

# The Financing of House Building in Countries with Rent Restriction Legislation : II

by

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*In the first part of this article<sup>1</sup> Dr. Pribram studied the general course of the housing problem since the war<sup>2</sup>, and the economic and financial effects of the various systems adopted to promote house building in the European countries with rent restriction legislation. The second and concluding part, given below, gives an account of the particular problems of each country and the solutions adopted to deal with them.*

THE alternate offering and withdrawing of encouragement to the building industry, which has already been referred to, is especially characteristic of the housing policy of the British Government. In *Great Britain*, as in all other countries, building came to a complete standstill during the war; the result of the system of rent restriction was that building by private enterprise became unprofitable, and hence impossible. Under the first State-aided housing scheme, which was put into effect very soon after the end of the war, and which is linked with the name of the then Minister of Health, Dr. Addison (the Housing and Town Planning Act of 1919), local authorities and public utility societies could, on certain conditions, obtain from the Government a subsidy to make good any deficit on housing schemes promoted by them. In the same year similar privileges were offered to private builders by a supplementary Act. If the building was carried out by the local authorities, the Government undertook to make good the whole deficit in the housing revenue account for a period of 60 years. This meant in practice an annual grant of from £40 to £45 for each house. If the building was carried out by a public utility society the

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<sup>1</sup> *International Labour Review*, Vol. XVIII, No. 3, Sept. 1928, pp. 360-374.

<sup>2</sup> On the housing question in general, cf. *INTERNATIONAL LABOUR OFFICE: European Housing Problems since the War*. Studies and Reports, Series G, No. 1. Geneva, 1924. XII + 484 pp. Price 6s.

Government made grants — in addition to certain credit facilities — up to a maximum of 30 per cent. of the annual sum needed to provide for interest and redemption charges on the whole cost. The 176,000 houses built under this scheme (principally by the local authorities) meant an annual charge on the Exchequer of £7,800,000 for 60 years. Assistance to private builders took the form of a contribution towards building costs, varying with the size of the house. The subsidy was at first £130-160, but was later raised to £230-£260, for the scheme coincided with the great industrial boom of 1920-1921, with its rapidly soaring prices ; in addition, with the sudden demand for building materials, their prices bounded up above the general price level. As no limit had been set to the obligations of the Government, the consequent annual charge on the State finances rose to an unanticipated figure.

The Minister of Health was obliged to resign, and his successor declared on 21 July 1921 that the Government had decided to cease all further assistance, except to schemes already approved, the subsidies for which would naturally be paid in full. The consequences were an immediate and complete stoppage of building activity. It is true that private builders resumed work, even without Government subsidies, as prices of building materials very quickly fell ; but this was quite insufficient to cope with even current needs, especially of small dwellings ; there was no question of making good the shortage of houses caused by the war (estimated at at least half a million).

In 1923, therefore, the Government decided on further action. Under the new Act passed in that year, the local authorities were to be responsible for part of the cost ; the Government undertook to pay an annual subsidy of £6 for each house built by a local authority, or with its assistance, subject to certain conditions as to size. The local authorities could choose the form in which they would give assistance to builders — whether as a lump sum or as annual payments towards interest and redemption charges on the capital invested in the houses.

Although this led to a revival of building activity, yet it seems that it was precisely the housing needs of the poorer classes, now as before, that did not receive adequate attention.

In 1924, therefore, when the Labour Party came into power, a new system of subsidies was introduced, to operate side by side with the existing one. Under the new system, houses to be subsidised were not to be sold, but to be let ; the rent was to be fixed at a level within the reach of even the poorer families. The annual

grant to be made by the Government was raised to £9 for 40 years (£12 10s. in rural districts).

At the same time, a comprehensive building programme was drawn up in agreement with the organisations of the industries concerned. In order to provide the building industry with the necessary conditions for increasing its capacity of output, the Government guaranteed to continue the subsidy policy for fifteen years ; during this period 2,500,000 houses in all were to be built — 100,000 a year to meet new needs, and in addition, to remedy the shortage, 1,000,000 distributed over fifteen years in progressively increasing numbers. Certain clauses allowed the Government to withhold the subsidies and to make a corresponding reduction in the annual grants.

The 332,586 houses built from 1923 to the spring of 1927 with Government assistance imposed an annual charge of about £1,500,000 on the Exchequer, or far less than the cost of the 1919 scheme. In addition, the contributions by local authorities came to about the same sum. According to the building programme, however, an increase in the annual subsidies of about £900,000 had to be reckoned with. In the year 1926 there was a new rise in building costs ; the Conservative Government, which had meanwhile come into office, feared that the charge on the public funds would be too heavy, and therefore announced that from the autumn of 1927 onwards the annual subsidies under the 1923 Act would be reduced to £4, and those under the 1924 Act to £7. In any case the measures taken by the Government had helped to cover a good part of the existing housing shortage. From 1919 to the middle of 1927 about 900,000 dwelling-houses were built, almost two-thirds with Government assistance. It appears, nevertheless, that as a result of the increase in building costs the rents of the houses built in accordance with the 1924 Act were by no means fixed at an amount within the reach of the poorer classes.

In the meantime, furthermore, the rent of the existing houses was gradually raised. It is now on an average about 150 per cent. of the pre-war rent, whereas the retail price level (food, clothing, lighting and heating) has become stabilised at about 180 per cent. of the pre-war figure. In making this comparison, however, it must not be forgotten that building costs have increased more than other prices. Before the war the rent of a working-class family was about 16 per cent. of the total household expenditure ; the proportion sank, in consequence of the rent restriction legislation, to about 6 or 7 per cent. in the years immediately after

the war, and then gradually rose again to about 13 per cent.

The housing policy of the British Government has not yet emerged from the period of rapidly alternating offers and withdrawals of assistance to building. Nevertheless, the experiments made here with the policy of subsidies show that the system needs to be made more elastic, so that it can be adapted to changing economic conditions.

In *Germany* it will be clear that there could be no question of a deliberate housing policy until the currency was stabilised; before then the catastrophic progress of depreciation made every adjustment of rent to the general price level as illusory as every attempt to calculate building costs, even if only approximately. The latest estimates (taken from the memorandum of the Federal Ministry of Labour, dated October 1927) lead to the conclusion that, in consequence of the war and its after-effects, a shortage of at least 600,000 dwellings has to be made good, and that in addition, to provide for the increase in the number of households, 200,000 dwellings must be built annually. The tenant protection legislation represents an endeavour to relax the system of official control of housing accommodation by degrees. In the Third Emergency Taxation Order of 14 February 1924 the principle was laid down that rents should gradually be raised to the pre-war level as the general economic situation improved. Part of the increased rent was to go to cover the costs of upkeep of the houses; the remainder was to be taken by the States in the form of a special house-rent tax, and used by them to promote new building. At first 10 per cent., and later at least 15 to 20 per cent., of the pre-war rent was to be used for this purpose.<sup>1</sup>

On 1 July 1926 rents had reached their pre-war level in all the Federal States; during 1927 they rose on an average to 125 per cent. of this value, but were still considerably below the general cost-of-living index number, which (including rent) stood at about 150. On the other hand, the rent of a new building erected without help from public funds would now be about three times the corresponding pre-war rent — an increase partly due to the fact that the interest on capital invested in houses is to-day about three and a half times the corresponding pre-war rate. Similarly building costs, especially since the end of 1924, have risen (with some

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<sup>1</sup> Up to the end of September 1926 about 1.6 milliard marks from the proceeds of the house-rent tax were spent on house building.

fluctuations) higher than might be expected from the increase in prices generally. The index number for building materials in February 1928 was no less than 173, in comparison with a wholesale price index number of 138. It was only with help from public funds that the rents of new buildings could be fixed at about 150 to 170 per cent. of the corresponding pre-war rent; and even so they are from a third to a half higher than the rents of pre-war dwellings. Sometimes, indeed, the rent swallows up as much as a third of the tenant's total income, whereas in the old houses the rent is on an average about 16 per cent. of the total expenditure. The prospects of a complete adjustment of rents to the general price level are not considered very favourable by the Government. A 10 per cent. rise in rents means a rise in wages of about 2 per cent., and a repeated increase of wages of this magnitude would only be possible if there were a continued improvement in the general economic situation.

The kernel of the house-building problem, and hence of the housing question in general, is rightly indicated in the memorandum of the Federal Ministry of Labour as the question of the supply of capital. The sum required annually to build the number of dwellings corresponding to the increase in the number of households is estimated at about 2 milliard marks, a figure reached by assuming that the cost of building an average dwelling, which before the war was about 6,000 marks, is to-day 75 per cent. dearer, or more than 10,000 marks. The German money market, however, is quite incapable of providing 2 milliard marks — and this must be taken as a minimum, for the estimate includes no allowance for making good the existing shortage of houses. Most of the capital used for building new dwellings from 1924 to 1926 was in fact furnished from public funds. Of the capital expenditure of 2.7 milliard marks<sup>1</sup> recorded in the official statistics, only 545 million was provided by loans from credit institutions; and the opinion held by the financial experts at the beginning of 1927 that during the year 1.2 milliard marks could be made available for house building from the funds of the credit institutions does not appear to have been justified. There were, however, serious considerations of economic and currency policy against the introduction of foreign capital.

There is thus no alternative, at least in the near future, to

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<sup>1</sup> This figure does not include either private capital invested or expenditure by the States and local authorities other than that derived from the proceeds of the house-rent tax.

financing building in the main from public funds. As it is impossible to foresee the future course of rents with any clearness, houses for letting have as yet no definite market value, and builders can therefore hardly be expected to put up from their own resources more than 10 per cent. of the ground and building costs of the houses, even if they have more capital at their disposal, which is frequently not the case. Second mortgages, however, are only to be obtained in the money market on quite impossible terms — first mortgages have to pay 8 to 9 per cent. interest and second mortgages 14 to 16 per cent. Moreover, second mortgages occupy a far more important place to-day in the financing of house building than before the war, not only, as already mentioned, because the builder's own capital is a mere 10 per cent., against 25 per cent. before the war, but also because the limits to borrowing are fixed with an eye to future possibilities. It is in fact quite possible that houses may be built at a far lower cost in the fairly near future; which is a further reason for considering a fall in the market value of houses as within the bounds of possibility. Sometimes builders help themselves out with short-term loans, which are not difficult to obtain when the money market is easy, but offer a not inconsiderable danger as soon as the market tightens.

It is clear from the above that the building industry could not have got on at all unless a substantial part of the capital required had been provided out of public funds — in terms of pre-war finance, part of the former first mortgage, the whole of the former second mortgage, and part of the builder's own contribution.

Of the very large amount of public funds used to promote building, only a very small part is applied by the Federal Government, the States, or the municipalities to build houses on their own account. In most cases help is given in the form of a loan of the necessary capital, so far as it cannot be furnished by the money market on reasonable terms, at a very low rate of interest. The terms of the loans differ widely from State to State; as a rule, definite obligations as to the kind of dwellings to be built and the rent to be asked are imposed on the builders. In order to attract more capital from the credit institutions, it is proposed to offer greater security for mortgage loans beyond the limit authorised for trustee investments by having the payment of interest and redemption charges guaranteed by a public corporation. In Prussia, Orders were issued allowing the municipalities to constitute special guarantee funds of this kind from the proceeds of the house-rent tax.

When, however — as is usually the case — the proceeds of the house-rent tax are used directly to grant loans, the procedure is as follows. Part of the rent of the old houses, which, in normal times, was used for the interest and redemption payments on the invested capital, is now paid to the public corporations, and forms the capital for financing new buildings, so far as the voluntary savings of the community are insufficient for the purpose. In this way, by compulsory means, and by curtailing the income of part of the population, a process of capitalisation is assured, which works automatically in a free economic system when there is sufficient surplus income.

In view of the inadequacy of the general money market, this system is certainly expedient; but it suffers from the great defect that it cannot adapt itself directly to the needs of the economic situation, either in space or in time. Geographically, the proceeds of the house-rent tax in the various States are by no means proportional to the need for capital, and in addition the housing shortage in the different States and towns is of very unequal degree. As regards the time factor, the tax has the peculiarity of coming in very irregularly, so that its yield may possibly not be available when money is most needed for investment. Hence measures are required in both directions to even out inequalities. To meet geographical needs a compensation fund should be formed for the whole country; to meet the time difficulty, a possible measure is the granting of short-term credits — a solution first adopted by the Federal Government in the Act of 26 March 1926 (and several subsequent amending Acts) on the provision of credits to promote the construction of small dwellings.

In conclusion, the memorandum of the Federal Ministry of Labour stresses the fact that the policy of credits must be carefully adjusted to the ebb and flow of the general economic situation; a sudden increase in the contribution from public funds at a moment when the general situation is improving might only too easily lead to an excessive rise in building costs. Long-period building programmes are therefore to be avoided; a steady employment of the building industry in accordance with the general economic situation offers better prospects of combating the housing shortage.

As in Germany, so in the other countries of Central Europe, similar financial and economic problems arise from the interaction of the three decisive factors in the housing situation: rent restriction, high building costs, and shortage of capital. The *Czechoslovak*

*Republic* offers an example of an active housing policy which aims at continual adaptation to the economic necessities of the moment. Since 1920 the existing tenant protection regulations have been gradually relaxed by legislation, on the one hand by lessening the restrictions on the right to give notice, and on the other by increasing rents. The basic (i.e. pre-war) rent was gradually raised (the rate of increase depending on the age of the dwelling) in such a way that the rent index number for a worker's family in Prague, taking the corresponding pre-war figure as base, comes to about 260; but this is in fact hardly more than a third of the index number of the general cost of living, which is 730. In the new buildings the expenditure on rent is certainly much greater: 6.5 per cent. of the income of a worker's family in Prague is spent on housing, while in new buildings the proportion is 13.5 per cent.

It is obvious that in these circumstances, there is no prospect of building new dwellings on a commercial basis. Assistance to the building industry was wholly out of national funds, as the municipalities were mostly too poor to be able to help. In the Government's housing policy, two periods may be distinguished up to the present; the first came to an end in 1924, and since then there has been a certain suspension of State aid to building. The decisive factor for the change of policy was a change in the general economic conditions, caused by the stabilisation of the Czechoslovak currency in 1923. So long as there was the possibility that deflation of the currency might lead to a fall in building costs, the owners and the mortgagees of houses erected in the inflation period were threatened with the danger that their high building costs might not be covered by the future value of the houses. The Government's policy of financing building operations therefore aimed on the one hand at eliminating this risk for the owners and mortgagees, and on the other at fixing the rents of the new buildings at a level suited to the income of the corresponding classes of the population.

From 1919 to 1924, the necessary measures for carrying out both of these tasks of the production policy were taken by means of laws amended annually. During the period 1919-1920 State aid was only granted for buildings erected by the municipalities and the public utility building societies; later it was extended to all other new buildings. Similarly, in 1923 the original restriction of State aid to small-dwelling houses<sup>1</sup> was dropped. The method

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<sup>1</sup> Small-dwelling houses are houses in which at least two-thirds of the total floor area is used for small dwellings, i.e. dwellings whose habitable area does not exceed 80 square metres.



of granting direct State loans to the co-operative building societies of State employees which was in force till 1924 was later on given up; so was the system of giving lump-sum grants for erecting temporary buildings and improving uninhabitable dwellings. Special importance was acquired by the system of guaranteeing mortgage loans secured on the house — a system whose fundamental principle is found in the Old Austrian housing legislation — which was often accompanied by the grant of annual subsidies towards the interest and redemption charges on the capital cost of the building.

The form taken by the guarantee was that the State undertook to pay the interest and the amortisation charges on the whole secured mortgage loan, and to pay off the balance when due, according to the terms of the mortgage certificate. In this way the State took over the risk of a possible reduction in the value of the house; against this it reserved to itself the right to fix the rent and to require compensation from the yield of the house for the payments made under the guarantee. The State guarantee at the same time made it possible to attract the capital of the credit institutions on moderate terms for financing building, without their having to consider the ordinary legal limits for the investment of trust money in mortgages on buildings.

As building costs became steady after the stabilisation of the currency, the extent of the loans guaranteed by the State could be reduced. For buildings of public utility it was originally as much as 95 per cent. of the cost of building, but for buildings erected under the 1924 Act it was not more than 45 per cent., or the amount of the second mortgage. For other buildings there was a reduction of 60-80 per cent., to 35 per cent. of the cost of building.

The State contribution towards interest and redemption charges on the invested capital is spread over 25 years. Under the Acts of 1921-1923 it began with 4 per cent. and was to fall every 5 years; in 1923, however, it was provided that a fixed contribution ( $2\frac{1}{2}$  per cent.) might be paid. The latter system (with different rates of contribution for buildings of public utility and other buildings) was maintained in 1924.

During the years 1919-1926, with the help of this combination of State guarantees and State subsidies, about 28,000 dwelling houses, with 65,000 dwellings in all, were erected.<sup>1</sup> Of this latter

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<sup>1</sup> There are unfortunately no data concerning the total number of dwellings erected or the extent of the housing shortage.

number the co-operative building societies are credited with about 31,500, the municipalities with 13,500, and other persons or bodies with 20,000. Of the building capital required, 4.8 milliard Czechoslovak crowns in all, one milliard came from unguaranteed first mortgages, about three milliards from guaranteed loans, and the rest was the builders' own capital. These figures show that unguaranteed first mortgages hardly covered more than one-fifth of the cost of building on an average. The complaint is in fact general that, in view of the precarious market value and yield of dwelling houses, the mortgage institutions base their calculations of the limits within which the investment of trust money is allowed on the very low value of existing houses.

The funds for carrying out this scheme were mainly found by the State out of current revenue ; only a small portion came from the proceeds of an *ad hoc* lottery loan sanctioned in 1921. The resulting charge on the State was not inconsiderable, and the system was therefore not continued after 1924, when building costs had become temporarily stabilised at about eight or nine times the pre-war value, and a rise rather than a fall was to be expected. Although State aid thus came to an end, there was no halt in building activity in the following years.


In 1926 the Government laid before Parliament a draft of a Housing Act which provided for a systematic relaxation of the restrictions on rent. The increases were to be used to form a housing fund, half of it in the form of a compulsory loan imposed on house owners. This draft, however, was replaced in February 1928 by another programme, which provided merely temporary solutions, and became law on 28 March 1928. The restrictions on the right to give notice were relaxed, and a slow increase of rents in half-yearly stages (until 1 January 1929) was declared permissible, the rate of increase varying with the tenant's income. State assistance is limited to the erection of houses consisting of small dwellings and premises for small undertakings commenced not later than 31 March 1929 ; the form it takes is that the State guarantees loans on second mortgage up to a maximum of 40 per cent. of the cost of building. The sum total of the loans to be granted is fixed at 150 million Czechoslovak crowns. The contribution which the Government can make out of the proceeds of the lottery loan for the erection of dwelling houses for State employees is raised to 640 million crowns.

In contradistinction to the countries so far discussed, in *France*

— leaving out of account the reconstruction of the devastated regions, which is another question — little was done up to 1928 in the way of systematic measures for the promotion of building; in addition State aid was restricted to public utility building operations.

In 1926 the shortage of dwellings in France was estimated at about 400,000 by the National Economic Council, which was entrusted with the study of the housing question; to this figure must be added some 250,000 dwellings which are in such a dilapidated condition that they should be immediately replaced. For in France, too, house building has been made unremunerative by rent restriction regulations. It is true that since 1921 the permissible level of rents has been increased by many successive Acts to double the nominal pre-war rent; this means a rise to about half the general price level. For dwellings in new buildings, on the other hand, five to seven times the pre-war rent is paid.

The increase in building costs per square metre in a building of several stories is more than 600 per cent. The total costs of dwellings are further increased by various taxes, amounting in all to about 25 per cent. of the value of the building, although much relief from taxation is granted. The interest asked on short-term building loans is about 10 per cent., and the annuities to be paid on mortgage loans also come to about 10 per cent.

The measures taken by the Government to encourage house building are essentially on the lines of the policy introduced before the war. The Act of 5 December 1922 empowered the Government to grant loans on specially favourable terms (interest at 2 per cent. for single-dwelling houses and  $2\frac{1}{2}$  per cent. for multiple-dwelling houses, increased since 1926 to 3 and  $3\frac{1}{2}$  per cent) to public utility societies and the Public Offices for Cheap Housing which had been set up in the Departments and municipalities. The loans, which were repayable in 40 years, might amount to 60 per cent. of the value of the building, and were to be secured in the first place by a mortgage on the building if the payment of the annuities was not guaranteed by the municipality or the Department. Under this legislation the State has granted loans of about 1,600 million francs from 1926 to 1928; the subsidies authorised in the 1928 Budget amount to 48.2 million francs. 

These measures have obviously been far from sufficient to ensure an adequate return on houses erected by public utility building societies, and the activity of the building credit societies has diminished steadily. The building operations of the great mining,

industrial, and railway undertakings for the benefit of their officials and workers are of special importance in France. In order to enable smaller undertakings to carry out similar schemes, a special credit institution (the *Caisse foncière de crédit pour l'amélioration des logements dans l'industrie*) was founded in 1918, and up to 1926 had granted rather more than 130 million francs in loans. As the necessary funds were provided by the issue of bonds, it had to limit its activity, because the general rise in the rate of interest brought the market for these bonds to a standstill.

The new Act, which was introduced by Mr. Loucheur at the beginning of July 1928 and passed by both Chambers with extraordinary speed, follows the existing system in its main principle, which is that State aid is to be given through recognised institutions for promoting public utility building. These include public utility building societies and the Public Offices for Cheap Housing on the one hand, and the building credit societies on the other. It is proposed to erect 200,000 cheap dwellings between now and 1933. To finance these operations the State will advance 50 per cent. of the cost of building at only 2 per cent. interest; the rest of the capital will be provided by special loans repayable in 25 to 40 years. The State will also contribute towards the interest on these loans, so that the organisations issuing them will only have to pay interest at 2 per cent. in addition to the amortisation charges. The total contribution under both these heads may not exceed 80 per cent. of the cost of the building (or 90 per cent. if there is an additional guarantee by a municipality or Department). There are special provisions to facilitate the purchase of cheap dwellings by their occupants; large families (with more than two children), war widows, war-disabled men, etc. are even relieved of the obligation of contributing to the cost of building from their own resources. One-third of the credits granted by the State is earmarked for the promotion of rural housing.

Another point of importance is the extension of these credits to the erection of dwellings to be let at a "medium rent", i.e. with a rent not more than 3.6 times and initial cost not more than 1.75 times the maxima prescribed for cheap dwellings. In this case the builder has to contribute at least 20 per cent. of the cost out of his own resources; the State will lend 40 per cent. at 4 per cent. interest; the municipalities and Departments, and in certain circumstances the State, will help to procure the remaining 40 per cent. by paying a subsidy towards the interest on it.

The capital needed to carry out the programme of cheap dwell-

ings is estimated at 14,00 million francs a year (40,000 dwellings at 35,000 francs each). For 1929 the State contribution will amount to 700 million francs in loans and 150 million francs in non-recoverable lump-sum subsidies. For the erection of "medium-rent" dwellings the necessary capital is estimated at 840 million francs a year (12,000 dwellings at 70,000 francs each); for the fiscal year 1928-1929 a credit of 300 million francs has been provided towards this. Altogether, according to the estimates accompanying the Act, the total charge on the State up to 1934 for the payment of subsidies towards the interest on loans and other payments will amount to 201.25 million francs for cheap and 38.68 million francs for medium-rent dwellings; in addition there will be the 150 million francs mentioned above for non-recoverable subsidies, and the contributions of the State towards the interest on loans contracted by organisations for promoting public utility building.

In *Belgium* also State aid is applied primarily to public utility building. The aim of the housing policy is to restore the normal legal provisions relating to rent — a goal indicated in the Housing Act promulgated at the end of 1925. At the end of 1927 the rent of small dwellings was rather less than three times the pre-war rate, while food prices had on the average reached eight times the pre-war level. It is intended to raise rents by gradual stages, so that even for small buildings, which are given the most favoured treatment, all restrictions can be removed in 1931.

Apart from the shortage of about 100,000 dwellings, due to the war period, about 25,000 new dwellings are needed every year to meet current needs. The erection of cheap small dwellings is effected through the National Society for Cheap Houses and Dwellings. The State and the municipalities have placed credits of several hundred million francs at the Society's disposal at a very low rate of interest (2 per cent.). The policy of the Society is to urge the co-operative building societies affiliated to it to sell the small houses erected by them so as to procure capital for new buildings. A second scheme adopted by the Government to promote building was the grant of bonuses (up to a maximum of 3,000 francs) to persons who erected small houses for their own needs under prescribed conditions. This system, however, involved heavy financial charges and was therefore withdrawn in 1926, after about 18,000 persons had enjoyed its benefits.

The issue of a loan of 300 million francs to be used for housing purposes has recently been decided on. It is expected that the rent

of houses built with the proceeds of the loan will cover  $3\frac{1}{2}$  to 4 per cent. of the cost. As 6 per cent. is to be paid on the loan, a deficit of 2 to  $2\frac{1}{2}$  per cent. will have to be met. Of this deficit the State assumes five-eighths, the municipalities two-eighths, and the provinces one-eighth. As an increase of rents becomes possible, the deficit can be correspondingly reduced. A renewal of the bonus system is also contemplated, with special supplementary increase for large families and subsidies from the municipalities and provinces, on such a scale that intending purchasers of one-family houses will only have to provide about 10 per cent. of the necessary capital out of their own resources.

In *Italy* the housing policy, since the beginning of the Fascist Regime, has been steadily directed towards the establishment of complete economic freedom in the housing market and in building activity. In accordance with the provisions of the Royal Decree of 1924, the tenant protection system came to an end on 30 June 1926. Nevertheless, in order to prevent an excessive rise in rents, certain restrictions were again introduced in 1927, which practically restored the condition of affairs existing before 1926.

On the occasion of the return to freedom of contract in the matter of leases, the Government sanctioned a grant of 100 million lire to promote building during the transition period. Special State aid is given to the co-operative building societies of State officials; in addition the State makes annual subsidies of about 80 million lire for the payment of interest on capital invested in workers' dwellings by other public utility building societies. The capital itself is in large part lent by social insurance and public credit institutions.

Among other countries in which a system of rent restriction, intensified in its effects by an inordinate depreciation of the currency, made State aid for building a necessity, Hungary and Poland may be mentioned. In both countries it is a marked feature of housing conditions that, even before the war, the housing density in the larger towns was very much higher than was usual in the rest of Central Europe. The social effects of this phenomenon were rendered more serious by the fact that a disproportionately large percentage of the existing dwellings belonged to the category of the "smallest dwellings" — i.e. dwellings consisting of only one room, or at most two, in addition to a kitchen. In both countries the collapse of the currency, in conjunction with the prohibition

of increases in rents, led to the latter's falling to an insignificant fraction of their pre-war value. In both countries, even since the stabilisation of the currency, there is not enough capital available to meet even current needs for new buildings alone ; still less to make good the shortage caused by the cessation of building activity over a period of many years.

In order to give an idea of housing conditions in *Poland*, it may be mentioned that in Warsaw not less than 15 per cent. of all dwellings are occupied by two families and 5 per cent. by three families ; on an average there are five inhabitants for each living room. The intention to raise rents gradually after the stabilisation of the zloty, so as to reach 100 per cent. of their pre-war value at the end of 1927 (for the smallest dwellings at the end of 1928), was not realised. At the end of 1927 the rent index number in Warsaw stood at 50, while the general cost-of-living index was 113.

The attempts made since 1919 to revive building activity with help from public funds were robbed of most of their results by the progress of inflation. This is particularly true of the system inaugurated in 1922, whose resources were to be furnished by the issue of local loans with a State guarantee. After the temporary stabilisation of the currency, a new system was introduced in 1925, which was based on the distinction between short-term building credits and long-term mortgage credits. The former were guaranteed by a special State fund. The latter, up to 80 per cent. of the value of the building, were to be provided by the issue of mortgage certificates, bearing a high rate of interest and guaranteed by the State. Further, a special "Town Development Fund" was instituted to cover possible loss on the sale of the mortgage certificates, and to pay current subsidies if the yield of the house was insufficient to cover the interest and amortisation payments on the mortgage loan. The income of the Town Development Fund was made up of 25 per cent. of the house-rent tax (which was 8 per cent. of the pre-war rent), and the proceeds of the building site duty.

Thanks to this credit system, combined with the grant of subsidies, 75 million zloty in all were placed at the disposal of the building industry in 1925-1926. The defects of this system, however, lay in the difficulty of converting short-term building credits into long-term mortgage credits, and the mortgage certificates, in spite of their security and their high rate of interest, could not be sold in sufficient quantities. Complaints were also made that the available credits were used in the first place for the erection of larger dwellings, while the building of small dwellings was neglected,

and that there was a lack of organisation of building activity, which suffered from a high degree of dispersion. Hence a new proposal for the grant of credits aims at granting direct building loans from a special house building fund, to be used especially for the erection of small dwellings. Between 1921 and 1926, 25,000--30,000 dwellings were built, whereas at least 75,000 new dwellings would have been necessary merely to meet the needs arising from the increase in the number of households — quite apart from the housing shortage that had been accumulating up to 1921.

Conditions in *Hungary* are not very different. In the larger towns half the population is housed with more than three persons to one living room. Frequently the inhabitants of overcrowded dwellings belong to different families. Rent, which at the end of the inflation period had sunk to about 3 or 4 per cent. of the pre-war value, was gradually raised so that at the end of 1927, when the food price index number was 123, it had reached 70. New dwellings in comparatively small numbers were erected partly by the State and partly by the municipalities with its assistance. Some of the capital was provided by the issue of loans guaranteed by the State. This expenditure varied between 2 and 5 million gold crowns a year. The State, however, also provided special credits for the encouragement of private building enterprise and the repair of existing dwelling houses.

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From the above description of the housing policy of the various countries it can be seen how far the difficulties in the way of housing production were the result of the general economic conditions prevalent from time to time. If the reader wishes to obtain an approximate idea of the proportion of the national income that must be set aside annually in healthy conditions of national economy for the erection of new buildings, the following considerations may perhaps be offered. Before the war it was reckoned that the gross rent of a dwelling house represented 8 per cent. on the capital invested in the building. Of this sum, 1 to 1½ per cent., or about one-fifth, went on amortisation of capital. As rent was about 16 per cent. (one-sixth) of the family budget of the great masses of the population, it can be taken that about one-sixth of the national income was spent on housing, and of this sixth a fifth part, or 3 per cent. of the national income, went to the supply of



dwellings. This proportion might be increased at a time of rising building costs and improvement of the general standard of housing; further capital expenditure is required to satisfy any additional needs for dwellings due to the increase in the number of households.

This calculation may be checked by the following considerations. The memorandum on housing policy of the German Federal Ministry of Labour, which has been mentioned several times, estimates the sum expended yearly in Germany before the war on the erection of dwellings at about 2 milliard marks. As the German national income before the war was taken to be rather more than 40 milliard marks, it will be seen that if the additional housing production is included, about 4 or 5 per cent. of the national income would be necessary to cover the cost of house building (allowing for dwellings to accommodate the increased number of households).

The most important economic effect of the rent restriction system, and the first in logical order, is that the wages and income of the bulk of the population are fixed with reference to a lower rent than would be necessary to guarantee the interest and redemption payments on the capital invested in new buildings. The inadequate purchasing power of the population diverts private capital from the production of new dwellings; and it is only where building receives copious assistance from public funds, as in Great Britain, that it is possible, in spite of rent restrictions, to make good a considerable part of the housing shortage in a relatively short time.

As regards the assimilation of rents to the general price level, the various countries are at widely differing distances from the goal. At the end of 1927 the difference between the general level of rent and the food price level was about 10 per cent. in Great Britain, 17 per cent. in Germany, 45 per cent. in France, and about 60 per cent. in Belgium, Czechoslovakia, and Poland. In most countries the future level of rent is uncertain and the future yield of new dwelling houses does not therefore lend itself to exact calculation; it follows that there is no sound basis for estimating the value of these houses. In mortgaging the buildings, especially through the mortgage credit institutions, that part of the value of the house which can be taken as sound security (the limit for the investment of trust money) is put at a very low figure. Mortgages beyond this limit can only be obtained on very unfavourable terms, as they do not offer complete security. At present, however,

for the reasons mentioned above, they represent a far larger part of the cost of building than before the war; in addition the building contractor often needs more money on mortgage than formerly, as he has little capital of his own.

To these effects of the systems of rent restriction must be added the fact that in not a few countries too little capital — in proportion to the needs of the national economy — is available, so that the capital required for long-term mortgages can only be obtained at a very high rate of interest. Apart from exceptional cases there are serious considerations of economic policy in general and currency policy in particular against the introduction of foreign credits for housing purposes. This situation of the money market is especially characteristic of the former belligerent countries of Central, Eastern, and Southern Europe.

A third and fairly general problem is that raised by building costs in the strict sense. For the reasons already mentioned, the revival of building activity is often dependent on assistance from public funds; this is often given spasmodically and so finds the building industry and the industries that produce building materials unable to cope with the sudden need. Building costs are in consequence raised above the general price level. A further element of uncertainty in the calculation of the value of the houses is the belief current in many countries that with the return of normal conditions a fall in building costs is highly probable.

In general it can be maintained that the problem of housing production in the post-war period is in the first place a problem of costs of production in the widest sense of the word. The increase in these costs is composed of two, and in some cases three, factors: the rise in the rate of interest to be paid on the capital invested; the general rise of the price level; and — which is of course not always the case — the increase of building costs above the general price level in consequence of the special conditions of the building market.

The measures taken in various countries to encourage building activity may also be classified according to these three factors. Sometimes subsidies towards rent are paid to make up the difference between the economic rent of the new houses and the rent the tenant can pay; sometimes the subsidies cover the risk resulting from a temporary excessive increase in building costs. It was only as an exceptional measure in some countries that the part of the expenditure resulting from the excessive increase in building costs was directly defrayed by the grant of non-repayable subsidies.

When the money market is not capable of providing the sums required for building operations, the public authorities have occasionally undertaken building on their own account or lent the needed capital from their own funds. These loans may take either of two forms : short-term building credits for the period up to the completion of the building, and long-term credits on mortgage, which take the place of the former. In many countries the short-term credit is easier to obtain than the long-term, as capital in search of a permanent investment finds other far more advantageous openings. In all the countries of Central and Southern Europe efforts to ensure the supply of the capital needed for mortgages on tolerable terms occupy a large place in the housing policy, and the measures taken to reach this goal are by no means limited to the assistance of public utility building. Where the resources of the building credit institutions are insufficient, special loans have occasionally been issued, guaranteed by the State or by the local authorities.

Lastly, a serious obstacle to the development of building by private enterprise is the circumstance, mentioned above, that in fixing the value of the building which determines the sum to be lent on mortgage, a lower figure is taken than that corresponding to the cost of building. Special measures have sometimes been taken to remedy this drawback ; the guarantee by a public corporation of mortgages secured on the buildings has proved particularly effective.

In any case, in every country in which a system of rent restrictions is in force an adequate production of dwelling houses is impossible without some form of subsidies from public funds. This is true in all circumstances of the small dwellings whose tenants cannot afford to pay much rent. In some countries, therefore, State aid is directed primarily to this category of dwellings.

Funds for the payment of subsidies are often found by arranging that the rents of old houses shall be gradually increased, and that part of the increase shall be taken in the form of a tax and go to constitute a special building fund.

The housing problem, however, should not be considered exclusively from the narrow standpoint of housing welfare. It is equally a production problem of the highest importance, since continuous employment for the building industry and the industries that supply building materials, adapted to the fluctuations of the economic situation, is an essential factor in the maintenance of economic equilibrium, and is of special importance in neutralising

the effects of economic depressions. From the point of view of production policy it is therefore not indifferent whether an appropriate part of the available capital of the country is used to build new dwellings. Nor is it indifferent whether increased building activity comes at a period of extreme tightness of the money market and intense industrial production, or whether it begins when a depression has already set in — a far more propitious moment from the point of view of the general economy. If houses are built under the free play of ordinary economic forces, the equilibrium suitable to the moment is automatically reached, which will not be so if building activity is primarily dependent on aid from public funds. In all countries, however, in which the rents paid by the bulk of the population are still far below the level that would give an adequate return on new buildings, a decisive rôle in providing the population with the necessary dwellings will fall to the State housing policy for some considerable time to come, if indeed it can ever be dispensed with. In the choice of its measures, therefore, a housing policy that aims at promoting building by help from public funds must always give due weight to the importance of building operations in relation to industrial production in general.