

# THE BRITISH CONSERVATIVE PARTY'S COUNCIL HOUSING SALES PROGRAM, A POLITICAL VIEW: IMPLICATIONS FOR THE U.S.

by Andrew M. Olins

England recently embarked on a course that will dramatically alter its long established housing policy. The changes resulted from the Conservative party's election in 1979 and its having assumed the mandate to restructure the underlying philosophy of the role of Central Government. The British experience offers lessons to the United States because the functions and responsibilities of our own national government currently are being questioned and restated in a similar way.

As the recipient of the Boston 350 Jubilee Fellowship in Housing awarded by the Boston Branch of the English-Speaking Union, I had the opportunity to study the political causes and implications of these policy changes. I will attempt to outline what the housing policy changes might suggest for the U.S.

For the first time, residents of England's council housing (comparable to the various subsidized housing programs in the U.S.) have been given the *right to buy* their publicly-owned units, coupled with pricing and financing incentives designed to encourage tenant ownership. This particular issue, however, is only part of a much larger discussion about the appropriate role of Britain's Central Government.

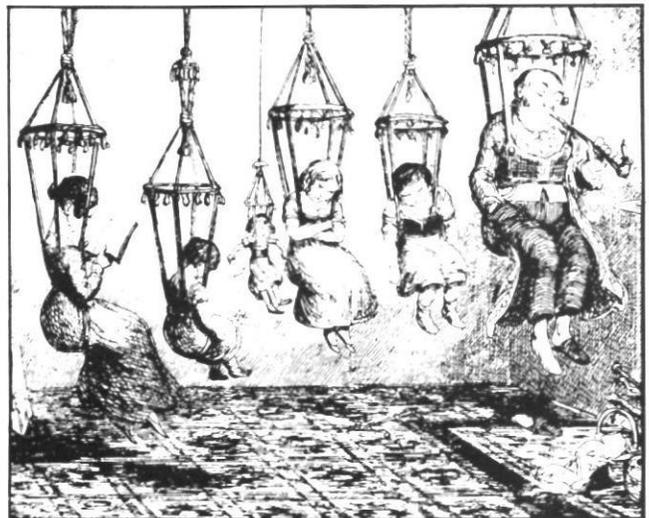
The "role of Government" question is argued daily between the two major political parties, and during October 1980 was played out energetically at the national party conventions. It became clear that Labour and Conservative politicians confront each other from philosophical extremes. Viewed

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*This article was written as a special report for the Boston Branch of the English-Speaking Union, which selected the author as its Boston Jubilee 350 Scholar.*

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from that perspective, what seemed at first to be an innovative plan for dealing with housing problems turned out to be a basic concept to the Tories' view of Government.



The Conservatives are attempting to diminish the role of Central Government with special emphasis on monetary and fiscal policy. Mrs. Thatcher's Government is prepared to make choices among programs in order to reduce its presence in the British economy. The Government's general position is not to kill programs but rather to say to local government that if it wants certain programs it should pay for them from either general national government allocations or locally-raised revenues (rates).

In the area of housing, the policy will narrow Central Government's financial exposure to the operating costs of council housing. In addition, the Tory solution proposes to sell the public stock at attractive prices and terms while raising rents significantly and reinforcing the alternative of tenant ownership.

The right-to-buy issue engendered grassroots political support that surprised both Labour and Conservatives. In many traditional Labour constituencies, the Tory ownership proposal was too tempting to refuse and may have been the most important issue that turned 15 to 20 Parliament seats from Labour to Conservative which resulted in a shift of possibly 30 to 40 seats. Since the Conservatives have a majority of 40 seats, the importance of the right-to-buy council housing as a political issue is obvious.

I first proposed to study the implications of this dramatic shift in England's housing policy in order to transfer possibly the British approach to council housing sales to the various programs of subsidized housing in the U.S. I found that Britain has centralized and coordinated basic housing policy planning far more than in the U.S. — its housing policy is linked directly to its general economic policy. In addition, British housing-related issues are more integrated into basic political party philosophy. The Conservatives see housing expenses as part of the total spending package of Central Government, where the national goal is to reduce current expenditures. Labour sees housing costs as part of its social platform and is less concerned with the costs of achieving the various ingredients. Basically, Labour feels everyone should have a decent house at a price they can afford, and it de-emphasizes the national budgetary implications of that policy.

The Conservatives feel that housing as a major element of Government spending is subject to the priorities of total Government policy which now seeks to limit its involvement in local matters and to cut central costs. The policy toward sales of council housing is consistent and reasonable within this frame of reference. Whether or not it is good policy when seen in another frame of reference is open to question.

### **General Political Objectives**

Housing policy as political policy became the theme of my observations and discussions in Britain which were mostly with elected politicians rather than bureaucrats or academics.

The political brilliance of the Conservative right-to-buy council housing position was that it went to the heart of an important Labour party constituency and offered the opportunity for home ownership, which was never available before. Discounts and financing sweeteners were powerful added incentives. The constituency was Labour's upwardly mobile middle class — those with high technology jobs and those in the new towns — that put self-interest above issues of the larger good, at least in the housing area, and endorsed access to the program by voting the Conservatives in. The Tories could not lose with this position; it did not cost them votes but brought new ones from Labour.

Unlike Labour, the Conservatives understood that an overwhelming majority of people wish to own their home. From this understanding of personal motivation flowed the more traditional Conservative philosophy of the benefits inherent in private property rights and an individual stake in society through the security and stability of homeownership.

The basic philosophical differences between the two predominant political parties can be outlined simply. Labour believes in a socialist concept of central ownership and centralized planning decisions. It supports a strong body of social objectives and is willing to spend money to meet those objectives. The Conservative party is more willing to rely on the private sector. It wants decisions made at the local level and funded locally.

The Conservative Government's policy to bestow on tenants the right to buy council housing, regardless of how local authorities feel about the program, is viewed by the Tories as the ultimate attempt to give individuals a meaningful choice in how they live. Labour sees the program as the sale of a valuable public asset forced upon all local authorities regardless of their view of the program. Conservatives feel their program is no more dogmatic toward local authorities than was Labour's dramatic restructuring of the public secondary education system three decades earlier.

### **Implications For Local Government**

At the heart of the Conservative Government's policy is a definition of the limits as well as the budget of government. Inherent in that philosophy is the decision that choices among programs must be made and priorities established.

As part of their basic strategy to limit government spending, the Tories are moving toward a block grant approach where local government will get a finite Central Government appropriation, that is, "cash limit," to spend, but the choice on how to allocate the money will be made locally. The net result will be Government's move toward its major objective of reduced spending while forcing hard program choices at the local level. Within traditional Tory constituencies, less government spending is popular; within traditional Labour constituencies, government spending and involvement are essential to basic programs. Labour councils must negotiate and compromise with these local constituencies. Less central money will buy fewer local programs and it is the local Labour councils who will feel the heat from their constituencies. Central Government will be shielded from the fireworks. The political effect on local Labour councils no longer able to fund traditional programs can only be guessed.

Under the British system, Central Government has broad revenue raising powers while boroughs and councils have limited resources. In the past, Central

Government has chosen to fund nationwide programs, housing being one of the most important, that were controlled and managed at the local level.

As the Conservative Government cuts public sector spending and its contribution to local government, it forces the establishment of local priorities. In addition, the new formulas used to determine Central Government's share of local housing costs push an increasingly larger share of operating costs to local government, which inevitably means increasing costs to council tenants.

The Tory policy strikes particularly hard at traditional Labour jurisdictions where tenant benefits historically have been liberal. Local councils must hit their constituencies with cutbacks in general services coupled with charging more for services provided. In political terms, this exposes local government to great day-to-day pressures and leaves Central Government one step removed from the heat and able to defuse the negative local political implications by tying the policy to the broader context of dealing with Britain's underlying economic problems.

#### **Major Elements Of The 1980 Housing Bill**

The major points in the "Housing Act 1980" (Chapter 51) relative to the sale of council houses are as follows:

1. Every secure tenant of three years standing has the right to buy his house or, if a flat, a right to a 125-year lease.  
(Previously, individual councils could sell if they chose.)
2. Councils must sell at a discount from market value varying from 33 percent for tenants of four years or less to 50 percent for tenants of 20 years standing.  
(Sales cannot be made at less than the original cost of building the house.)
3. All eligible tenants have the right to a council mortgage according to income.
4. Up to five family members may become joint mortgagors.
5. Two-year options to hold a property at its original price are available.
6. Potential speculative profit on resale is captured by requiring repayment of a decreasing part of the discount which is 80 percent after one year, reducing by 20 percent per year to a 20 percent recapture after five years.
7. Handicapped or elderly tenants living in specially designed housing are exempt from the right-to-buy.
8. Central Government has the power to enforce a tenant's right to buy against a recalcitrant council.

The council housing program in England is large

and comprises in excess of 30 percent of the total housing stock while an additional 55 percent of the stock is owner-occupied. Of the remaining supply, 14 percent represents the residual private rental sector and about one percent is cooperatively owned.<sup>1</sup> By comparison, 66 percent of America's housing stock is owner-occupied and 33 percent is private rental housing. The public stock, in aggregate, is negligible.<sup>2</sup>

In essence, Britain no longer has a private rental housing market, which is a direct result of decades of strong rent control and a series of legislation that gave tenants an ever-increasing number of rights. English housing is fundamentally of two types: either one owns a home or one rents from the council, that is, local government. Currently, the private sector will not build or invest in rental housing even for the top of the market. Existing rental housing is either converted into "flats for sale" as soon as a tenant moves or is leased to foreigners who are unlikely to take advantage of tenant protection laws.

Housing finance has become one of the most complicated parts of local government operations. Three sources of housing revenue available are: rents paid by tenants, rates (which are comparable to local property taxes) and Central Government subsidies.

In order to reduce inflation by cutting spending, the Thatcher Government has moved aggressively to limit housing expenditures. Its plan calls for reducing housing spending as a percentage of all public expenditures from 5.3 percent for 1980 to 1981, to 3.9 percent in 1983 to 1984, in current pounds.

The Government has established block grant allocations to local councils for major programs such as social services, education, and housing. The councils can decide how to divide the block grants, but the grant defines the limit of Central Government funding. If total expenses exceed a set cash limit, local rates must cover the difference. This affects local authorities harder than Government departments.

In addition, Central Government has moved to limit its current housing subsidy expenses by requiring councils to raise rents. The Government's position is that council rents have not kept pace with, but rather have declined relative to incomes.

The position of the former Labour Government was that rents should rise with average earnings. The Conservatives want rents to rise no less than average earnings and maybe closer to the inflation rate. Over the last 20 years, rents have risen an average of one percent less than the yearly rise in price levels.

Rents were about 8 percent of national average earnings in 1974 to 1975, but had declined to about 6.4 percent by the start of 1980. Current government goals call for rents of about 9 percent of the average weekly industrial wage of £125, or about £11 per week.

Rental income as a percentage of total housing costs has fallen from about 70 percent in 1965 to about 40 percent. Central Government's share of the costs has risen from 19 to 43 percent while local rates have stayed constant at 11 percent. The 6 percent of unalotted income above came from miscellaneous sources, including interest from mortgages on the sale of council houses.

Government argues that the sales program not only saves subsidy costs but produces a profit. Program opponents feel the profit is illusory since housing is being sold at prices below its replacement costs but not below its production costs. In fact, the program saves in current outlays. The issue of how much sold council housing is to be replaced with new construction as well as traditional production goals is unclear. It is clear that sales proceeds are not reinvested in new units but are used to reduce current costs of the existing program. Current costs reduction is constant with Central Government policy.

Technically, the absence of income limit on eligibility for council housing in Britain distinguishes the program from subsidized "welfare" housing in the U.S. Over 33 percent of council tenants have incomes in excess of the average wage. As rents go up, the Government expects these tenants to purchase, since they have less need than lower-income people for a continuing operating subsidy. Government's desire to reduce expenditures encourages tenants to buy and offers them a politically positive inducement, thus saving Government from the politically difficult but financially consistent alternative of eviction.

Critics of the housing sales program point out that the most well-off and upwardly mobile tenants will opt to purchase their homes, which will inevitably "cream" the program of its best tenants and houses. Conservative spokesmen rationalize the implications by claiming reduced government subsidies for housing. The purchasing tenant doesn't leave the housing estate but just owns a unit within that estate. Since it is argued that this tenant would be unlikely to move given the inherent operating subsidies in the council housing program, the one-time subsidy to purchase saves the Government money. Because Government feels that the tenant would be unwilling to move anyway, it is not sympathetic to positions that argue for reduced availability of units for new letting or transfers.

The policy requiring council tenants to pay higher rents near the level of the costs of their housing has direct implications for the council housing sales program. In 1980, the average council rent was about £8 per week. Long-term tenants — those in residence over 20 years, who are eligible for 50 percent market discounts — may see the rent increase as a final encouragement to make the purchase choice.

A second peculiar situation has emerged. As workers are laid off (Britain's current unemployment rate is

moving above and beyond 12 percent) they receive "redundancy" severance payments that could make them ineligible for rent allowances that are special government subsidies available for low-income council tenants. The redundancy money might be sufficient to cover the downpayment necessary to participate in the housing sales program. The more council housing is sold off, the less is Government's continuing operating cost exposure, which enforces the basic Conservative policy of reducing spending. The sales program will not, however, reduce Government's debt service obligations, since a major part of the sales program is with government financing that keeps existing debt in place.

In the past, to the degree that tenants have not exercised their option to buy, it can be assumed they recognized that their rent obligations did not even cover general unit repairs and maintenance. The new rent levels may push the subsidy equation towards the buy-side for previously unconvinced council tenants.

The argument could be made that tenants are better off with fixed mortgage obligations rather than rents that inevitably will move upward with inflation. The implicit assumption has to be that a homeowner can and will more effectively control the operating costs for his unit than will council management for the estate as a whole.

Raising tenant rent levels is not all cost-saving for the Government. Compensating deeper rent rebates will be required for the one million means-tested tenants now benefiting from this program and for the one and a half million tenants on social security. Over 45 percent of council tenant families are paid under these programs. These entitlement income maintenance programs are funded by Central Government and are not subject to the cash limits imposed on local authorities. Income security programs account for about 25 percent of Britain's total government expenditures and include health and social service programs as well as housing.

## Conclusions

Important lessons are to be learned from the British housing experience. If one believes that a housing system should offer the greatest number of choices to people, and if the private sector is expected to provide that choice, one must take great care in the amount and degree of governmental controls placed on the private market. If general costs have gone up, the private market cannot be expected to absorb those costs and still exist in its traditional form. In fact, the British housing experience is the classic example of how a policy that was appropriate and reasonable at one time but unchanging as conditions changed, has created an entirely new set of unanticipated problems. For the great majority of English citizens, private rental housing no longer exists as an

option. People either own their own home or rent council housing from the Government.

A danger is inherent in letting social conscience or objectives obscure an understanding of economic reality. If housing costs more than one thinks it should, and if one wants to shelter certain income or social groups from the burden of those costs, direct government decree to the private sector that limits rent charged or prevents the conversion of rental units to ownership may help to deal with an immediate problem. That immediate problem is symptomatic of a far more serious underlying condition which government decree leaves unaddressed. In fact, as the British experience so dramatically suggests, a short-term solution may exacerbate the underlying problem.

Solutions to the housing challenge in America could follow at least two interrelated paths. Instead of trying to control the private sector by decreeing what it cannot do, a far more constructive course would be to develop a series of incentives to encourage the private market to achieve those social objectives deemed appropriate by the political process. If the costs of the private market middleman are unacceptable, then the second path can be followed which is direct government involvement as a producer/owner/manager of housing.

I am not sure that in the long run government would be less expensive than the private sector, but there is a public perception that non-profit sponsorship is cheaper. At the very best, direct government involvement in housing would provide a product that otherwise might not be provided or only provided at a publicly unacceptable cost.

Britain's dilemma and the emerging underlying issue in America is whether housing of a particular quality and price is a basic right of all citizens. The Labour party has said "yes" and has moved vigorously with a narrow but deep set of programs. Labour policies discouraged the private sector from any role except building single-family houses for sale. The private sector saw that it was effectively blocked and withdrew entirely from the rental housing business.

The lack of alternative housing choices may have provided one of the market demands fulfilled by the Tory housing sales program. It certainly captured the support of a considerable number of Labour party voters.

The almost doctrinaire avoidance of any role for private housing in Britain may be rooted in England's feudal past and historic landlord/tenant relationship. That same narrowness in viewing problems can be seen in current English politics where extreme positions in each major party exist. Certainly in the case of Labour, these positions have spawned a new, more centralist group who seem to be able to draw from disillusioned Conservatives.

At least in Britain, housing problems are argued at the national level and most major political figures have an understanding of the issue and the constituencies concerned. In the U.S., housing discussions have not been raised beyond what local government can do to help protect people for whom the system no longer works. Local policymakers are condemned to treat symptoms because the underlying causes are not discussed in any coordinated way at either the state or the Federal government level where the Internal Revenue Code has a most profound effect on individual housing decisions.

It is my hope that in America a national housing policy designed to preserve a broad range of housing choices ultimately will develop. An established national policy will make it easier to construct programs, define roles, and provide incentives for the achievement of those policies. Perhaps President Reagan's Special Housing Commission will address these issues. It is of paramount importance, however, that housing policy is not set in a vacuum. Housing's economical viability is directly related to tax laws and without this link no reasonable objective can be achieved. Today there are few national policies that either define the problem or establish appropriate lines of responsibility for achieving results. As a consequence, local government faces a series of day-to-day housing crises that it wrongly is presumed to be able to resolve.

Local government must recognize the abilities and limits of the private sector and continue to understand the dilemma inherent in local market control programs. Given that understanding, how needy people are assisted without appropriate policies, programs, and funding from the Federal government is a serious problem that is entwined with national housing, economic, and tax policies. Many people in this country can no longer afford to buy or rent housing offered by the traditional supplier — the private unsubsidized market. Where are they to go ...?

#### NOTES

1. Cooperative housing in England is different than in the States. Government funds a Housing Corporation to work with the voluntary housing movement. Often charitable organizations, the volunteers establish registered co-ownership associations for membership in and funding by the Housing Corporation.

2. The 1980 U.S. Census indicated that about 1.4 percent of the country's total housing stock was public or Indian housing.