal Housing Board at the end of 1955 classified 125,000 urban units and 500,000 rural units lacking inside running water as substandard. An additional 350,000 urban dwellings and 300,000 rural dwellings lacked water closet. The total of these represents over 50 percent of the total housing inventory. Leonard Silk, Sweden Plans for Better Housing, quoted the Social Housing Committee as estimating that 75,000 urban dwellings should be removed between 1946 and 1960 as "uninhabitable" and that another 160,000 urban dwellings should be removed as "substandard." The Royal Housing Board estimates that 100,000 "substandard" dwellings should be removed between 1956 and 1956. (See Table IV-14.)

classified as "substandard" in the United States as of 1956, representing 23.7 percent of the total number of dwellings in the nation. Of this total, 3,155,499 or 5.6 percent of the total dwelling units lacked hot water, private toilet, or bath and were dilapidated, while 899,344 or 1.7 percent of the total had private toilet and bath and were dilapidated. It would appear that the total of these dwellings classified as dilapidated should be used as a basis of comparison with those dwellings classed in the United Kingdom as "unfit for human occupancy." Although comparable figures are not available for West Germany and Sweden, it is apparent from Table VII-6 that substantially higher proportions of dwellings in these countries lack inside running water, central heating, and private bath. The availability of central heating is, of course, an inadequate measure of relative quality owing to the more severe climate in Sweden and differences in the heating customs in the United Kingdom and the United States. It is also probably true that smaller proportions of dwellings in these countries would be classified by U. S. standards as rundown, neglected, or providing inadequate shelter against the elements.

On the basis of the data reviewed above, it can be concluded that West Germany and Sweden have added the largest number of new dwellings per thousand population during the post-World War II years. Housing production rose more rapidly in the United States than in the United Kingdom, but production per thousand of population has been roughly comparable since

1954. The higher volume of dwelling construction in Sweden and West Germany was offset in part by the fact that over one half of total production was accounted for by dwellings with three rooms or less prior to 1956. This factor, together with the serious housing shortages continuing in these two countries has resulted in a continuance of higher densities measured by persons per room than in the United Kingdom or in the United States.

Although it is difficult to compare standards of housing quality between countries, it appears that standards of convenience in the total housing stock in West Germany and Sweden are relatively low in comparison with those in the United Kingdom and the United States. High rates of new production of dwellings with modern conveniences, however, are bringing about a rapid improvement in the over-all quality of the housing inventory in all of the countries studied. Measured in terms of new production, the improvement has been most rapid in West Germany and least rapid in the United Kingdom. Comparison of the estimated changes in characteristics of the housing stock in Sweden and in the United States over the past decade indicates roughly comparable rates of improvement in both countries. (See Tables IV-9 and V-5.)

Effect of Policies Upon Residential Construction Industry

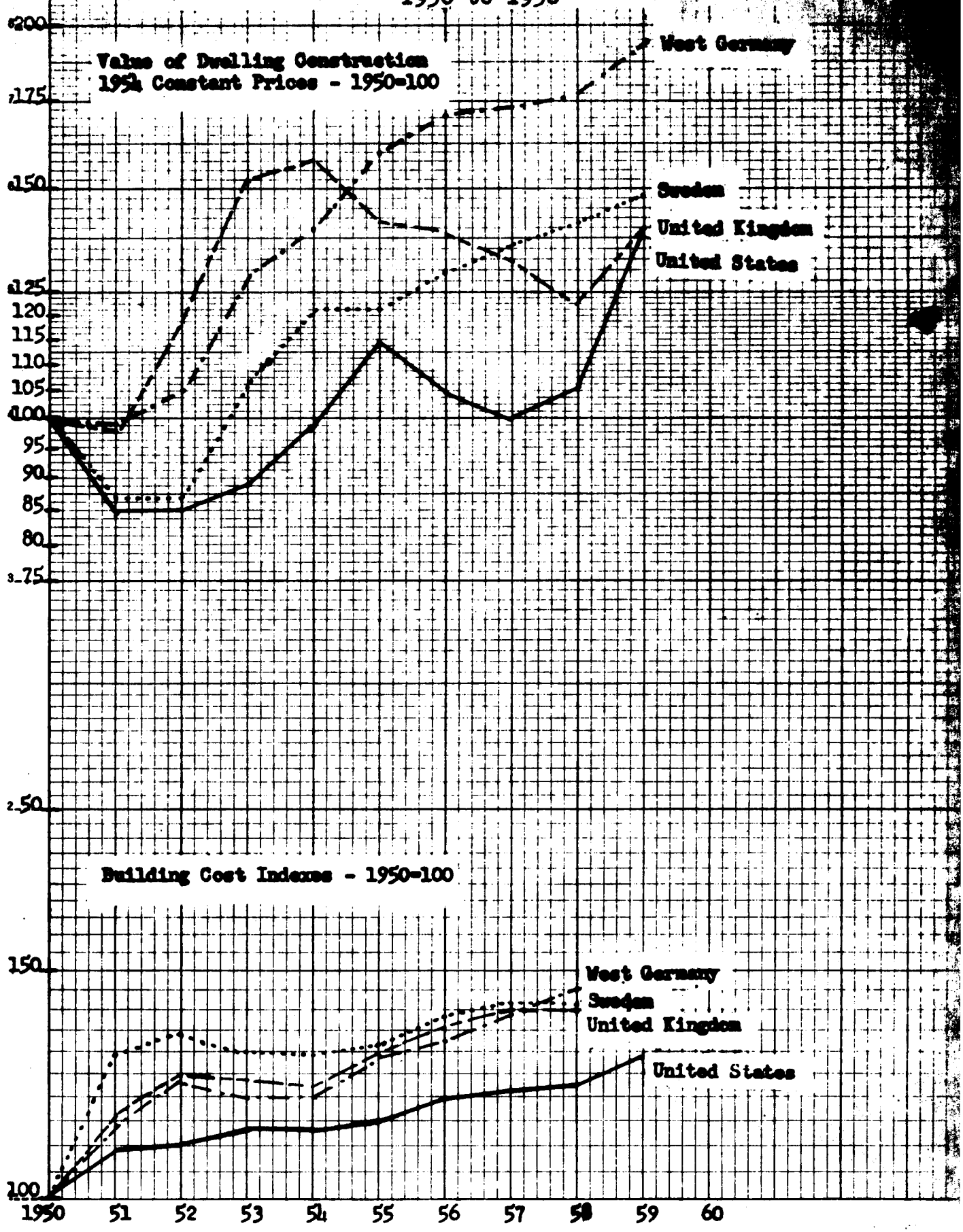
It is important to view the effects of national housing policies upon the stability of residential construction and upon the organization and efficiency of the housebuilding industry, as reflected in trends in housebuilding costs.

Chart VII-1 shows index numbers of the value of dwelling construction in 1954 constant prices with 1950 as a base year for the United Kingdom, West Germany, Sweden, and the United States. The lower portion of Chart VII-1 shows the trends in building costs in these countries over the same period.

The indexes of the value of dwelling construction for the various countries highlight the continually rising level of physical housing output in West Germany in comparison with the other countries. Although the use of the 1950 base year is favorable to the comparative performance of West Germany and both cost indexes and output data for West Germany are under revision, allowances for these factors are unlikely to modify the basic trends in the data shown. The effect of the shift in housing policies with the election of the Conservative Government in 1952 is apparent in the sharp rise in housing production in the United Kingdom in 1953 and 1954. It can be seen that physical output has remained relatively stable in both the United States and Sweden over much of the postwar period. Sharp increases in the value of dwelling construction measured in current dollars have occurred in both countries, but, after adjustment for building cost changes, physical output expanded by approximately 40 percent during the years from 1950 to 1958.

The close similarity in the trend in building costs in the four countries over the past decade is notable. The record of West Germany in expanding physical output with only a moderate rise in building costs is testimony to the efficiency of the

Trends in Value of Dwelling Construction and Building Costs in Four Countries, 1950 to 1958



Sources: Value of Dwelling Construction: Table II-3.
Building Costs for Sweden, United Kingdom, and West Germany:
1950-1956 - United Nations Economic Commission for Europe, Quarterly Bulletin of Housing and Building Statistics for Europe, V:3 (Geneva: Third Quarter 1957), Table 8.
1957-1959 - United Nations, Annual Bulletin of Housing and Building Statistics for 1958, Table 14.
United States:
U. S. Department of Labor and U. S. Department of Commerce, Construction Volume and Costs, 1915-1956, A Statistical Supplement to Construction Review, pp. 54-55; U. S. Department of Commerce, Construction Review, 6:9 (September 1960), p. 36; The E. H. Boeckh and Associates Cost Index for Residences is used for the United States.

housebuilding industry in that country and also to the over-all effectiveness of national housing and economic policies.

Attention was called in Chapters III and IV to the fact that the increasing participation by municipal authorities in the provision of new housing in Sweden and in the United Kingdom during the postwar years had tended to restrict the private sector and to limit the role of the private speculative housebuilding industry in these countries. Table VII-3 shows the comparative participation of major groups in the provision of housing in the four countries under review. It can be seen that West Germany has relied upon the private sector in the provision of housing to a predominant degree, while local authorities continue to dominate new housing construction in the United Kingdom and account for a third of national production in Sweden.

It is not surprising to observe that the private speculative housebuilding industry has been reduced to a relatively minor role during most of the post-World War II years in the United Kingdom and in Sweden. In both of these countries, a relatively small number of large building firms appear to account for a large proportion of publicly initiated construction. As noted in Chapter IV, cooperatives have also assumed an expanding role in Swedish residential construction. Privately initiated housing has accounted for a substantially larger share of total residential building in West Germany and for a predominant share of residential building in the United States.

It is, of course, difficult to ascribe particular importance to the influence of the structure of the housebuilding industry upon national housing performance. It appears significant to note that expansion in single-family, owner-occupied housing has been accompanied by the vigorous development of the private housebuilding industry in the United States and in West Germany and that this was a characteristic of the housebuilding industry in the United Kingdom in the prewar years.

Effects of Housing Policies Upon Postwar Economies

Three facts stand out when the powtwar economic development of western Europe and the United States is compared with prewar years.

1. Rapid rates of postwar economic growth.
2. Low Levels of unemployment.
3. Rising price levels.

The broad economic objectives of most western European countries and of the United States during this period have been to maintain high and stable employment with high rates of growth and price stability. The attainment of these objectives, of course, would require a high degree of perfection in national economic policy-making which was seldom achieved. The means chosen in individual countries to achieve the above objectives and the constraints acting upon national economic policies have differed in individual countries.

Virtually all western European countries and the United States have passed through four major phases in the postwar

period under consideration; the Korean boom of 1950-51; the post-Korean Recession of 1952-53; the 1955-56 boom and the 1958 recession.

Price stability has been interpreted more literally in West Germany than in either Sweden, the United States, or the United Kingdom. This was undoubtedly owing to the sensitivity of the West German population to inflation. The large labor supply and the concomitant relatively slow wage increases in West Germany rendered possible a rapid expansion with only moderate inflationary tendencies. In addition, the continually rising foreign exchange reserves of West Germany reflected the competitiveness of West Germany's exports and other international factors.

The principal factors responsible for the high rate of growth of the West German economy during the 1950's can be identified as following: Wartime destruction and postwar dismantling of plants raised the scarcity of and the return to capital. At the same time the rapid growth of population in West Germany both added to capital requirements and provided the basis for an expansion of production. The relatively weak bargaining position of labor moderated the rise in money wages from the levels established at the time of the currency reform, and the rapid increase in productivity as investment and output expanded further strengthened the competitive position of West German industry. Relatively low real wages and high rates of profit favored a high savings ratio, and during most of the period budget surpluses made an appreciable contribution to total savings. In general, West

Germany relied primarily upon monetary as opposed to fiscal controls in its countercyclical policy, although income tax exemptions were used to a considerable degree to control the volume of investment in housing and other capital goods.[7a]

Government budgetary measures were used only to a limited degree as instruments of countercyclical policy in West Germany during the postwar period. Government budgets were employed to meet the traditional needs of public programs and, predominantly, to provide a favorable framework for the activities in the private sector. As noted in Chapter V, tax reductions and incentives were widely employed to direct private investment into housing and other socially desired sectors. The fortunate position of West Germany with respect to its labor supplies and physical resources made unnecessary such governmental policies of overall restraint as were employed in the United Kingdom and Sweden. To be sure, it has been argued by some that West Germany's budgetary policies "have sometimes run counter to what were considered by the monetary authorities to be the policy requirements of the moment."[7b]

It has been observed that the United Kingdom gave first priority in its postwar economic policies to safeguarding the balance of payments.[7c] National economic policies were limited by low international liquidity and by a low elasticity of domestic

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[7a] United Nations Economic Commission for Europe, Economic Survey of Europe in 1958, E/ECE/345 (Geneva: 1959), Ch. III, pp. 24-25.

[7b] United Nations Economic Commission for Europe, Economic Survey of Europe in 1959, E/ECE/383 (Geneva: 1960), Ch. VI, p. 17.

[7c] Ibid., Chapter VI.

supply, as well as by the large claims of defense upon national resources. The strength of British trade unions and the mechanism of wage settlements in the United Kingdom, acted to make price stability a secondary consideration. The upward pressure on wages associated with virtually full employment in the United Kingdom throughout most of the period complicated the task of reconciling short-term restraint upon aggregate domestic demand with the long-term aim of high and rising investment in housing and other capital goods. High defense expenditures added to the task of achieving stability and growth in the British economy.

Prior to 1952, the Labour Government was absorbed in problems of labor and material shortages and serious foreign exchange difficulties. These problems were complicated by the problems encountered in schemes for nationalization of important sectors of British industry. For the first time since before the war, some slack appeared in the British economy in 1952, and measures were taken in 1953 and 1954 to stimulate domestic demand. The 1953 budget included a 25-percent cut in the purchase tax, a reduction in the standard rate of income tax and the re-introduction of initial depreciation allowances, which had been suspended in 1952. As noted in Chapter III, general housing subsidies were increased by the Housing Act of 1952, and restrictions upon private home-building were substantially modified in January 1953. In addition, the excess profits levy was abolished in January 1954. The 1954 budget also introduced the device of investment allowances, which constituted a remission rather than a deferment of taxes.[7d]

[7d] Ibid.

Private consumption and private investment expanded rapidly in the United Kingdom in 1954 in response to the above incentives. Strong expansion in the private sector resulted in a marked deterioration of the balance of payments on current account, and taxes on consumption and profits were raised in October 1955, and the investment allowances, which had proved a powerful stimulus to private investment, was abolished in 1956. During this period housing subsidies were gradually reduced and finally abolished in November 1956. Another balance of payments crisis in the fall of 1957 resulted in increases in the bank rate to seven percent and to cuts in government expenditures. The decline in import prices in 1958 restored the favorable balance of payments for the United Kingdom, and government policy shifted in 1958 from restraint to cautious relaxation, and higher public expenditures and investment allowances were restored in the 1958 budget. Energetic steps were taken to promote a renewed expansion in the budget of April 1959.

Sweden's postwar economic policies emphasized full employment and sustained economic growth. Although price control and price stability ranked high as postwar national economic objectives, and although government regulation of prices was authorized during most of the postwar period, the cost of living in Sweden rose steadily from 1948 to 1958 (see Table VII-7). The continuous shortages of skilled labor under virtual full employment, upward pressure on import prices, and rising incomes under government subsidies were the powerful underlying forces contributing to the rise in the cost of living and in other prices.[7e]

[7e] Lundberg, op. cit., Ch. X and XI.

Swedish monetary policy during the postwar period moved gradually from early emphasis upon expansion of credit and stabilization of interest rates to the exercise of central bank control over bank liquidity and the money supply. Prior to 1952, the Riksbank followed an active policy of maintaining low interest rates and encouraging credit expansion. As inflationary tendencies became marked in the Swedish economy, particularly at the time of the Korean War, the Riksbank had to direct its energies toward a policy of active limitation of credit. In addition, stringent import regulations were put into effect as early as 1948, and some limitations were placed upon the volume of building. During the first half of 1952, the Riksbank endeavored to check credit expansion by limiting the supply of liquid assets in the banking system. As a result of a new wave of credit expansion in 1954-55, the Riksbank finally raised the official discount rate by one percent to 3 3/4 percent, at the same time that the government issued a 4 1/2-percent long-term loan. These measures were followed by successive increases in the discount rate to five percent by July 1957. It has been pointed out, however, that the restrictive credit policies of the Riksbank were somewhat less than fully effective because building credits and government loans were exempted from direct limitations upon the extension of bank credit.[7f]

Sharp declines in national production in 1958, accompanied by a halt in the upward movement of prices, were followed by

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[7f] Svenska Handelsbanken, Index (Stockholm: September 1957).

expansionary Riksbank credit policies in 1959 and by further rises in both production and prices continuing in 1960. Continuous efforts of the Swedish Government to maintain full employment resulted in budget deficits in every year of the 1950's except in 1951-52. A related factor has been the severe shortage of skilled labor in Sweden during the entire postwar period. The combination of Riksbank and other government policies resulted in an almost continuous rise in price and wage levels during the postwar years.[7g]

Since housebuilding accounted for about two-thirds of total building activity, government curtailment of housebuilding activity was an important instrument of Swedish postwar stabilization policy in the early postwar years. These controls were exercised through the control of building authorizations as well as through control of the use of labor in the building trades. As housing needs became more acute, however, under the stimulus of rising incomes and expanding population, housing received a higher priority in national programs, and government restrictions concentrated upon other types of private investment.[7h]

As in western European countries, the postwar economic policies of the United States were dominated by concern over maintaining economic growth and full employment, with price stability of secondary importance in the earlier years, but of increasing concern in the period following 1955. With rising

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[7g] Skandinaviska Banken, XXXX:4 (Stockholm: October 1959), 133-141.

[7h] Lundberg, op. cit., p. 283.

employment and production, the gross national product and personal incomes measured in current dollars and in real terms showed a strong secular expansion in the United States during the postwar period. Although cyclical fluctuations were evident in 1953-54 and 1957-58, they were mild in their amplitude and short in duration. Consumer prices and wages rose almost uninterruptedly during the decade of the 1950's. The Federal Government's expenditures exceeded revenues in seven of the 10 years from 1950 to 1959, and the total government debt has gradually increased to an all-time high in 1960.

The Treasury-Federal Reserve Accord of March 1951 opened a new era for United States monetary policy, providing for freely fluctuating short- and long-term interest rates. After a sharp tightening of monetary policy in early 1953, the Federal Reserve shifted to a policy of active ease in mid-1953 at the very beginning of the recession, and the mildness of that recession is attributed in part to this prompt action by the monetary authorities. As noted earlier, the permissible terms on government-insured and -guaranteed loans were greatly liberalized in 1954. During the 1955-57 boom, consumer spending, investments, and prices rose rapidly, but the restraining action by the Federal Reserve was handicapped by the great liquidity in the banking system. Interest rates rose to levels equaling those of the Twenties, bank reserves were kept under pressure, and the expansion in the money supply gradually ceased in mid-1957, to be resumed early in 1958. The Federal Reserve System was slow in reversing its policies of restraint following the recession which set in

in mid-1957. The first major measure, a cut in the discount rate, was taken in November 1957 followed by a reduction in reserve requirements early in 1958. It was not until mid-1958 that the monetary expansion was in full swing and business recovery clearly evident. Personal incomes and the gross national product resumed their postwar rise in the last half of 1958, reaching new highs in 1959 and continuing through mid-1960.

It is, of course, exceedingly difficult to divorce the effects of government housing policies and programs from among the myriad influences acting upon national economic life. It would appear logical to suppose, however, that the degree of influence of housing programs upon national economic conditions would depend upon their magnitude in relation to gross investment and gross national product. By the same token, the magnitude and timing of housing construction would be an important factor influencing building costs, general price levels, and interest rates. Government outlays for housing provide a measure of the influence of housing investment upon public expenditures and supporting levels of taxation.

Table VII-2 shows that West Germany and Sweden have devoted a higher proportion of the gross national product to residential construction since 1950 than have the United States or the United Kingdom. It can also be noted that higher percentages of the gross national product have been devoted to gross domestic

fixed capital formation in West Germany and Sweden. The percentage of gross fixed investment devoted to residential construction is significantly smaller for the United Kingdom than for the other three countries since 1950.

The data in Table VII-2 are primarily a reflection of the relative severity of the postwar housing shortages which existed in West Germany and Sweden and of the effectiveness of national housing programs. Grebler, Winnick, and Blank have observed that it is to be expected that the proportion of national income devoted to housing will decline in a nation with a rapidly rising standard of living.[8] Observation over a relatively short period cannot, of course, serve as the basis for refuting the proposition advanced by the authors. It is interesting to observe, however, that the proportion of the gross national income invested in residential construction has remained relatively stable in all the countries studied during a period in which the standard of living has undoubtedly risen substantially.

The continuing and more consistent expansion of residential construction in West Germany (shown in Chart VII-1) with general expansion in the national product is in marked contrast to the relative instability of the real volume of dwelling construction in the United States, Sweden, and the United Kingdom. In view of this fact, it is notable that West Germany has achieved such an expansion in dwelling construction without experiencing any greater rise in building costs than for the other countries. It can also be noted from Table VII-7 that this high level of building

[8] Capital Formation in Residential Real Estate, pp. 141-42.

has been maintained with a relatively stable general price level. It will also be recalled that West German housing production has been consistently higher on a per capita basis than the other countries studied. (See Table VII-1.) The comparative uniformity in the movement of the building materials price indexes over the period is notable in contrast to the differences in volume of construction noted above. The data would seem to suggest that factors other than residential construction volume alone accounted for the changes in building materials prices. This view is confirmed by references to relative changes in the cost of living indexes for the countries studied shown in Table VII-7.

Comparisons of the volume of housing production and changes in building costs are of greater significance when consideration is also given to the percentage of government expenditures devoted to housing in the various countries. It can be noted from Table VII-4 that government expenditures for housing were higher in all of the three western European countries than in the United States. This can be attributed in part to the characteristics of the national housing programs and to the techniques of measurement employed. The housing expenditures for the United Kingdom represent the total of national subsidies for only one year to local authority housing programs. Since subsidies are granted for sixty year periods, it can be argued that the true annual costs of government housing programs in the United Kingdom, and, to a degree, Sweden, represent the present value of all the future obligations incurred, which is, of course, substantially higher than indicated in Table VII-4. The data for Sweden include housing expenditures reported in the national housing budget plus that portion of national housing loans represented by "supplementary" loans bearing no interest or amortization charges. The data for the United States include the direct operating costs of major federal housing agencies.

A more complete picture of government financial aid to housing would include state and local expenditures for housing and the interest cost to the national and local governments of financial aids to housing.

It was noted in Table III-6 that local governments in the United Kingdom showed an annual balance of expenditures for housing rising from £10 million in 1950 to almost £20 million in 1957-58. This represented in excess of 10 percent of total annual expenditures of local governments in the United Kingdom on revenue account during the post-World War II period. Table V-7 showed that the state and local governments in West Germany accounted for between 10 and 20 percent of the low-interest rate financing for social housing from 1950 to 1958. Although detailed comparisons are not available, data for 1953 and 1954 indicate that housing expenditures accounted for approximately eight percent of total current expenditures of the Länder for those years.[9] For Swedish local governmental units, data for the year 1954 indicate that net current outlays for housing accounted for eight percent of total current expenditures of towns, boroughs, and rural communes. For the same year, real estate investment accounted for approximately 30 percent of capital expenditures of these same local governmental units.[10] State and local expenditures in the United States for housing programs have ranged between $460 and $630 million since 1950.

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[9] Statistisches Jahrbuch, 1956, p. 397.

[10] Statistisk Arsbok For Sverige, 1957 (Stockholm: Central Bureau of Statistics, 1957), p. 345.

In 1957 total state and local government expenditures for housing and redevelopment in the United States totaled $460 million and represented approximately one percent of total current expenditures of these governmental units of over $47 billion.[11]

It is apparent that relatively high levels of national government expenditures for housing in Sweden and West Germany are paralleled by high levels of state and local government expenditures for such purposes. Although central government expenditures for housing are relatively low in the United Kingdom as a percentage of total expenditures, they are supplemented by high local government outlays for housing on current account. Direct governmental outlays for housing in the United States are very low relative to the other countries. This is a reflection, of course, of the structure of government housing aids in the United States and reflects the self-supporting financial operations of the Federal Housing Administration and, to some extent, of the Federal National Mortgage Association and other agencies.

Changes in the cost of living in the four countries shown in Table VII-7 provide some indication of the degree to which the individual countries have experienced general price inflation during the postwar years. Comparing these data with Chart VII-1 it is important to note that the United Kingdom, which showed the smallest relative increase in housing production during the postwar years, experienced the largest degree of

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[11] United States Department of Commerce, Bureau of the Census, Statistical Abstract of the United States, 1959 (Washington: 1959), p. 408.

Table VII-7

Comparison of Changes in the Cost of Living Index and the Rent Index For the United States, United Kingdom, West Germany, and Sweden, 1948 to 1958

Year	Cost of Living Index[1/] 1948=100				Consumer Price Index for Rent[2/] / Cost of Living Index			
	United States[c/]	United Kingdom	West Germany[a/]	Sweden[b/]	United States[c/]	United Kingdom	West Germany[a/]	Sweden[b/]
1948	100	100	100	99	1.00	1.00	1.00	1.00
1949	99	103	107	100	1.06	.99	.94	1.01
1950	100	105	100	101	1.08	1.00	1.01	1.00
1951	108	116	108	117	1.05	.94	.95	.87
1952	110	126	110	126	1.06	.90	.95	.85
1953	111	130	108	128	1.11	.93	1.00	.90
1954	112	132	108	129	1.15	.94	1.00	.93
1955	111	138	110	133	1.16	.93	1.01	.93
1956	113	145[a/]	113	139	1.17	1.00[d/]	1.03	.97
1957	118	151[d/]	115	145	1.15	1.04[d/]	1.03	.97
1958	120	155[d/]	119	152	1.15	1.12[d/]	1.00	.98

Sources: 1/ Statistical Yearbook (1958) United Nations (U. S., p. 422; U. K., p. 427; West Germany, p. 425; Sweden, p. 427). Base shifted from 1953=100 to 1948 = 100 by the author.

2/ Quotient.

a/ Statisches Jahrbuch, 1959, p. 431. b/ Statistisk Årsbok För Sverige, 1959, p. 171.

c/ Statistical Abstract of the United States, 1959, p. 333. d/ New indexes and new weights 1956 to 1958.

[illegible] affecting the cost of living as well. [illegible] materials prices and the cost of living index rose almost as much in Sweden during this period, although the percentage increase in physical output in dwelling construction was greatly exceeded by that in West Germany and was proportionately as great in the United States. In making these comparisons with Sweden, it should be remembered that housing construction was at relatively high levels in 1950 in Sweden and the United States compared with West Germany. These data do not, of course, establish any causal relationship between the volume of national housing production and the degree of price inflation. It is of interest to observe, however, that the relatively high levels of postwar housing production in West Germany were not accomplished at the expense of extraordinary cost increases or price inflation.

The relationship between the consumer price index for rent and the cost of living index, also shown in Table VII-7, reveals the impact of rent controls in the western European countries since World War II. In a free competitive market, the ratio of rent increases to changes in the cost of living would reflect the relative degree of efficiency in furnishing housing as compared with other goods. The data for the United States, the only one of the four nations with a free rental market during the period, indicate that rents have increased in price more than the over-all cost of living index. The predominance of owner-occupied housing in the United States since World War II to some degree invalidates the use of rent as a measure of housing costs. Lower ratios for the other three countries reflect the degree to which rents have been controlled in relation to the general cost of living. Although technical differences in the rent index may account for some degree of difference among the individual countries, it appears

that rents have been adjusted upwards more in line with cost-of-living changes in West Germany than in the United Kingdom or Sweden. As noted in Chapters III and IV, relatively wide variations exist in the distribution of rents in the United Kingdom and Sweden, with a tendency for newly constructed dwellings to bear high rents in relation to older units.

The data examined in Table VII-2 reveal that dwelling construction has represented an expanding and relatively stable segment of the national economies examined during the postwar years. To an important degree this reflects the fact that residential construction has been employed as a contracyclical device in most of the countries during this period. Although the nature of central government controls over housebuilding has varied among the individual nations, the exercise of government controls over the volume of residential construction has been a potent influence in accounting for the relative instability of construction since 1950. In the United States, control over housebuilding has been effectuated through changes in general monetary policy, which have altered interest rate structures, while FHA and VA mortgage interest rates have been maintained at relatively fixed levels. This has resulted in short-run changes in the availability of government-insured and -guaranteed loans under conditions of general monetary stringency. In Sweden, the Royal Housing Board was able to regulate the volume of housing production through its direct control over the granting of third mortgage loans and so-called supplementary loans,

[illegible] interest or amortization. In addition, government controls were exercised over the inflow of labor into the housebuilding industry. In Germany, governmental control over housebuilding volume was exercised through the granting and subsequent adjustment of income tax concessions designed to encourage the flow of savings into mortgages and homeownership. The volume of housebuilding was controlled in the United Kingdom through a combination of adjustable central government subsidies, licensing by the Ministry of Works, and control of local authority borrowing by the Public Works Loan Board. As noted in Chapter III, governmental control of capital expenditure in the United Kingdom is effected through approval by the Ministry of Housing and Local Government of all borrowing by local authorities. The Labour Administration pursued a policy of low rates of interest on loans to local authorities from 1945 to 1951. The Conservative Administration has relied upon the use of varying interest rates to control local investment and since 1952 local authority housing investment has been made subject to this influence. To some degree the decline in annual housebuilding from the high point of 347,000 dwellings in 1954 to 273,000 in 1958 was a product of this influence. Through highly diverse procedures, the volume of housebuilding was subject to a substantial degree of central government control in each of the four countries studied.

The general conditions of sustained economic prosperity and rapid economic growth which prevailed in each country during the postwar years required the use of these controls in varying degrees. Both the structure of controls and the extremities of

the dollar shortages resulted in more extensive use of central government controls over the volume of housebuilding in the United Kingdom than in other nations.[12] It was observed in Chapter IV that Sweden made use of central government controls over housebuilding during the export drive in 1948 and again to cushion the price-wage inflation in 1955-57. Housebuilding was stimulated in Sweden in 1958 as a means of counteracting the recessionary tendencies in the economy at that time through reduction of interest rates and relaxation of housing controls. The high social priorities attached to housebuilding throughout the postwar period insulated the industry from drastic cutbacks in production.

In West Germany, modification of the income tax laws in 1953, 1955, and 1956 provided a means through which the government varied inducements to private capital to initiate housing construction. Although the instruments of control in the United States were crude in comparison with those in use in Sweden and the United Kingdom, it has been seen in Chapter VI that they, in combination with other factors, were effective in imparting a contracyclical trend to the availability of housing mortgage credit in the postwar years.

These observations place national housing policy in perspective as an important sector of both private and public investment, subject to the overriding importance of general national economic stability. It has already been noted that

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[12] The Report of the Ministry of Housing and Local Government for the Year 1957 stated "As a consequence of the review of capital investment undertaken by the Government in the early autumn, the Minister told the House of Commons on 11th of November that some slowing-down of housebuilding by public authorities could not be avoided and that the number of houses to be started in 1958 would be adjusted so as to reduce the number of houses completed in 1959 by local authorities and New Towns to 150,000 a year," p. 11.

residential construction has represented an important segment of total domestic fixed capital formation in the countries studied. The rapid growth in output and the high rates of investment activity during the postwar years have necessitated national controls over housing investment as a key segment of national economic policies.

Conclusions

Comparative evaluation of national housing policies which differed so greatly in their objectives and programs is very difficult. In a broad sense, the most significant distinction in postwar housing policies has been between nations with loosely controlled and directed housing economies and those in which free market forces and private enterprise have been dominant. It is not surprising to find that detailed central government controls in the housing sector have usually been paralleled by broad and pervasive general economic controls.

The postwar housing economies of the United Kingdom and Sweden have been subject to relatively high degrees of government control through licensing, credit rationing, rent controls, and other devices. Central governments in these countries have made direct loans, controlled rents, granted housing subsidies on a large scale to families and encouraged housebuilding by local housing authorities. Contrarily, the housing economy of the United States and, to a lesser degree, of West Germany have been relatively free from central government control and have relied primarily upon private housebuilding. The role of the central government in the latter nations has been generally limited to the granting or insuring of loans and to offering other inducements to private housing investment.

It is natural to observe that national housing policies have been geared not only to national economic programs but to geographic and national characteristics as well. The central

direction of national housing policies and programs is relatively simple to administer in small countries with a uniform climate and topography, such as Sweden or the United Kingdom. Central government is pervasive and relatively efficient in these countries--housing requirements are comparatively uniform, after-tax incomes are distributed relatively evenly, and standardized housing was acceptable as a solution to critical postwar shortages.

It is understandable that central government control of housing production or financing would be much more complex in a country of the size of the United States, with varied climatic, housing, and living standards. It's size and diversity also accounts in part for the fact that federal government administration of housing and other programs has been relatively and historically inefficient in the United States. The geographic and economic differences within the different sections of West Germany have called for a relatively high degree of decentralization of housing policy making and programming. Traditionally, central government administration has been relatively efficient in Germany.

Judged by the most obvious criterion, namely, the relative improvement in national standards, the programs in Sweden and West Germany appear to have resulted in the most rapid improvement in housing standards during the postwar years. This is in part a reflection of the fact that housing standards in those countries were and continue to be below those in the United

[illegible] The preoccupation of the [illegible] with the problems of the balance of payments and the severe shortages of labor and materials can account for the notable lag in housing production prior to 1952 in the United Kingdom.

The quality of the housing inventory in the United States has also shown a rapid improvement in the postwar period. This is primarily a reflection of high rates of new construction and of repair and rehabilitation of substantial numbers of existing dwelling units. Although housing standards have been raised in the United Kingdom, the over-all improvement in the quality of the national housing inventory has been less notable due to the relatively low level of new construction and to under maintenance due to low controlled rents in that country.

The postwar record of West Germany was also outstanding in terms of the magnitude of housing production, its maintenance at high levels, and the accompanying stability in building costs. Residential construction volume was subject to effective central government control in West Germany owing to the extensive use of income and other tax subsidies, and in the United Kingdom and Sweden as a result of the structure of national controls over housebuilding in those countries.

Housing policies and programs in Sweden, West Germany, and the United Kingdom were successful in directing public and private investment toward improving the housing standards of low-income groups of the population. Programs in the United States have relied upon high production rates of new housing and the filtering process to improve general housing standards. Programs

for direct improvement of the housing status of low-income and other special groups have, for various reasons, exhibited a number of shortcomings and been, on the whole, relatively insignificant.

Costs of national housing programs have been related to the magnitude of government programs and to the degree to which they have involved direct government subsidies or outlays. Large-scale programs of public housing and government housing subsidies involve high and continuing costs in Sweden and the United Kingdom. Because of the extensive use of income tax subsidies in West Germany and reliance upon government loan insurance and guaranty in the United States, costs to the government are much more difficult to assess. Direct governmental outlays were substantially lower relative to the volume of housing production in the United States and West Germany than in Sweden or the United Kingdom.

Specific features of national housing policy deserve mention as having proven outstandingly successful. The use of income tax subsidies as a device to direct private investment into desired types of housing investment was a key feature of West Germany's housing policy which recommends itself to a nation such as the United States, which relies primarily upon private housing investment. Rapid amortization for federal income tax purposes of private investments in low-income rental housing should furnish a strong incentive for private investors to build housing for such groups. Because of the strong preference for

ownership housing in the United States, provisions for rapid amortization subsidies should be extended to owner occupants unable to afford housing of acceptable standards without subsidy.

Aggressive and effective housing programs of cooperatives and the use of family income subsidies are the most impressive features of postwar Swedish housing policy. Although the cooperative movement cannot be expected to develop to as large an extent in the United States, owing to differences in national characteristics, cooperatives offer an important avenue for improving the housing standards of specific groups. Increased technical assistance for cooperatives through the Federal Housing Administration combined with an expanded "special assistance" loan purchase program by the Federal National Mortgage Association, appear to be logical steps to further the expansion of cooperative housing in the United States.

The success with which Sweden has administered family housing subsidies over an extended period furnishes support for the recommendation in Chapter VI that family housing subsidies be employed in the United States as an alternative to present federal public housing programs. The administration of such subsidies through federal income tax claims and deductions, with certification by state or local governmental agencies, could assure that families receiving such subsidies occupy rental or housing of acceptable standards.

Government insurance and guaranty of loans made by private institutions has served as a useful means of encouraging private

ideas for home ownership in a private enterprise economy such as that in the United States. Loan insurance programs similar to that of the Federal Housing Administration would further home ownership in European countries. The uneven flow of funds into private mortgage lending institutions has from time to time impeded the functioning of the private mortgage market in the United States. Exemption of the interest on individual savings deposits with mortgage lending institutions from the federal income tax, as in West Germany, would undoubtedly improve the availability of mortgage loan funds in the United States and provide a substitute for direct government lending in Sweden and the United Kingdom. Exemption of interest on savings deposits from federal income taxes would also furnish a flexible control instrument for altering levels of savings, consumption expenditures, and the flow of funds into residential construction.

These steps, in combination with improvements in secondary mortgage market facilities and removal of interest rate ceilings on federally insured and guaranteed loans in the United States, discussed in Chapter VI, should assure a larger and more stable flow of funds into residential mortgage markets in the United States. Assuming that improvement in housing standards is an important social objective, such measures appear justifiable and even necessary. The use of flexible interest income tax subsidies could retain a desirable degree of indirect governmental control over housebuilding. Federally underwritten

mortgages constitute by now standardized and attractive investments, and competition for them in the highly organized national securities market renders obsolete the need for consumer protection through control of their interest rates.

The incompatability of maintaining a large program of publicly owned housing/controlling rents, and at the same time encouraging private investment in new housing is well illustrated in Sweden and the United Kingdom since World War II. Federal income tax subsidies to stimulate savings and housing investment and family housing allowances should provide an effective substitute for federal public housing and a solution to the low income and minority housing problem in the United States.

The postwar housing record confirms the view that maximum levels of new private housing investment, the efficient use of the existing housing inventory, and its proper maintenance, can be best achieved through a free rental market. Postwar experience in Sweden and in the United Kingdom demonstrates that government fixing of rents below the levels necessary to induce new investment and promote proper maintenance contributes to the deterioration of the quality of the national housing inventory and eliminates the market mechanism as an effective rationing device.

Strict enforcement of minimum housing standards by local governments represents a more direct type of control over the quality of the existing housing inventory, and, in this respect, local communities in Sweden, West Germany and the United Kingdom appear to have better administered programs than do most cities

in the United States. It has also been observed elsewhere that local governments in western Europe exercise more effective control over urban land usage and development than do urban communities in the United States.[13]

Government inducements to housing investment imply some form of government controls over the volume of such investment. It was observed that housing programs in Sweden and in the United Kingdom were highly responsive to short-run changes in government policies. It can be expected that such controls would be more effective in nations with a maximum of local and national participation in initiating and financing housing construction. Postwar experience in the United States and in West Germany has shown that private housing investment is also responsive to central bank monetary controls and that general credit policy can prove effective in regulating the volume of private housing investment even though it may lack the precision of more direct central government controls. The use of tax incentives modeled after those used in West Germany, should provide more direct and effective means through which the volume of housebuilding can be controlled in the United States.

It is, of course, impractical to argue that any particular set of housing policies should be adaptable for all or for any individual nation, since national housing policies must be

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[13] Paul F. Wendt, "Lessons from the Old World for America's City Builders," California Management Review, [redacted] I:3 (Spring 1959), 47-55.

directed toward appropriate national housing objectives and, at the same time, must be in keeping with over-all economic programs and policies. It is difficult, therefore, to argue that postwar national housing policies in Sweden and the United Kingdom should not have provided for central government control over the type, volume, and financing of new housing production and over rentals for existing housing. However, it can be argued that over-all results of the housing programs in these countries, which featured extensive central government controls and direct local government participation in the provision of new housing, were not outstandingly and comparatively successful from the viewpoint of the quantity of housing produced, the maintenance of quality of the existing inventory, the efficiency and cost control in building, or economy in governmental costs. In addition, the maintenance of rent controls throughout the postwar period has in a real sense committed the central governments of Sweden and the United Kingdom to a continuation of extensive direct housing subsidies for many years in the future.

Viewed in the same light the housing program in West Germany was conspicuously more successful in terms of the quantity of housing produced, the improvement of the general housing inventory and economy of administration. The private enterprise housing economy of the United States, more nearly similar to that of West Germany than to either the United Kingdom or Sweden, can be credited with achieving high levels of production

of good quality housing, fostering of a progressive and efficient private housebuilding industry, improving the quality of existing housing, and with relative economy in national and local housing administration. It is significant to note that the most costly housing programs in the United States in terms of governmental outlays, public housing and urban renewal were evaluated as the least successful in terms of accomplishment. The shortcomings of the public housing program were attributed to the basic technique and administration of the federal public housing program, and were magnified by a substantial degree of ideological strife. The lack of progress in urban renewal can be attributed to the magnitude and complexity of the urban renewal problem and the difficulties of coordinating federal and local programs.

The foregoing analysis of national housing policies reveals that the core of the post-World War II "housing problem" in the countries examined has been the provision of adequate housing for low-income groups. Although the postwar housing program in the United States has been relatively successful in achieving a high level of new housing production for upper and middle income groups, and although over-all housing standards have been raised in the postwar period through a combination of rising incomes and other factors, the rate of improvement in housing standards for low-income families has been slower than is considered socially desirable by many.

Successful programs directed toward the solution of the low income housing problem in Sweden and West Germany recommend themselves for consideration in the United States. The most important of those identified are; the use of income tax subsidies to encourage investment in low-income housing and a flow of funds into residential mortgage markets, the granting of family housing subsidies for those unable to afford housing of acceptable quality, and the encouragement of housing cooperatives through technical and loan assistance.

The adoption of these recommendations would call for basic changes in present United States Government housing programs for low-income groups and for expanded national, state, and local government assistance in solving the low-income housing problem. In view of the magnitude of the problem in the United States and the lack of success in its solution through present government programs, the need for such an expansion appears inescapable.