

Public Expenditure in Ireland on Housing in the Post-war Period*

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THIS paper deals with 'expenditure by public authorities, central and local, on housing in the post-war period in Ireland. The first section outlines the main policy phases which were reflected in shifts in the pattern of public spending on housing. The second and third sections describe the trend and pattern of public spending and analyse some of its effects on the provision of housing. In the fourth section the balance between public spending on local authority and private enterprise housing is examined. The final section presents some conclusions based on the preceding analysis.

1. POLICY PHASES

The period since 1947 may be divided into four policy phases which were reflected in shifts in the pattern of public spending on housing.

1947-1951: "Ireland is Building"¹

The period 1947-1951 was a period of general consensus among political parties and interest groups of top priority for housing. Despite considerable progress in housing between 1932 and the outbreak of war, the poverty of the housing conditions of the great majority of people can hardly be exaggerated. Lack of amenities, insanitary conditions, crumbling dwellings in rural areas combined with wide scale tenement living in the cities comprised a grim situation. In Dublin in 1938, out of 33,411 families covered by a survey, 70 per cent occupied one-room dwellings.²

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1. An exciting pamphlet which catches the atmosphere of public commitment to the post-war housing drive was published in 1949. It was called *Ireland is Building* and it included an invitation to Irish workers abroad to return home and participate in the "rebuilding of Ireland for our children's children".

2. *Report of Inquiry into the Housing of the Working Classes of the City of Dublin, 1939-1943*, (Dublin: Stationery Office, 1944), p. 19.

A White Paper, "The Post-War Building Programme" published in February, 1945, by the Department of Industry and Commerce, dealt with the spacing of building and construction projects of all kinds in the post-war years. Of building works totalling over £73 million then in contemplation, house building represented about £41 million or 56 per cent.

The spectacular growth in public expenditure on housing between 1947 and 1951 was facilitated by an abundance of capital in the economy at large. The net external assets of the banking system increased by £155.8 million between December 31, 1938 and December 31, 1946.³ In addition, the Counterpart Funds (Marshall Aid) were available and £9 million had been accumulated in the Hospitals' Trust Fund during the war. The availability of capital was reflected in low interest rates after the war. In 1951, the rapid spending of the remaining Counterpart Funds by the incoming Fianna Fáil government, coupled with the severe balance of payments crisis, partly due to the Korean War, and the depletion of Hospitals' Trust Fund money, indicated that capital was likely to become scarce. Interest rates began to rise and in 1953 jumped two percentage points, partly in response to UK policy. In the face of such factors it would have been financially impossible to maintain the housing programme at its 1947-1951 level, without drawing heavily on the external reserves.

1952-1958: Housing Decline

A period of gradual slowdown in housing began in 1952, culminating in a massive cutback in expenditure between 1956 and 1958. This change in policy resulted both from a belief that housing needs were almost satisfied and from a shortage of financial resources. In addition, the inflationary dangers of public expenditure were feared.

As early as 1947, before the post-war housing programme was properly launched, the Central Bank was inveighing against inflationary dangers due to the growth of state expenditure.⁴ The case made by the Central Bank was accepted by the policy-makers. Housebuilding continued to decline during 1954 which was a fairly good year for the economy when, as a result of a boom in the cattle trade, the current balance of payments deficit of £5.5 million was the lowest since 1946.⁵

The tide turned critically for the economy in 1955 as a result of a number of adverse factors. A marked rise in consumption led to a sharp rise in imports. At the same time export earnings fell by £5 million. It may be noted that the decline was entirely due to a fall of £6 million in sales to the sterling area. Exports to other areas rose by £0.6 million. The surplus on current account with the sterling area fell from £20.7 million in 1954 to £0.3 million in 1955. In retrospect it is

3. *Report of the Central Bank, 1952*, p. 6.

4. *Report of the Central Bank, 1947*.

5. The Central Bank Report of that year expressed the situation as follows: "Once again the bullock saved the day for the Irish economy".

known that 1955 was a particularly bad year in the UK and that when the UK economy began to recover, Irish exports recovered also. At the time, however, the export situation, compounded with the reduction in resources for investment as evidenced by the lack of support for the national loan, and the jump in consumption, added up to an alarming situation.

Total public authorities' expenditure declined from £194 million in 1956 to £185 million in 1957 to £183 million in 1958. Public authorities' capital expenditure on housing fell from £13.5 million in 1956 to £8.9 million in 1957 to £7.6 million in 1958, all in current prices. There is some indication that the authorities did not realise how hard they were hitting as the forecast figure for expenditure on housing in 1958/59 in *Economic Development* was £9.72 million⁶ compared with an out-turn of £3 million less. There was a total increase in numbers registered as unemployed of 16,394 between mid-March 1956 and 1957. Of these 5,288 were in building, contracting and works of construction.

The second report of the Capital Advisory Committee which dealt with housing and which was completed on November 4, 1957, more than endorsed official action when it made the extreme recommendation that "subsidies towards loan charges (other than for essential slum clearance), State and local authority grants, remission of rates and preferential stamp duties for new housing should be abolished".⁷

The conclusion of an unsigned article in the *Banking Review* in September, 1958, sums up the then prevalent belief, which was reflected in policy measures, that the country could not afford more housing expenditure. Referring to the charges on taxation due to housing programmes the author wrote . . . "It is devoutly to be hoped that further measures will reduce this charge still further, as the scarce capital resources of the country cannot afford to be spent on the production of social amenities, the supply of which is almost adequate to meet the demand".⁸

Whereas ten years previously in 1948, there was general consensus on top priority for housing, by 1958, there appeared to be widespread consensus, both among the policy-makers and in documents which must have exerted important influence on the policy-makers, that housing should have a low priority.

1959-1961: Conservation

In July 1958 when Mr Blaney introduced his first Estimate as Minister for Local Government, he suggested that there should be a shift in policy from the building of new houses to the conservation of existing houses. He appeared generally satisfied that the problems of eradication of bad housing had been resolved . . . "we are now at a turning point in the history of Irish housing . . . we

6. *Economic Development*, Appendix 9. This point was brought to my attention by Kieran Kennedy.

7. Capital Investment Advisory Committee, *Second Report* (Dublin: Stationery Office, 1958), p. 12.

8. "Housing Policy in Ireland", unsigned article in *The Irish Banking Review*, September 1958, p. 9.

can readily see that our main duty is to ensure that bad housing conditions will not be allowed to recur".⁹

Emphasis on conservation of the housing stock was reflected in the provisions of the Housing (Amendment) Act, 1958, which encouraged maintenance and improvement rather than new housebuilding. Partly as a result of these stimuli the number of houses reconstructed with state aid rose to 9,774 in 1960 compared with 7,167 in 1957.

A symptom of the apparent lull in public interest in housing was the absence of any debate on the Housing Estimate in 1959 following years of lengthy debates. In 1959 the Vote was put and agreed to without any debate.¹⁰ Over the next couple of years the policy emphasis remained on conservation rather than new building. This relatively important drive for house-improvement compensated, at least in part, for the decline in new housebuilding over the previous years.

An interesting parallel may be drawn between the situation in Ireland at the end of the 'fifties and the present situation in the UK where housing policy has shifted towards improvement rather than replacement, following the 1969 Housing Act. It is commonly thought that "enough" houses now exist in the UK. In fact a figure of one million surplus of houses over households in the 1970s has become according to the *Economist* "a stock cliché".¹¹ Yet, as Richardson and Vipond point out¹² the paradox is that at the same time, some people and social agencies, such as Shelter, have drawn attention to an increasing number of homeless, a high proportion of dilapidated housing, and a chronic housing shortage in certain areas and for some groups in the community.

Two comments may be made on these apparently incompatible views. First, in the UK in the 1970s as in Ireland in 1958, much depends on what is meant by a "surplus". Should it be interpreted simply as "an excess of dwellings over existing households" without regard to the geographical distribution of houses and people, the quality of the stock, the splitting-up of households, etc? Second, a "real" surplus may co-exist with thousands homeless if the price of the surplus is beyond the means of the homeless.

Unlike many other markets, there is insufficient price flexibility in the housing market for it to clear itself. If surplus conditions emerge, the rate of increase in house prices may flatten out, but price decreases are unlikely for most houses, because new house prices will be pushed up by rising land and labour costs and because of the interdependence between the prices of new and old houses.¹³

It would be difficult to predict whether England in the 'eighties will witness a new surge in housing demand comparable to that in Ireland in the 'sixties.

9. *Parliamentary Debates: Dáil Eireann*, Vol. 170, 28.

10. Deputy Noel Lemass commented . . . "there is absolutely no one on the opposite side". *Parliamentary Debates: Dáil Eireann*, Vol. 175, 1392.

11. *The Economist*, 26 July, 1969.

12. Harry W. Richardson and Joan Vipond, "Housing in the 1970s", *Lloyds Bank Review*, No. 96, (April, 1970), p. 2.

13. *Ibid.*

Conditions differ in an important respect: in Ireland in the late 'fifties housing output had been falling, while in England at present it is still at a high level.¹⁴

In Ireland, early in the 'sixties, new housebuilding, particularly private enterprise housing, began to grow again. In a circular letter to local authorities in October, 1960, Mr Blaney told local authorities that there need be no financial or other restriction on their plans to eliminate unfit and overcrowded housing conditions. Also in 1960 there was a significant administrative development to enable public water supplies to be more readily linked up for private building purposes.

There were now growing indications that building was being held up due to a lack of skilled workers in the country.¹⁵ It is likely that many skilled workers, possibly some who had returned to Ireland in the early post-war years to participate in the building drive, emigrated or re-emigrated in the depression of 1956-58, leading to a contraction in the pool of skilled workers.

1962-1970: Revival and Rationalisation.

The Housing (Loans and Grants) Act became law on August 10, 1962. The Act rationalised programmes of aid for private enterprise housing. The fact that the rationalisation of legislation in relation to private housing was tackled before that dealing with local authority housing is an indication of the priority which was then given to private enterprise housing. The Minister welcomed the trend towards private enterprise housing and said it deserved to be encouraged.¹⁶

However, it soon became apparent that housing needs were mounting and that increased local authority housing, in particular, was urgently required. Partly related to the overall change in population trends and the falling emigration rate, there was a noticeable increase in demand for dwellings in Dublin City and other urban areas. Further, there was the important factor that the life cycle of Georgian dwellings was then drawing to a close.¹⁷

The collapse of a number of houses in which four people were killed in Dublin in June 1963, signalled a crisis and sparked off a chain of events which resulted in an intensified housing campaign. On June 2, 1963, a tenement house at No. 20 Bolton Street collapsed killing a husband and wife aged 73 and 75 years respectively. Immediately the Corporation evacuated families in a number of adjacent houses. Just as the resulting panic was abating Nos. 3 and 4 Fenian Street collapsed killing two children on June 12, 1963.

The Minister for Local Government ordered an enquiry into the collapse of the houses. The enquiry ended on July 5, 1963, after a hearing of ten days. The Corporation was exonerated from blame. The end of the enquiry signalled the

14. The peak level of council housebuilding in recent years was 204,000 in 1967, and in the post-war period as a whole was 257,000 in 1964.

15. See reference to statement by Minister for Industry and Commerce in *Parliamentary Debates: Dáil Éireann*, Vol. 191, 57.

16. *Parliamentary Debates: Dáil Éireann*, Vol. 196, 2099.

17. This was pointed out to me by Professor Patrick Lynch.

beginning of renewed interest in housing. "After a long period of eclipse, during which it was the least discussed of all sectors of the building industry, housing has again captured the public attention."¹⁸

Between June 1 and September 3, 1963, 285 Dublin City buildings were condemned, involving 989 families. Between January and June 1963 only 59 premises had been condemned and it was argued that the sudden jump in condemnations "unwittingly facilitated a number of owners only too glad to have sites or buildings for other purposes".¹⁹ Notwithstanding this possibility the "blitz" continued and, by September 1964, 900 houses had been de-tenanted. The Corporation provided prefabs and caravans in many cases as temporary measures for evacuees. Buildings continued to collapse. One building collapsed in Wolfe Tone Street in September 1964 and there was a partial collapse of a house at Parnell Street in November 1964.

In retrospect it is almost impossible to understand why no political party or agency made any attempt to forecast the crisis in view of the reduction in house-building over the previous years and increasing obsolescence. One contributory factor was that the picture of Dublin housing needs had been confused by the fact that in the late 'fifties vacancies in Dublin Corporation estates were growing and, in view of this, and the general financial constraints, Dublin Corporation had reduced its housing programme. For instance, in 1959 there were 1,000 applications from the perimeter areas of Finglas and Ballyfermot from people who wanted to get back into the city. Many of the vacancies in the estates were due to the fact that people in central city slums would not move out to the estates. At approximately this point Dublin Corporation decided on a policy of building flats in the city. As the acquisition of city property and the clearance and preparation of sites is a much slower process than starting on a clear suburban site, there was necessarily a delay before flats began to be provided on a scale approaching the mounting demands.

Late in 1964 a White Paper on Housing, the first since 1948, appeared. It indicated that at the same time as urban housing problems were growing, there was evidence of 70,000 unfit houses outside Dublin and Cork, of which 60,000 were in rural areas. Furthermore, the 1961 Census showed that out of a total of 676,000 private dwellings in the country, more than 300,000 were over 60 years old, and 160,000 were over 100 years old, and that while 130,000 houses were newly built between 1946 and 1961, the increase in the housing stock amounted to only 14,000. Allowing for conversion of dwellings to other purposes such as offices, this suggested an obsolescence rate of about 1-1½ per cent, or between 6,500 and 8,000 dwellings, per annum. It had now become apparent, just a few short years after it was thought that housing needs were almost satisfied, that the magnitude of the problem was such that fundamentally new methods would have to be used.

18. Leading article in *Irish Times*, 23 July, 1963.

19. Letter by Uinseann MacEoin, published in the *Irish Times*, 6 September, 1963.

For the first time the State entered the field of local authority housing directly. The Minister for Local Government offered to build houses for all local authorities either through the National Building Agency or some other agency. A major project was launched by the National Building Agency for Dublin Corporation at Ballymun on March 31, 1965. The Ballymun scheme represented the introduction of mass production "system building" on the Irish scene. Partly as a result of direct state intervention the output of local authority housing began to increase rapidly. In 1969, another White Paper appeared outlining the proposed legislative changes which were incorporated in the Housing Act 1970.

2. PUBLIC AUTHORITIES' EXPENDITURE ON HOUSING

According to the functional classification compatible with expenditure of public authorities in the national income accounts, expenditure of public authorities on housing increased from £3.4 million in 1947 to £37.9 million in 1968, in current prices. Between 1949 and 1968, public expenditure on housing increased from £15.0 million to £37.9 million in current prices, or by 152.7 per cent. Table I shows a marked decline in the relative importance of housing in public authorities' expenditure since 1949. Between 1949 and 1968 housing fell from 12.6 per cent to 7.3 per cent of total expenditure of public authorities while the share of public expenditure on housing in GNP fell from 3.8 per cent to 2.9 per cent.

It must be pointed out that the data in Table I are incomplete insofar as loan charges, the major item of current housing expenditure, are not included.²⁰ Details of expenditure on housing as shown in the accounts of public authorities are given below.

Capital Expenditure: Between 1949 and 1968 capital expenditure on housing increased from £12.8 million to £30.5 million in current prices, or by 138.1

TABLE I: *Share of Housing in Expenditure of Public Authorities and in GNP, 1947-1968*

| | 1947 | 1949 | 1960 | 1968 |
|---|------|------|------|------|
| Housing as percentage Total Public | 3.8 | 12.6 | 6.4 | 7.3 |
| Current Housing as percentage Total Current | 2.3 | 3.6 | 3.8 | 3.0 |
| Capital Housing as percentage Total Capital | 12.8 | 38.4 | 14.9 | 20.2 |
| Housing as percentage GNP | 1.0 | 3.8 | 2.0 | 2.9 |

Source: *Appropriation Accounts, Returns of Local Taxation, National Income and Expenditure.*

20. In the national income accounts classification on which the data in Table I are based, the part of loan charges referring to interest is included under national debt interest and the part referring to repayment of capital is included under redemption of securities and loan repayments.

per cent, as shown in Table 2. Expenditure on private housing and on other housing²¹ grew much more rapidly than expenditure on local authority housing. Expenditure on local authority housing increased from £9.6 million in 1949 to £16.6 million in 1968, while expenditure on private housing and other housing combined increased from £3.9 million to just £14 million.

Chart 1 illustrates the trend of public expenditure on local authority and private enterprise housing since 1947. It will be seen that expenditure on local authority housing reached its peak in 1951 and then fell almost without interruption until 1960. Since 1960 it has risen fairly steadily. Public expenditure on private enterprise housing grew more slowly to its peak in 1955 and then declined in the succeeding three years. It began to rise again in 1959, and between 1959 and 1964 the level of public expenditure on private enterprise housing was greater than on local authority housing.

TABLE 2. *Capital Expenditure on Housing by Public Authorities, 1949-1968*

| Year | Local Authority Housing | | Private Housing | | | | Other Housing | | Total | | |
|------------------------|-------------------------|------------|-----------------|----------------------|---------------------------------------|-------|---------------|------|--------|-------|-------|
| | £m. | % of Total | SDA Loans | Supplementary Grants | Department of Local Government Grants | £m. | % of Total | | | | |
| 31 March | | | | | | | | | | | |
| 1949/50 | 9.56 | 74.7 | 2.05 | 16.0 | — | — | 1.07 | 8.4 | 0.12 | 0.9 | 12.80 |
| 1951/52 | 11.47 | 66.9 | 3.49 | 20.4 | — | — | 1.60 | 9.3 | 0.58 | 3.4 | 17.14 |
| 1956/57 | 7.27 | 54.0 | 2.91 | 21.6 | 0.64 | 4.8 | 2.16 | 16.0 | 0.49 | 3.6 | 13.47 |
| 1958/59 | 3.74 | 49.0 | 1.68 | 22.0 | 0.54 | 7.1 | 1.33 | 17.4 | 0.34 | 4.5 | 7.63 |
| 1960/61 | 2.81 | 31.8 | 2.86 | 32.4 | 0.85 | 9.6 | 2.18 | 24.7 | 0.14 | 1.6 | 8.84 |
| 1966/67 | 11.48 | 51.9 | 4.97 | 22.5 | 1.72 | 7.8 | 2.86 | 12.9 | 1.08 | 4.9 | 22.11 |
| 1968/69 | 16.55 | 54.3 | 6.67 | 21.9 | 1.93 | 6.3 | 3.37 | 11.1 | 1.96 | 6.4 | 30.48 |
| <i>Per cent change</i> | | | | | | | | | | | |
| 1949-1968 | 73.1 | -27.3 | 225.4 | 36.9 | 201.6* | 31.3* | 215.0 | 32.1 | 1533.3 | 611.1 | 138.1 |

*1956-1968.

Source: *Appropriation Accounts, Returns of Local Taxation*, and Department of Local Government.

21. Housing sponsored by the Departments of Defence, Gaeltacht, Lands, ESB, Bord na Móna, etc.

Chart 1—Public Authorities' Capital Expenditure on Local Authority and Private Enterprise Housing, 1947–1968

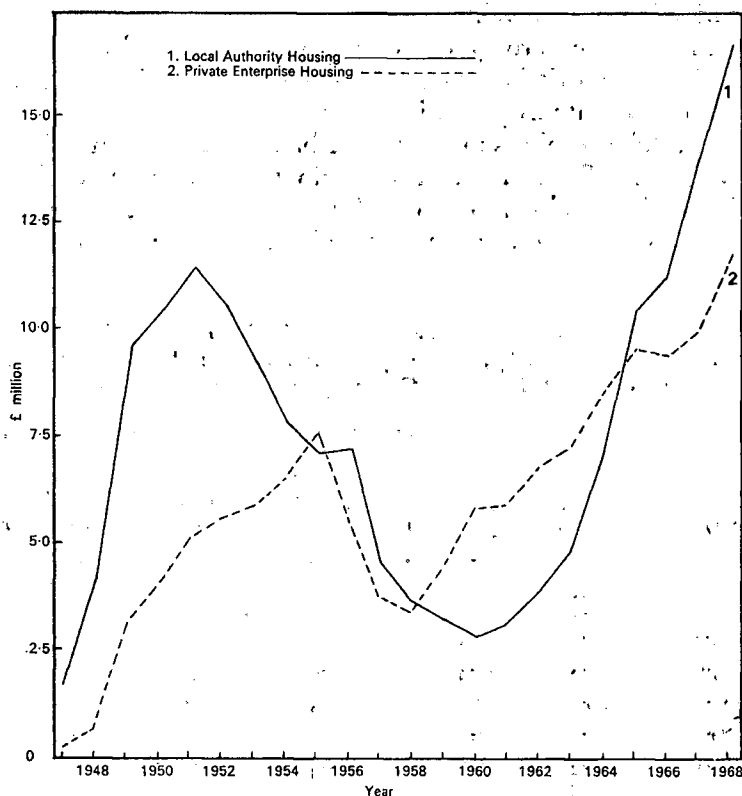


Table 3 shows that in real terms (1958 = 100) public capital expenditure on housing increased from £15.1 million in 1949 to £19.5 million in 1968 or by 29.1 per cent. The 1968 level was slightly below the peak level of £19.9 million in 1951. Public expenditure on local authority housing fell by 6.2 per cent from £11.3 million in 1949 to £10.6 million in 1968. Fixed capital formation in dwellings more than doubled, increasing from £15.6 million in 1949 to £32.0 million in 1968 (all in 1958 prices). However, the share of dwellings in total gross domestic fixed capital formation fell from 22.5 per cent in 1949 to 17 per cent in 1968 and the share of local authority housing in GDFCF fell from 16.3 per cent to 5.6 per cent, reflecting the rapid fall of the local authority share in total dwellings from 72.4 per cent in 1949 to 33.1 per cent in 1968.

An idea of the cyclical impact of sharp changes in housing may be grasped by examining changes in housing expenditure between 1956 and 1958. During this two-year period GDFCF fell by a remarkable £17 million in 1958 prices (or

17.5 per cent). Over half of this fall may be accounted for by local authority housing alone. The three major public programmes to assist private housing also fell sharply between 1956 and 1958, and clearly contributed to the decline in capital formation in private dwellings.

In 1965 and 1966 the curbing of housing was again used as a deflationary expedient, mainly by restricting SDA loans and grants for private housing, while expenditure on local authority housing grew very slowly compared with the preceding years. Public capital support for the building and construction industry as a whole was markedly reduced. This contributed to a decline in fixed capital formation in building and construction of 3.2 per cent in 1966 whereas in the previous five years there had been an average increase of 12.6 per cent.

TABLE 3: *Gross Domestic Fixed Capital Formation, Fixed Capital Formation in Dwellings, Capital Expenditure on Local Authority Housing, Total Capital Expenditure on Housing by Public Authorities, and Certain Ratios—All at Constant (1958) Prices, 1949-1968*

| | Total GDFCF | Fixed Capital Formation in Dwellings | Local Authority Housing | Public Authorities' Housing Capital | Dwellings GDFCF | LAH* GDFCE | LAH* Dwellings |
|------------------------|----------------|--|-------------------------------|---|--------------------|---------------|-------------------|
| | £m. (1958) | | | | Per cent | | |
| 1949 | 69.4 | 15.6 | 11.3 | 15.1 | 22.5 | 16.3 | 72.4 |
| 1951 | 93.6 | 22.8 | 13.4 | 19.9 | 24.4 | 14.3 | 58.8 |
| 1956 | 97.0 | 20.9 | 7.7 | 14.3 | 21.5 | 7.9 | 36.8 |
| 1958 | 80.0 | 11.6 | 3.7 | 7.6 | 14.5 | 4.6 | 31.9 |
| 1961 | 103.1 | 14.2 | 2.8 | 8.4 | 13.8 | 2.7 | 19.7 |
| 1966 | 155.5 | 25.5 | 7.8 | 15.0 | 16.4 | 5.0 | 30.6 |
| 1968 | 188.0 | 32.0 | 10.6 | 19.5 | 17.0 | 5.6 | 33.1 |
| <i>Per cent change</i> | | | | | | | |
| 1949-1968 | 170.9 | 105.1 | -6.2 | 29.1 | -24.5 | -65.7 | -54.3 |

*LAH = Local Authority Housing

Source: Table 2 and *National Income and Expenditure*.

Current Expenditure: Table 4 shows that total current expenditure increased from £3.2 million in 1949 to £21.3 million in 1968, in current prices, i.e., by 566 per cent. Apart from maintenance, repair and other expenditure incurred by local authorities in relation to local authority housing, current housing expenditure relates entirely to loan charges. Loan charges have grown steadily in the post-war period, and in 1968 they accounted for 80.0 per cent of total current expenditure compared with 68 per cent in 1949.

TABLE 4: *Current Expenditure on Housing by Public Authorities, 1949-1968*

| | 1949 | | 1968 | |
|---|-------------|--------------|--------------|--------------|
| | £m. | % of Total | £m. | % of Total |
| <i>Local Authority Housing</i> | 2.96 | 91.9 | 11.67 | 54.8 |
| Loan Charges | 1.92 | 59.6 | 9.41 | 44.2 |
| Maintenance, Repair, etc. | 1.04 | 32.4 | 4.26 | 20.0 |
| <i>Private Housing</i> | 0.26 | 8.1 | 7.61 | 35.8 |
| Loan Charges—SDA Loans | 0.18 | 5.6 | 3.43 | 16.1 |
| Loan Charges—Supplementary Grants | — | — | 1.25 | 5.9 |
| Estimated Servicing Cost of Department of Local Government Grants | 0.08 | 2.5 | 2.93 | 13.8 |
| Total Loan Charges | 2.18 | 67.7 | 17.02 | 80.0 |
| Total Local Authority and Private Housing | 3.22 | 100.0 | 21.28 | 100.0 |

Source: Returns of Local Taxation and Housing in the Seventies.

3. PUBLIC EXPENDITURE AND THE PROVISION OF HOUSING

Chart 2 shows, as would be expected, that the level and trend of dwellings built with state aid followed very closely the level and trend of public authorities' capital expenditure on housing (both in current and real terms). Housing output tended to lag slightly behind expenditure, reaching peaks and troughs after peaks and troughs in expenditure.

Table 5 shows the number of dwellings built and reconstructed with state aid in certain years between 1947 and 1969. The total rose from 1,602 in 1947 to a post-war peak of 14,003 in 1952. Output fell to 4,894 in 1958 and then grew again to 13,144 in 1969. Between 1949 and 1969 the shares in the provision of total housing by local authorities and private enterprise were almost exactly reversed. Over the period the share of local authority housing fell from 65.3 per cent to 35.9 per cent while the share of private enterprise housing rose from 32.9 per cent to 60.5 per cent.

Local Authority Housing

That the trend of expenditure on local authority housing was closely associated with the trend in output and employment on local authority housing schemes is clear from Chart 3. Employment in the late 'fifties and early 'sixties was less than 10 per cent of the level of employment at the start of the 'fifties.

TABLE 5: Number of Dwellings Built and Reconstructed with State Aid in Certain Years, 1947-1969

| Year | Local Authority | | Other Authority | | Private Enterprise | | Total | |
|---------|-----------------|------------------|-----------------|------------------|--------------------|------------------|--------|---------------|
| | Number | % of Total Built | Number | % of Total Built | Number | % of Total Built | Built | Reconstructed |
| 1947/48 | 729 | 45.5 | 100 | 6.2 | 773 | 48.3 | 1,602 | 621 |
| 1949/50 | 5,299 | 65.3 | 147 | 1.8 | 2,667 | 32.9 | 8,113 | 1,285 |
| 1952/53 | 7,486 | 53.5 | 702 | 5.0 | 5,815 | 41.5 | 14,003 | 2,573 |
| 1957/58 | 3,467 | 46.4 | 454 | 6.3 | 3,559 | 47.6 | 7,480 | 7,167 |
| 1958/59 | 1,812 | 37.0 | 456 | 9.3 | 2,626 | 53.7 | 4,894 | 7,202 |
| 1961/62 | 1,238 | 22.0 | 342 | 6.1 | 4,046 | 71.9 | 5,626 | 8,989 |
| 1966/67 | 4,079 | 38.6 | 322 | 3.0 | 6,183 | 58.4 | 10,584 | 8,679 |
| 1969/70 | 4,706 | 35.9 | 478 | 3.6 | 7,960 | 60.5 | 13,144 | 9,149 |

Source: 1964 White Paper and 1969 White Paper.

In the immediate post-war years local authorities were "preoccupied with the needs of slum dwellers and those living in unfit accommodation".²² In 1947 local authorities built only 729 houses. By 1949 the number had increased to 5,299. The post-war peak of just 8,000 dwellings was reached the following year. From 1952 the number of dwellings built each year by local authorities fell almost without interruption to 1,238 in 1961. Annual output increased three-fold to 4,706 in 1969, a level last reached in 1956.

While the output of local authority housing was increasing in the early fifties some reduction was already anticipated because housing requirements, as outlined in the post-war housing programme, were gradually being met.²³ A few years later a further factor—the lack of suitably serviced sites—contributed to the decline. Thus, in 1954 housebuilding in urban areas, especially in Dublin City, slowed up due to a lack of developed building sites and the loading to capacity of the city sewerage system.²⁴ Furthermore, building costs, which had been fairly stable for a number of years, began to rise. This contributed to the reluctance of "the smaller and more economically depressed urban areas to commit themselves to further expenditure in the light of the continued high level of building costs and of rates".²⁵

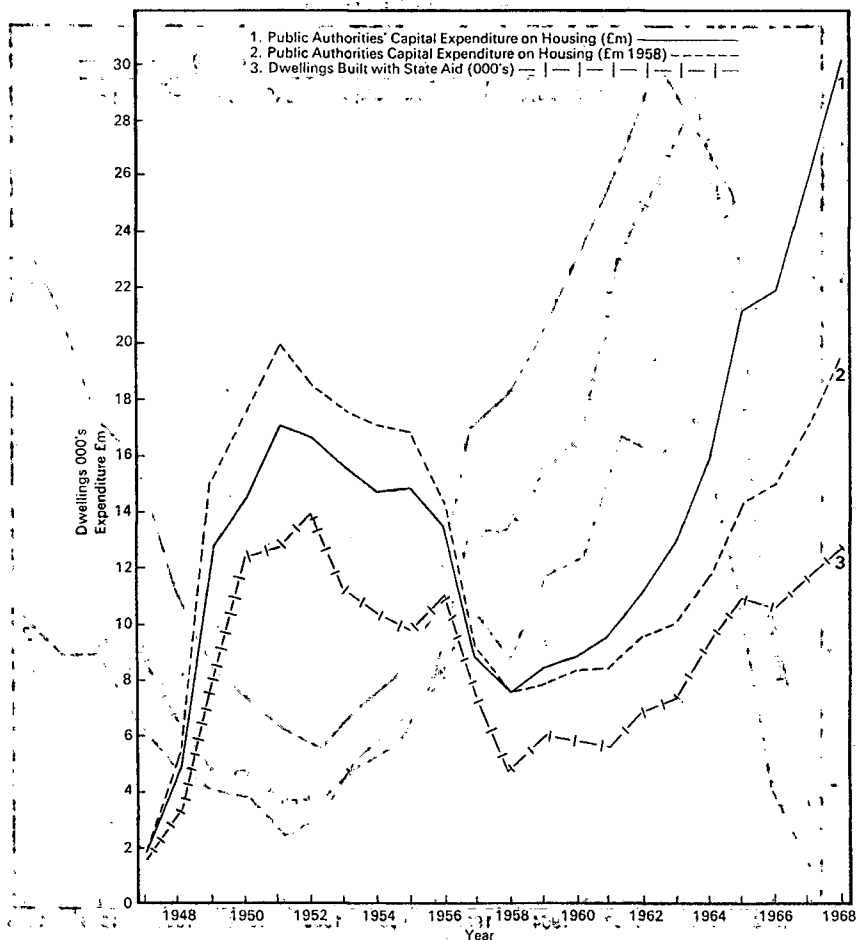
22. Report of Department of Local Government, 1947-48, p. 40.

23. Report of Department of Local Government, 1951-52, pp. 35-36.

24. Report of Department of Local Government, 1954-55, p. 30.

25. *Ibid.*, p. 31.

Chart 2.—Public Authorities' Capital Expenditure on Housing and Dwellings Built with State Aid, 1947–1968



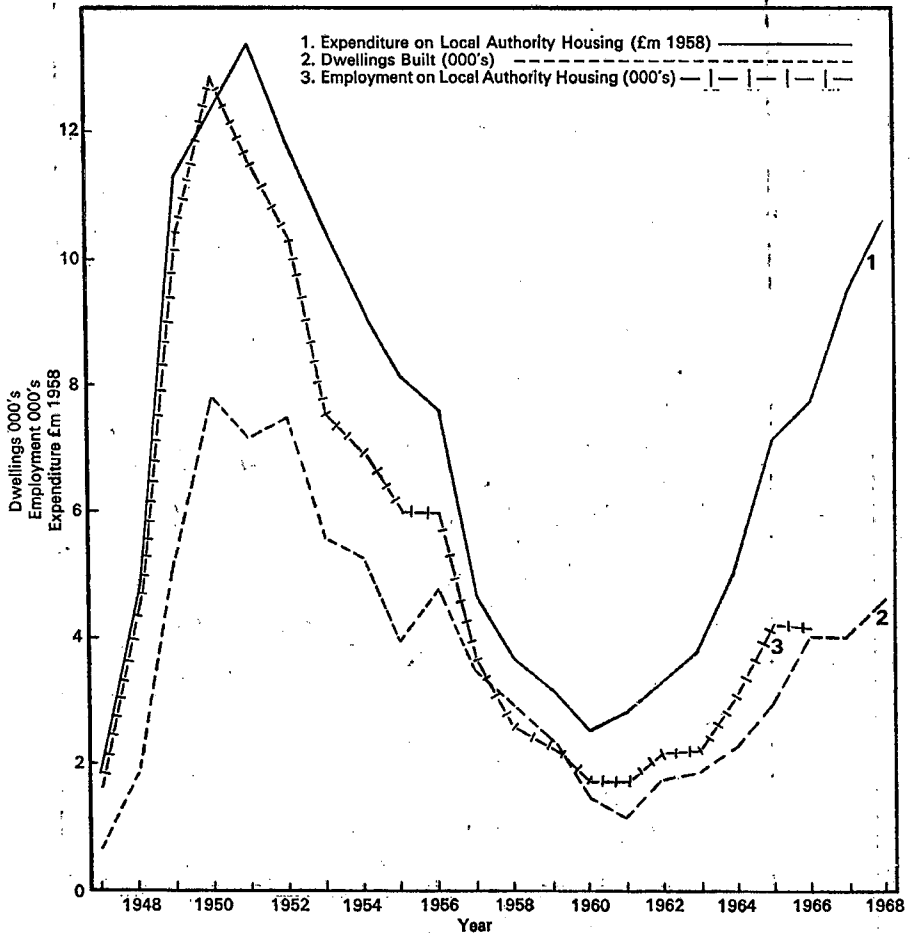
These factors which contributed to the decline in housing output in the 'fifties contradict the view that the only reason for the decline was "the satisfaction of needs". In fact, evidence exists which suggests that there was a definite awareness of persistent and growing needs at this time. For instance, in some areas²⁶ it was found that a large proportion of persons in need of re-housing were of the poorest sections of the community and unable to pay the rents for the normal type of house being built by local authorities.²⁷ As early as 1953 a revision undertaken by the county managers of the 1947 estimates of housing needs in rural areas showed the fresh needs amounting to some 2,600 houses had arisen in rural areas between 1947 and 1953.²⁸ In 1958 a review of needs indicated that approxi-

26. i.e. "the smaller and more economically depressed areas" referred to earlier in the text.

27. *Report of Department of Local Government, 1954-55*, p. 31.

28. *Ibid.*, p. 31.

Chart 3—Local Authority Housing: Public Capital Expenditure, Output and Employment, 1947–1968



mately 11,000 working class families were awaiting re-housing by local authorities at 31 March 1958.²⁹

Evidence was also available at the time which showed that, by international standards, the housing situation in Ireland in the late 'fifties was not very satisfactory. Commenting on the situation in 1959, Mr P. Ó hUiginn remarked:—

The countries with a smaller stock of dwellings than Ireland are, however, the countries in Western Europe with the greatest housing shortages. . . . At a time when demand for new dwellings has fallen off here it seems surprising that the stock of dwellings should appear to be only slightly greater than in some countries with grave housing shortages and considerably less than in countries with more satisfactory housing conditions.³⁰

29. *Report of Department of Local Government, 1957–58*, p. 20.

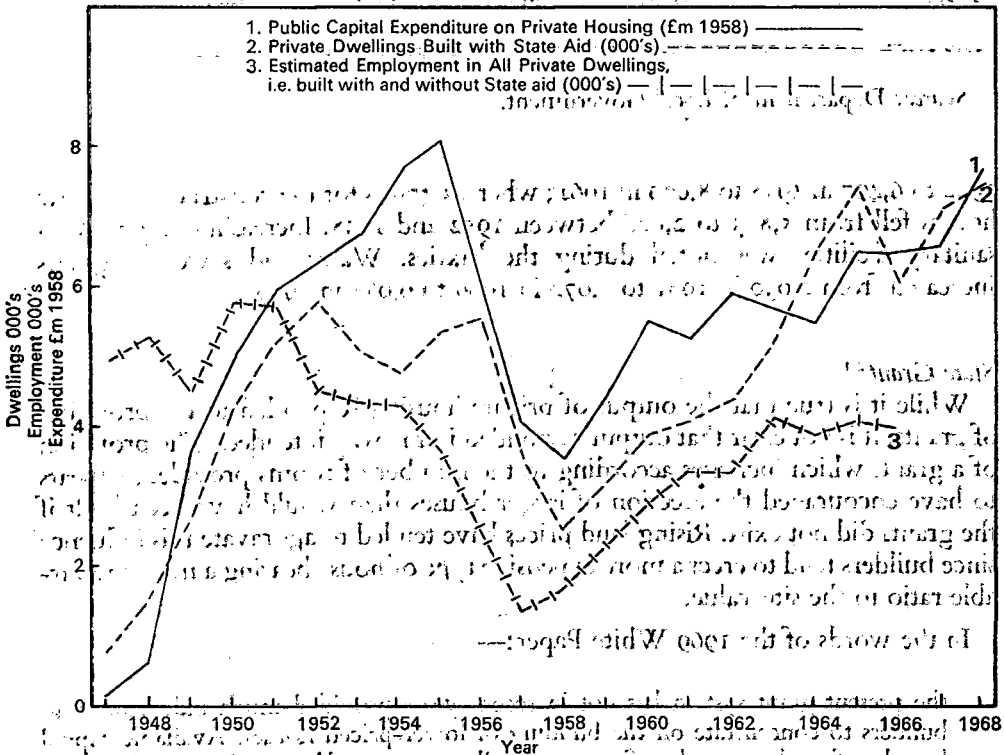
30. P. Ó hUiginn, "Some Social and Economic Aspects of Housing: An International Comparison", *Journal of the Statistical and Social Inquiry Society of Ireland*, 1959–60.

One obvious answer to this apparent paradox was the simple one that the gap between the cost of housing and income was so great as to render demand, even for heavily subsidised housing, ineffective.

Private Enterprise Housing

As illustrated in Chart 4 the output of private enterprise housing responded well to the flow of public spending. Table 6 shows that the number of private enterprise houses built with state aid increased from 2,667 in 1949 to 7,960 in 1969. Fluctuations in expenditure and output were neither as severe nor protracted as in the case of local authority housing. That the drive for reconstruction was intensified in the late 'fifties is borne out by the fact that the number of Department of Local Government grants for reconstruction increased from 2,528 in

Chart 4—Private Enterprise Housing: Public Capital Expenditure (£m 1958) Output and Employment, 1947-1968



Source and Method: Data are from Appropriation Accounts, Returns of Local Taxation, Reports of the Department of Local Government. Figures for employment in private enterprise housing are not available. These were estimated by taking the share of "other dwellings" in the gross output of the Building and Construction Industry and applying this ratio to employment in the industry. The figure is an overestimate to the extent that employment on non-state-aided dwellings (a very small number) is included.

TABLE 6: Number of and Expenditure on Private Housing Grants by the Department of Local Government and Local Authorities, 1949-1969

| Year 31 March | Department of Local Government | | | Local Authorities | | |
|------------------|--------------------------------|----------------|--------------------|-------------------|----------------------|-------------|
| | New Houses | Reconstruction | Water and Sewerage | Amount Paid | Supplementary Grants | Amount Paid |
| | Number | | | £m. | Number | £m. |
| 1949/50 | 2,667 | 1,249 | — | 1.07 | — | — |
| 1952/53 | 5,815 | 2,528 | — | 1.80 | n.a. | 0.21 |
| 1958/59 | 2,626 | 6,497 | 1,110 | 1.33 | n.a. | 0.54 |
| 1961/62 | 4,046 | 8,099 | 2,030 | 2.09 | 1,527 | 0.89 |
| 1966/67 | 6,183 | 7,854 | 6,072 | 2.86 | 3,473 | 1.72 |
| 1969/70 | 7,960 | 7,697 | 9,088 | 3.40 | n.a. | 2.08 |

Source: Department of Local Government.

1952 to 6,497 in 1958 to 8,099 in 1961; whereas grants for the construction of new houses fell from 5,815 to 2,626 between 1952 and 1958. Increasing emphasis on sanitary facilities was noted during the 'sixties. Water and sewerage grants increased from 2,030 in 1961 to 6,072 in 1966 to 9,088 in 1969.

State Grants³¹

While it is true that the output of private housing responded to the provision of grants, it is not clear that output responded in the way intended. The provision of a grant, which increases according to the number of rooms provided, appears to have encouraged the erection of larger houses than would have been built if the grants did not exist. Rising land prices have tended to aggravate this influence since builders tend to erect a more expensive type of house bearing a more favourable ratio to the site value.

In the words of the 1969 White Paper:—

the present grant system has not in recent years provided much inducement to builders to concentrate on the building of lower-priced houses. Available capital has, therefore, been used to finance a smaller number of houses than would otherwise have been built.³²

31. i.e. Grants paid by the Department of Local Government.

32. *Op. cit.*, p. 25.

Because of the realisation that the grant system for private housing was helping most the better-off owner occupiers, the grant system was recast in the 1970 Housing Act. Grants are now given on the basis of floor area up to a maximum of 1,249 square feet, instead of on the basis of the number of rooms. Grants are now also limited to houses costing not more than £6,000.

Supplementary Grants

Supplementary grants have been paid by local authorities since 1952. These grants may equal the state grant and are payable to a person providing a house with an income of up to £1,250 and to farmers with holdings with rateable valuation not exceeding £60. The trend of supplementary grants followed closely that of Department of Local Government (State) Grants. As in the case of State grants there is some indication that these grants were not channelled where most needed.

Up to 1969 any county council, county borough corporation or urban district council was empowered to pay supplementary grants. The capital for the grants is provided largely by way of loans from the State. The local authority must repay the loans, with interest, from the rates. The fact that the local authority is responsible for loan charges resulting from the payments of grants means that some of the smaller urban district councils cannot afford to pay grants at all or can pay them only for reconstruction work.³³

In recognition of this defect in the supplementary grant system it was provided in the 1970 Housing Act that where county councils pay supplementary grants in their area they shall pay them at the same rate in the urban districts in the county unless the urban district is an area designated by the Minister for Local Government. In general these will be urban districts with populations of not less than 10,000. In consequence of this transfer of responsibility to the county councils the Government made the area of charge for grants the county-at-large, except where there are designated urban districts.

Loans

Apart from grants the other main form of assistance for private housing relates to loans made under the Small Dwellings Acquisition Acts. The total amount which a local authority may spend on loans in any year is the amount allocated to it for that year by the Minister for Local Government. Loans under the scheme are financed by the local authority by borrowing from the Local Loans Fund. Loans are made only to persons with an income not exceeding £1,500 a year or £60 rateable valuation if the applicant is a farmer. These limits do not apply to the tenant of a local authority dwelling buying a house and surrendering his dwelling to the local authority.

33. *Housing in the Seventies*, p. 29. Local authorities who pay grants and the approximate percentage of the State grant which they pay are listed in Appendix VI of the White Paper.

Until 1969 fifty-five local authorities operated loan schemes. Many of these authorities in recent years advanced relatively small amounts. For instance, in 1967/68, thirty authorities paid loans amounting in total to less than £25,000. Operations on such a small scale by so many different authorities are wasteful. The concentration of responsibility for the making of supplementary grants in county councils and the larger urban district councils means that persons interested in buying houses, constructed with the aid of supplementary grants, will have to apply to the county councils or the larger urban authorities for the grant. To rationalise loan provisions, only the county councils and the larger urban authorities now make house purchase loans.

Rate Remission

In addition to grants and loans a rate remission scheme operates on a sliding scale from the first to the ninth year for new houses. To the extent that rate remission is greater on bigger houses, and the better-off live in bigger houses, the rate remission helps the better-off relatively most. Rate remission is now being abolished for houses of 1,249 square feet and over (roughly, a small four-bedroom house with two reception rooms). As 1,249 square feet is also the area limit for a dwelling to qualify for a grant, the net result is that rate remission is being abolished for buildings which do not qualify for a grant.

The Cost of Providing Housing

The cost of providing a house has risen sharply over the post-war period. The growth in prices appears to have coincided with the peak periods of housing activity. Thus, at the start of the fifties, when the housing campaign was intense, prices were rising. A similar situation prevailed from about 1963. After a period of relatively stable building costs in the late fifties the upward trend in costs which was noted in 1961/62 and which resulted from increases in wages for building workers and in the cost of materials, the introduction of a five-day week in the building industry, and increased activity in the building industry as a whole, persisted through 1964/65. Late in 1964 the building industry was disrupted by a severe strike which lasted two months and which was followed by a one month strike of builders' providers. Further cost increases resulted from the terms of settlement of these strikes.

Table 7 shows the trend in cost of local authority housing between 1960 and 1968. While there was a rise of between about 40-70 per cent in the cost of providing urban dwellings between 1960 and 1968 there were considerable variations in the increases as between dwellings of different sizes. There are also some very surprising features. For instance, the rise in cost of a five-roomed urban house in Dublin between 1965 and 1968 was quite small. The decline in building costs for a four-roomed rural dwelling between 1965 and 1968 is due to a reduced share attributable to site and development work.

TABLE 7: Trend in Cost of Local Authority Housing, 1960-1968

| | Number of Rooms | 1960/61 | | 1965/66 | | 1968/69 | | 1960-1968 | |
|---------------------------|-----------------|--------------------------|------------------------------|--------------------------|------------------------------|--------------------------|------------------------------|--------------------------|------------------------------|
| | | Average of tender prices | Average cost per square foot | Average of tender prices | Average cost per square foot | Average of tender prices | Average cost per square foot | Average of tender prices | Average cost per square foot |
| Superstructure Costs | | | | | | | | | |
| | | £ | s. d. | £ | s. d. | £ | s. d. | Per cent change | |
| Urban flat— Dublin | 3 | 1,661 | 47 9 | 2,308 | 62 7 | 2,390 | 67 4 | 43.9 | 41.0 |
| Urban house— Dublin | 4 | 1,188 | 30 1½ | 1,660 | 43 6 | 1,783 | 45 1 | 50.1 | 49.6 |
| Urban house— ex Dublin | 4 | 1,143 | 29 9½ | 1,620 | 41 6 | 2,031 | 51 8 | 77.7 | 73.5 |
| Urban house— Dublin | 5 | 1,490 | 33 2½ | 2,015 | 41 1 | 2,046 | 45 8 | 37.3 | 37.5 |
| Urban house— ex Dublin | 5 | 1,184 | 27 7 | 1,748 | 40 2 | 1,942 | 46 8 | 64.0 | 69.2 |
| Building Costs* | | | | | | | | | |
| Rural House (serviced) | 4 | 1,487 | 28 5½ | 1,973 | 51 4 | 1,642 | 43 8 | 10.4 | 53.4 |

*Includes the cost of site and development work.

Source: Reports of Department of Local Government and Housing Section, Department of Local Government.

While an examination of the reasons for rising building costs³⁴ is not given here at any length, it is suggested that the Irish housebuilding industry provides a good example of cyclical fluctuations intensifying cost increases. In the case of local authority housing the scale of operations is frequently thought to contribute to rising costs. Few of the eighty-seven authorities who have been responsible for housing programmes in the post-war period build more than twenty-five houses a year. In March 1970 there were 15,000 local authority houses in planning, i.e. well over half the number of houses in progress. If cash were available it is likely that local authorities could produce up to 50 per cent more output without increasing administrative overheads. But it is not size of output alone which pushes up costs; it is mainly a lack of 'continuity' in output which creates diseconomies of scale for local authorities. Because economy in housebuilding demands a continuous flow, economies can be reaped when one agency (e.g. the NBA) builds continuously over the country at the request of local authorities. Partly in recognition of this, it was stated in *Housing in the Seventies* that "it is intended, in particular that the smaller urban areas, which have little technical resources available to them, should be encouraged to use the services of the

34. Rising costs in the housebuilding industry are examined in *Housing in the Seventies*; and by P. R. Kaim-Caudle and Mella Crowley in an unpublished memorandum for the Royal Institute of Architects in Ireland.

TABLE 8: *Changes in the Interest Rate on Loans from the Local Loans Fund, 1946-1969*

| Date | Interest Rate | Comments |
|------------------|---------------|--|
| 1 July 1946 | 2½% | Reduced from 4¼%. |
| 5 May 1948 | 3¼% | Housing rate maintained at 2½%. |
| 1 May 1953 | 5¼% | Housing rate increased to 4¾%. |
| 1 December 1954 | 5¼% | Housing rate reduced to 4½%. |
| 10 March 1956 | 5¼% | Housing rate increased to 5¼%, thereby eliminating the differential rate for housing. |
| 28 October 1957 | 6¼% | Including housing, other than for purposes of SDA loans for which a rate of 5¾% was charged. |
| 1 December 1958 | 5¾% | Including housing. |
| 1 December 1959 | 5½% | " " |
| 1 December 1960 | 6¼% | " " |
| 15 November 1965 | 7% | " " |
| 28 November 1966 | 7¼% | " " |
| 1 June 1967 | 7% | " " |
| 1 August 1968 | 7¾% | " " |
| 18 March 1969 | 8½% | " " |

Source: *Reports of Department of Local Government and Department of Local Government.*

Agency to provide ordinary local authority houses rather than build themselves"³⁵

One component of housing cost—loan charges—is discussed briefly because it is believed that sufficient attention has not been paid to it mainly on the grounds that when inflation is the norm a high rate will not deter borrowing.

Table 8 shows changes in the interest rate on loans from the Local Loans Fund—the major source of local authority capital—over the post-war period. With the exception of 1959 and 1967, when there were small reductions in the rate, the trend has been steadily upward.

It has been argued in relation to the present situation that:—

Neither the shortage of capital nor the high rates of interest, nor the high cost of building land present the major difficulty in the financing of housing. Important though these factors may be the essence of the problem is the ratio of the cost of building materials and labour to incomes.³⁶

It is of interest to compare this finding with the finding of a report published in 1943:—

35. *Op. cit.*, p. 36.

36. P. R. Kaim-Caudle with Mella Crowley, *op. cit.*

The price paid for it (capital) does not appear to have been an active factor in the increase in the cost of building (1931-1939) which we examined in detail, but is a most vital factor in determining the level of the economic rent. This in turn affects the ultimate cost to the State, the Corporation and to the tenant.³⁷

This report showed that in relation to a corporation dwelling interest alone accounted for 37.8 per cent of the economic rent where capital had been raised by 4 per cent stock issue. If funds could be obtained by a 3 per cent loan, interest, as a proportion of the economic rent, could be reduced to 27.4 per cent which in turn would imply a substantial reduction in the subsidies required. The arguments of this report contributed to the reduction in the interest rate on loans from the Local Loans Fund from $4\frac{1}{4}$ per cent to $2\frac{1}{2}$ per cent in 1946 as shown in Table 8.

At the present time a reduction in the interest rate from $8\frac{1}{2}$ per cent to 7 per cent would reduce the maximum state subsidy (i.e. two-thirds of the total subsidy) per serviced dwelling from £106.5 to £89.2, i.e. by £17.3 per annum.³⁸ The effect of this reduction on a programme of 4,500 houses a year would be £77,850 i.e. sufficient to finance the total capital cost of 25-26 houses at £3,000 each in a single year.

Thus while two reports which bridge the period under review suggest that the rate of interest is not a significant influence on the capital cost of borrowing and one report suggests it is not a particular deterrent from the point of view of one individual raising a loan to purchase his house³⁹ it must be regarded as a significant component in relation to the current cost (i.e. economic rent) of local authority dwellings, a vital factor from the viewpoint of public authorities.

In 1969/70 total current expenditure on local authority housing of £15.34 million was composed as follows:—

| | |
|-------------------|----------------|
| Loan charges | £10.59 million |
| Maintenance, etc. | £2.84 " |
| Other | £1.91 " |

Receipts of £15.34 million were made up as follows:—

| | |
|---------------|---------------|
| Rents | £5.68 million |
| Annuities | £0.95 " |
| State Subsidy | £4.10 " |
| Rates Subsidy | £4.32 " |
| Other | £0.29 " |

37. *Report of Inquiry into the Housing of the Working Classes of the City of Dublin, 1939-43* (Dublin: Stationery Office, 1944), pp. 171-172.

38. Maximum subsidy payable per serviced dwelling:—

$$\begin{array}{r} 1,850 \\ \text{at } 8\frac{1}{2}\% = \text{£}8.635 \times \frac{2}{3} = \text{£}106.5 \text{ at } 7\% = \text{£}7.231 \times \frac{2}{3} = \text{£}89.2 \\ \hline 100 \qquad \qquad \qquad 100 \end{array}$$

Reduction in subsidy payable = £17.3 ∴ Effect of reduction on a programme of 4,500 houses a year = £77,850

39. P. R. Kaim-Caudle with Mella Crowley, *op. cit.*

These data more or less speak for themselves: in so far as loan charges cannot be reduced or stabilised and to the extent that it is not possible or desirable to increase rates or the state subsidy, then the share borne by rents must be increased. Differential rents are thought to be the best way of maximising rent receipts for local authority housing while keeping rents in line with ability to pay.

Differential Rents

It has been shown that part of the reason why local authority housing needs appeared to be satisfied in the middle fifties was that the poorest sections of the community could not afford even the very low local authority rents. It was openly stated that this was the case by Mr Blaney, then Minister for Local Government, when speaking in the Dáil in April 1965:

It is a fact that our local authorities have been neglecting those who are in the worst possible conditions from the point of view of housing. They are neglected on the basis that the local authorities cannot afford further to subsidise the rents from the rates and they are apparently not prepared to take the unpopular step of charging those who are well able to pay more, a proper economic rent for what they have so that those who have not got houses at rents they can afford, or at no rent at all, but if necessary, can be accommodated.

Stressing the urgency of a rational rents policy, Mr Blaney continued "over the years this residue of the poorest of the poor in the worst of our worst houses still remains".⁴⁰

Under the Housing Act 1966 the payment of State subsidies for local authority housing was made conditional on the introduction of a scheme of differential rents for all dwellings which were being let for the first time. Other dwellings for letting were to be put on a graded or differential scheme as soon as possible.⁴²

Table 9 shows the basis (fixed or differential rents) on which dwellings were let by local authorities at 31 March 1968. It will be seen that since 1932 the proportion of dwellings let on the basis of differential rents has been rising.

One of the main official arguments in favour of differential rents is that without differential rents, poorer people cannot be rehoused. The following quotation is from a circular to local authorities from the Department of Local Government:—

The rent necessary to cover the cost of providing and maintaining a £2,600 house is about £4.10 a week plus rates. Authorities who recently sought to apply fixed rents to new housing schemes, proposed rents of over £2-£3 a week, plus rates, relying on the State subsidy and the contribution from the rates to make up the difference. *Most persons whom it is the authorities' duty to rehouse could not pay these rents.*

40. *Parliamentary Debates: Dáil Éireann*, Vol. 215, 381-2.

41. *Ibid.*

42. Article 4 of the Housing Authorities (Loan Charges, Contribution and Management) Regulations, 1967.

TABLE 9: *Dwellings Rented by Local Authorities at 31. March 1968*

| Period in which dwellings were provided | Fixed Rents | | Differential Rents | | Total |
|---|-------------|------------|--------------------|------------|---------|
| | No. | % of Total | No. | % of Total | |
| Before March 31, 1932 | 11,340 | 79.2 | 2,971 | 20.8 | 14,311 |
| April 1, 1932–March 31, 1947 | 22,794 | 71.2 | 9,225 | 28.8 | 32,019 |
| April 1, 1947–March 31, 1950 | 3,952 | 65.1 | 2,118 | 34.9 | 6,070 |
| April 1, 1950–March 31, 1968 | 11,213 | 21.5 | 40,973 | 78.5 | 52,186 |
| Total to March 31, 1968 | 49,299 | 47.1 | 55,287 | 52.9 | 104,586 |

Source: Department of Local Government.

The same circular lists further arguments in favour of differential rents which include:—

Differential rents are the only system which can achieve an equitable distribution of subsidies. With fixed rents the tenant with £30 a week gets the same help as the tenant with £6.

Differential rents are a form of insurance. If a tenant's income falls when, for instance, he retires, or if he becomes sick or unemployed his rent falls also.

Under the new sale terms for local authority houses, any tenant of a house to which a sale scheme applies can switch from renting to the payment of fixed annuities for purchase, thus stabilising his outgoings, apart from rates.

Contrariwise it has been argued that differential rent schemes have two inherent disadvantages: they tend to discourage effort, because higher income means higher rent, and some tenants may have irregular or subsidiary income which is not declared to the authorities.

4. THE BALANCE BETWEEN LOCAL AUTHORITY AND PRIVATE ENTERPRISE HOUSING

Discussion with officials in the Department of Local Government confirmed that the shift towards private enterprise housing which the statistics show has been sought by the policy-makers. The arguments may be summarised as follows:—

1. A house is an asset to the nation, irrespective of who owns it; as most local authorities operate a sales scheme, tenants may ultimately buy out their houses, so the question of ownership is not considered very relevant.

It is maintained that the cost to the state of providing a private enterprise house is less than the cost of providing a local authority house. While local authority and private enterprise housing both require public capital expenditure, the continuing subsidy is more burdensome in the case of local authority housing.

3. A tenant buying his own house with the aid of a SDA loan incurs smaller weekly payments than the maximum differential (i.e. economic) rent for a local authority dwelling.
4. The demand for SDA loans in 1970 was coming from persons in socio-economic groups closely similar to tenants of local authority housing, i.e. with incomes in the range £960-£1,200. (Incomes of local authority tenants were thought to average around £17-£18 per week, i.e. £884-£936 per annum in 1970.)
5. It is thought that the benefits of owner-occupation contribute to social stability as they are a conservatising influence. Private enterprise housing does not produce forceful pressure groups against rent increases etc., as local authority housing frequently does.

Thus, to an extent, private enterprise housing versus local authority housing may be equated with owner occupation versus tenant agitation. Of course it is readily agreed that there exists a hard core of persons incapable of providing houses for themselves. Such persons cannot organise the purchase of a house for themselves, nor can they maintain it when in occupation. For these persons local authority houses are necessary.

Such arguments must be reconciled with the statement, in a circular letter to local authorities, that:—

The first duty of a local authority is *not* to provide houses for those who can afford to buy them. It is to provide them for persons without decent accommodation who cannot afford to buy.⁴³

The circular goes on to point out that since sales reduce the number of houses which could be used by authorities for letting to persons who cannot afford to buy their own houses, it is not necessarily in the best interests of an authority to sell their houses. However the circular maintains that it is possible to meet the genuine needs of tenants to buy, without detriment to the interests of those without houses, by means of sale schemes.⁴⁴ Capital from these sales must be used by an authority for housing loans and grants, housebuilding, etc., so that, in effect, sales based on market values do not reduce the authority's ability to help those requiring decent housing.

These then are some of the arguments for and against the state attempting to solve the housing problem by concentrating on the provision of local authority

43. Circular letter H7/69.

44. Under Section 90 of the Housing Act 1966.

or private enterprise housing. Since this central issue must be decided in some weighting of costs and benefits, it is first necessary to make some comparison of costs from the point of view of the public authorities.

The following example (A) of comparative cost to the state of providing a local authority house and a private enterprise house was suggested by a Department of Local Government official. The data relate to 31 March 1970 when the average price of a house bought with the aid of a SDA loan was £4,200 and the average price of a local authority house was £3,200. The average private enterprise house is up to 20 per cent bigger than the local authority house.⁴⁵

Example A:

| <i>Private House</i> | £ | <i>Local Authority House</i> | £ |
|-------------------------------------|--------------|------------------------------|--------------|
| 1. SDA loan | 2,800 | 6. Cost of house | 3,200 |
| 2. State grant | 325 | 7. Compounded value of | |
| 3. Supplementary grant | 225 | subsidies | 2,300 |
| 4. Rate remission | 500 | | |
| 5. Tax benefit on mortgage interest | 1,000 | | |
| Total | 4,850 | Total | 5,500 |

- Method:*
1. 35 years at 9 per cent;
 2. Maximum grant for house between 800 and 1,050 square feet;
 3. Two-third maximum supplementary grant which represents approximate value of average supplementary grant;
 4. Estimated remission of rates;
 5. Rate of tax (7s.) $\times \frac{3}{4}$ on interest content of loan repayments over 35 years adjusted by 1/9th because about 1/9th of outstanding loans are pre-paid before expiration of 35 years;
 6. £3,200 was the cost of the average local authority house at March 31, 1970;
 7. Interest payment on £3,200 at 8½% for 50 years is £272 per annum. Administration, etc., costs a further £48 per annum. Therefore £320 is the approximate economic rent. Average rent paid for a local authority dwelling is £100 which means that the annual subsidy is £220. If it is assumed that in 20 years a tenant reaches the point where he is paying the full economic rent then over 20 years the subsidy of £220 diminishes to zero. The subsidy at the mid-point is £120. Present value of £120 at 8½% for 20 years = £2,300.

45. The average local authority house is about 800 square feet. Houses bought with the aid of SDA loans are generally between 800 and 1,050 square feet.

Example A suggests that it costs the State at present £5,500 to provide an average local authority house compared with £4,850 to provide an average private house. A slightly different approach to the comparison is suggested in Example B but the alterations only serve to increase the differential between the cost to the State of providing a local authority house and a private house.

It could be argued that the amount of the SDA loan should be excluded as a cost to the State as it will be paid back by the borrower at an economic rate over about 35 years. On the other hand the servicing of the £551 paid in grants is included in Example B as a cost to the State. This would amount to £1,400, assuming that the funds were borrowed at 9 per cent for 25 years. The tax benefit on the mortgage interest has been halved on the assumption that SDA borrowers would not, on average, be in receipt of income, net of other allowances, which would be high enough to receive the maximum tax benefit. In the case of the local authority house about another £250 has been added to the compound value of the subsidy to allow for the fact that although the local authorities may borrow from the Local Loans Fund at $8\frac{1}{2}$ per cent the State must service the money borrowed at at least 9 per cent. These alterations leave the following comparison:—

Example B:

| <i>Private House</i> | £ | <i>Local Authority House</i> | £ |
|---------------------------------------|--------------|----------------------------------|--------------|
| 1. State grant | 325 | 1. Cost of house | 3,200 |
| 2. Supplementary grant | 225 | 2. Compounded value of subsidies | 2,300 |
| 3. Service of £550 at 9% for 25 years | 1,400 | 3. Additional service at 9% | 250 |
| 4. Rate remission | 500 | | |
| 5. Tax benefit on mortgage interest | 500 | | |
| Total | 2,950 | Total | 5,750 |

The above examples, based on two different approaches, show that a private enterprise house costs the public authorities much less to provide than a local authority house.⁴⁶ Therefore, if the dominant objective of housing policy is more houses, irrespective of for whom, the State will have much greater success by concentrating resources on private housing, assuming, of course, that there is sufficient effective demand for SDA loans.

46. Though, if a comparison is made of *capital cost* alone, the local authority house costs the State less (£3,200) than the private house (£3,350, made up of SDA loan plus grants).

From the national, as distinct from the public authority, viewpoint the average private enterprise house is of better standard (i.e. 20 per cent more space) than a local authority house but it costs 20-25 per cent more. Therefore, from the national viewpoint, assuming an overall fixed public plus private budget for housing, the choice between private enterprise and local authority housing is better houses for fewer people or less good houses for more people.

From the point of view of any one individual it all depends on his income and what he can afford. Although it is maintained that applicants for SDA loans have similar incomes (in the range of £960-£1,200) compared with persons living in local authority dwellings (in the range of £884-£936) and that of 2,700 recipients of SDA loans in 1968/69 up to 826 had incomes of less than £1,050, it must be remembered that these incomes are only averages. The dispersion about the mean will be very great indeed. It will range from the old-age pensioner paying the minimum local authority rent with an income of around £4 per week to the SDA loan recipient with the maximum income of £1,500.

Apart from such cost differences it seems certain that differences of between £100 and £200 at income levels of £800-£1,000 have a crucial effect on the capacity to pay either rent or loan charges. Even though on a differential rents' scheme, rent will rise with income, there is a considerable difference for a man with a yearly income of £800-£1,000 between paying a rent rising from £2 to £6 5s. over 20 years and paying loan charges of £6 5s. continuously from receipt of the loan over a period of 35 years. If it is assumed that a man first rents a local authority dwelling at £2 per week and that the rent is increased each year by four shillings and sixpence so that in the twentieth year he is paying the economic rent, he will pay about £2,000 less over the twenty-year period than the man who is paying SDA loan charges equivalent to the maximum differential rent.

5. CONCLUSIONS

The pattern of public expenditure on housing in the post-war period was largely a response to what the authorities considered to represent housing needs. The effect on the provision of dwellings was that in the immediate post-war years, when there was agreement that needs were great, housing expenditure and output soared. As funds became tighter and as the impression grew that needs were being satisfied, even though this was an impression partly grounded in false facts, expenditure and output slowed down. The economic crisis of 1956-58 witnessed a severe cut-back in housing. In the 'sixties expenditure and output grew in response to expansionist policies although once again in the 'mini-crisis' of 1965-66 there was a tightening of credit and a slight curbing of housing growth. Despite the growth in the 'sixties, real capital expenditure (£1958) by public authorities on housing was marginally lower in 1968 than it had been in 1951.

While there was ample justification for a major housing drive in the late 'forties and early 'fifties, given the urgency of needs, there can be little doubt that a smoother growth of expenditure, especially on new local authority housing from then on would have been socially and economically desirable. The cyclical impact on the economy could have been mitigated and emigration of building workers in the late 'fifties would certainly have been lower resulting in a better labour supply in the 'sixties.

Fluctuations in housing output which result almost immediately from variations in public expenditure may well be the biggest single drag on productivity in the housebuilding industry. "The building industry rightly argues that their efficiency would be improved if they could contract out of the adjustments necessary in the economy from time to time."⁴⁷ In view of this it is somewhat disappointing to read in the NIEC Report on Physical Planning that "until this major problem (excessive growth in money incomes as compared to productivity) is resolved, it would be quite unrealistic to expect that curbs on the expansion of activity in building and construction will not on occasions be necessary in the interests of economic stability"⁴⁸

The reasoning behind this is that because expenditure runs too fast ahead of output and balance of payments deficits result, the necessary medicine is, at least in part, a cut in investment in building and construction which will readily induce unemployment, reduce spending, and get the balance of payments back in line. A preferable alternative would seem to be the steadying of growth of both investment and consumption, and probably especially investment in the building and construction industry. Opening up the throttle followed by putting on the brakes had undesirable results in 1956-58 and 1965-66 for the housebuilding industry and for the economy at large. The importance of this point cannot be overemphasised if the recommendations of the Buchanan Report for a massive expenditure programme on housing up to 1985 are implemented.

The success of public expenditure programmes in helping to house those categories of the population most in need is difficult to assess. There is some evidence that within the local authority programmes there was a tendency to neglect the categories in most severe need, i.e. with the least ability to pay rents or service loans. There is also some suggestion that the poorer local authorities could least afford to carry out parts of this housing programme, for instance, in relation to the payment of supplementary grants. Within the private housing arena it would appear that the grant system operated in favour of the larger house and could least afford to carry out parts of this housing programme, for instance, in the better-off owner occupier.

Steps have been taken to overcome these two major defects in public expenditure programmes on housing; in the first instance by introducing a more rational

47. P. R. Kaim-Caudle with Mella Crowley, *op. cit.*

48. *Physical Planning*, NIEC Report No. 26, p. 15.

rents policy,⁴⁹ where payment of rent is more closely related to ability to pay, and in the second instance by recasting the grants system for private housing.

While within the local authority and private enterprise programmes it appears that expenditure has been modified in a number of desirable (i.e. helping those most in need) directions it is questionable whether the overall balance of expenditure between local authority and private enterprise housing may not be moving in the wrong direction. Throughout the 'fifties the share of capital expenditure on local authority housing was falling at the expense of expenditure on private enterprise housing which was rising. In the first half of the 'sixties there was some shift back towards local authority housing, but this was checked in the second half of the 'sixties. While public expenditure on private housing may stimulate more output £ for £ than expenditure on local authority housing it is not clear that this is the most justified goal of housing programmes from the national viewpoint. While it may be true that with economic growth more people can afford to become owner-occupiers, especially when inflation serves to reduce the cost of owner occupation over a period, it is not clear that the number who cannot afford owner occupation falls. More data are required on income distribution and estimates of housing needs must be recast in more specific terms.

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49. With regard to possible discrimination against the poorest applicants it should be pointed out that the local authority system of allocations has no initial reference to income. Under the 1966 Housing Act priority is given according as an applicant fits into the following categories:—

- (i) persons living in a dwelling unfit for human habitation;
- (ii) persons living in overcrowded accommodation;
- (iii) persons who cannot provide from their own means;
- (iv) T.B. cases.

Rents are only determined when a person is in occupation. In a circular letter from the Minister for Local Government following the 1966 Housing Act, local authorities were specifically instructed that allocations should not be related to capacity to pay.