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CABINET

ECONOMIC SITUATION: HOUSING POLICY

Memorandum by the Chancellor of the Exchequer

I have considered housing policy carefully in the light of our discussions at last Friday's Cabinet (C.M.(55) 29th Conclusions, Minute 1). It may be helpful if I put forward some suggestions. I have not yet discussed these with the Ministers concerned, but I plan to do so on Monday morning. At this time of year such meetings are not easily arranged; and, since Monday's Cabinet will be the last before I leave for Istanbul, I had to circulate my views at once. My suggestions are not, I think, inconsistent with the general line of policy which the Minister of Housing was indicating last Friday.

2. I think it is common ground that we must make a major adaptation in our housing policy. This is made inevitable by the economic situation. Housing represents such a large part of our total capital investment that we must reduce the amount of effort put into it in men and materials. The scale of this effort is shown by the fact that total investment in new housing in 1954 was £636 millions (United Kingdom). The local authorities' capital expenditure in 1954 on subsidised housing was £375 millions compared with £215 millions for all their other capital expenditure - schools, roads, water and sewerage, trading services, etc. Indeed, a significant part of this other expenditure is for the provision of services for the new housing estates built by private developers and local authorities; so that a slackening of the pace in housing at once gives extra saving elsewhere.

3. A big reduction in the housing lead is the most effective single step we could take against inflation, and we must certainly do it. But we must do this in a manner which leads constructively to the next phase in the Government's housing policy. Indeed, many of us have been of the opinion that the time was becoming ripe in any case for a reformation of our policy. This need for a timely reassessment is particularly important because of our outstanding success so far. By the end of next year, in five years of Conservative rule, over 1½ million houses will have been built in Great Britain - compared with a million in six years by our predecessors. We have honoured our political promise precisely and without reservation. This gives us great authority in charting our course.

4. I found myself in general agreement with the Minister of Housing about the next phase in housing policy. If I understood him right, he was proposing to concentrate the subsidised effort entirely on special needs, i. e., slum clearance and the problems of the overspill towns. Outside this field of subsidised housing, there would be no building controls, and

the amount of building would depend upon normal market forces. I think we would all agree that a necessary element in this freer system is further progress in the freeing of rents. The elimination of general housing subsidies and the relaxation of rent control are very closely linked.

5. In this new freer system a Government commitment to a specific target of housing output seems hardly appropriate. The number of subsidised houses built for slum clearance etc., will depend upon the way in which the local authorities' plans develop and upon the amount of public investment which can be afforded - just the same as schools or hospitals or roads. The number of private houses built will depend upon the market. It would be inconsistent with this kind of policy for the Government to attempt to lay down a national target figure. The national target policy was right at a time when the economy was strictly controlled by physical controls, and when the pressing social need was to get more houses built, using all the devices both of planning and of freedom for doing so. But with 1½ million houses achieved, and with freedom restored to building and the subsidy concentrated on a specific social need, the national target no longer has meaning.

6. This would mean that after, say, the end of 1956 the 300,000 target would no longer govern our policy. At my colleagues' request I endorsed this target in my statement in the House of Commons on 26th July. I do not see great embarrassment here, for the 300,000 figure will, I understand, be substantially exceeded this year, and this year's "starts" will probably result in completions of the order of 300,000 in 1956.

7. In my view, the real problem is how to make a smooth transition to the new freer system. I think it is most important to introduce at once as substantial a relaxation of rent control as we can - this is sound housing policy, for it makes better use of the existing stock of houses, but it is also a valuable disinflationary measure. I agree with the Minister of Housing that it might be expedient to taper off the "general needs" housing subsidy at a much lower rate over a period of two years. But we must not by so doing prevent the big reduction which would otherwise take place in the number of "starts" of subsidised houses in 1956. It seems that about 100,000 subsidised houses a year (England and Wales) would be enough to carry out the slum clearance undertakings in our election manifesto together with the requirements of the new towns and expanded towns; I would hope that the number of "starts" in 1956 would be reduced to about this figure (compared with about 150,000 in 1955). This is where we get the vital disinflation.

8. The suggestion was made at our last meeting that the number of "starts" would fall to the required extent simply as a result of the curtailment of subsidy. This might well be so in the next year or two if the "general needs" subsidy were being abolished immediately, but I am certain that we could not rely upon it if this subsidy were being continued for a limited period, although at a substantially reduced rate. I see no compelling reason for announcing the amount of subsidised housing to be permitted in the next year or two, but I am quite certain that this, like all other capital expenditure by the local authorities and by the Government, must be controlled, although it may be that with a narrower scope of subsidy a less cumbersome technique of control might become possible.

9. It follows from this that we cannot forecast now exactly how many houses we shall build in 1957. It is also clear that if we pursue a disinflationary policy, the total number of houses to be completed in that



year will be less than 300,000. But even if so it will still be more than the total number of houses built by the Socialist Government (which was 200,000 a year in 1949, 1950 and 1951).

10. I have not been able to consult the Secretary of State for Scotland. What is said about housing policy above would generally apply to Scotland as well as to England and Wales; it would be necessary in Scotland also to concentrate the subsidised housing upon the most urgent social purposes, and to discontinue the "general needs" subsidy. But I would expect the Secretary of State for Scotland to say that it will not be possible to bring forward new subsidy legislation for Scotland until the Sorn reforms of rating and valuation have been enacted. In the meantime, the important point is to ensure that the volume of subsidised housing in Scotland continues to fall, and that the expectation of the ending of "general needs" subsidy does not lead to increased demands from local authorities to take advantage of the subsidy while it still exists.

R.A.B.

Treasury Chambers, S.W.1.

2nd September, 1955.