

*Market solutions for social problems: working-class housing in nineteenth-century London*¹

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Finding a policy framework within which to reconcile social welfare objectives with market economies has been a major concern of politicians and social commentators for over a century. In the early twentieth century these concerns culminated in a set of ‘New Liberal’ welfare reforms in which the state assumed a larger role as the agency through which market imperfections or failures could be addressed.² Early welfare subject literature presented these changes as part of a unilinear trend towards the inevitable development of a ‘welfare state’ in which public provision replaced the outdated and inadequate efforts of charitable agencies.³ More recently, this ‘whig’ interpretation has been revised and the state is presented as only one provider among others within a ‘mixed economy of welfare’.⁴

While the ‘old’ welfare subject literature premised the inevitability of state intervention upon an implicit story of market failure, the ‘new’ literature has a tendency to forget the market altogether as a possible provider of social welfare. Although Daunton suggests that ‘voluntarism and the market may be seen as alternatives to taxation’, revisionist historians have focused attention on the relationship between the voluntary sector and the state, while neglecting to consider ways in which the market may offer alternatives to public provision.⁵ Historians have explored the shifting boundaries between public provision (implying the state) and private welfare (denoting the individual, the family, or the voluntary association).⁶ This article makes a contribution to the welfare subject literature by considering an example of a social problem—insanitary and over-crowded housing—where joint-stock companies pioneered the most extensive attempts to reconcile the operation of the market and the social objectives of society.

¹ I am indebted to Avner Offer and John Davis for their comments and support; I also wish to thank the anonymous referees.

² This is not to say that the state had not acted in this capacity before, but rather to suggest the acceptance of a new ideological orthodoxy. See Finlayson, *Citizen, state and social welfare*, p. 161; Harris, *Private lives*, p. 119; Thane, *Foundations*, p. 58.

³ Fraser, *Evolution of the welfare state*; Owen, *English philanthropy*; Bruce, *Coming of the welfare state*.

⁴ Finlayson, *Citizen, state and social welfare*, p. 6.

⁵ Daunton, *Charity, self-interest and welfare*, p. 1. As an historian of social policy Lewis focuses almost exclusively on the relationship between the state and the voluntary sector in her ‘mixed economy of welfare’: Lewis, ‘Boundary’; *idem*, *Voluntary sector*.

⁶ Katz and Sachsse, eds., *Mixed economy*.

During the nineteenth century the field of housing reform was one of the key areas where the externalities and imperfections of the market became increasingly recognized, and in the twentieth century housing became an area of social policy in which the state took a central role. Yet, in nineteenth-century England the most innovative response to the problem of providing decent working-class housing in inner-city areas was developed, not by charities or the public sector, but by a group of market institutions, called model dwellings companies (MDCs), which sought to demonstrate that there was no necessary contradiction between private profit and social welfare objectives.

MDCs attempted to develop an institutional form and system of operation which could provide affordable and more salubrious accommodation for the working classes and generate a 'fair' return for those who financed this provision. 'Five per cent philanthropy', as the model dwellings movement has become known, has generally been dismissed as a failure. Earlier studies have asserted that these companies provided an insignificant amount of working-class housing, and that they were unable to provide adequate financial returns to investors. This dismissal has, however, been somewhat hasty and premised upon assumptions about the inevitability and superiority of subsequent state provision. The study of the outputs of these organizations in social welfare terms has been incomplete, and the economics of their operation has barely been considered.⁷

This article examines whether MDCs fulfilled their aims to reconcile private and public interests in the housing of the working classes. Section I sets out the nature of the problem which these institutions sought to address and outlines their aims and objectives. Section II considers the operation of these organizations in social welfare terms: how much housing they produced, for whom, and at what price. Section III compares the economic returns offered to investors in MDCs with those paid on other widely held assets. The conclusion evaluates the attempts of MDCs to reconcile the market with the social concerns which constituted the housing problem. The article demonstrates that MDCs were far more important than all local government agencies in providing low-cost working-class housing in London before 1914, and that patrons were offered rates of return broadly comparable with those they could obtain from alternative domestic investment opportunities. However, this experiment in reconciling social welfare objectives with market returns did not become the model for twentieth-century housing provision. The article therefore concludes by considering how shifting ideologies and economic circumstances, combined with changes in public-sector activity, crowded out MDCs.

⁷ Tarn, *Five per cent philanthropy*, and Wohl, *Eternal slum*, are the most frequently cited secondary sources for the returns on model dwellings although neither author carried out any systematic analysis of their operations. Malpass, 'Discontinuous history', also neglects the economics of their operation, although he criticizes the earlier 'teleological' subject literature for dismissing model dwellings for other reasons.

I

The task of providing adequate housing for an urban working-class population was a major social issue in the nineteenth century. This 'housing problem' was created by changes in the demand for, and supply of, residential accommodation in inner-city areas. Economic growth and the constraints of transport technology intensified competition for inner-urban building sites, and incoming migration swelled demand for working-class accommodation. This created a high-rent/low-wage equilibrium in the housing market resulting in the subdivision and multiple occupancy of existing houses and the development of what were known as 'slums'.⁸ For many contemporaries the private rental sector appeared to generate outcomes which were clearly at odds with the public interest, particularly in London.⁹ According to the laissez-faire consensus, the operation of a market economy was supposed to secure opportunity for all, and the persistence of the slums in a climate of rising wealth baffled contemporaries. The slums implied one of two things: either economic prosperity was somehow causing these conditions and the market was flawed as a mechanism for maximizing welfare for all; or there was something wrong with the working classes themselves which prevented them from seizing the opportunities presented to them.¹⁰ Either way, the private rental sector was generating outcomes which were considered to be both inequitable and inefficient.

Public sympathy was reserved for the 'respectable' working classes who could not afford to purchase what was considered to be a satisfactory minimum standard of accommodation and were forced to live in close proximity with the 'undeserving'.¹¹ The Royal Commission on the Housing of the Working Classes (RCHWC) was concerned that industrious workers were forced to live side by side with 'the semi-criminal class (who) . . . are the destructive class'.¹² It was feared that the moral laxity of the 'undeserving' and their perceived disregard for the market and for society would contaminate the whole working class, creating an alienated and non-compliant labour force. Burns and Grebler have suggested that

⁸ Mayne argued persuasively that the idea of a 'slum' was a social construction, not an uncontested reality defined according to straightforward and quantifiable physical criteria: Mayne, *Imagined slum*. Although he did not contest the physical reality of the slum, Dyos said something similar about the development of the term: Dyos, 'Slums', pp. 7-10. The term 'slum' is used here to denote a set of both moral and physical conditions as perceived by contemporaries.

⁹ The housing problem was not an exclusively metropolitan one and some of the worst housing conditions arguably existed in other cities such as Glasgow or Liverpool. Contemporary comment, however, was focused on the capital and enquiries such as Mearns, *Bitter cry*, were an impetus behind the 1884-5 Royal Commission on the Housing of the Working Classes, which itself was predominantly focused on London.

¹⁰ Both Chamberlain and Salisbury believed that urban economic prosperity was contributing to the housing problem, in the former case as a consequence of migration and in the latter as a result of the rising cost of land: Chamberlain, 'Labourers' and artisans' dwellings'; Salisbury, 'Labourers' and artisans' dwellings'. In the secondary literature Dyos is the foremost proponent of the view that slums were a necessary correlate of Victorian industrial and economic growth: Dyos, 'Slums', p. 27.

¹¹ Bailey has suggested that distinctions between the 'respectable' and 'unrespectable' were contingent upon circumstances and that the same individuals could be classified as either, depending on what they were doing at the time: Bailey, 'The real Bill Banks'.

¹² RCHWC, 'Report', p. 16.

'the notion of the external community costs of low housing standards began to take hold long before economists such as Pigou were writing about externalities'.¹³ The externalities associated with housing, in terms both of contemporary perceptions about the links between character, disease, and environment, and of the importance of location and neighbourhood as determinants of price, constituted the principal inefficiency of the private rental sector and meant that the housing problem required a collective solution.¹⁴ Such a solution needed to recognize both the economic interests of private landlords and the wider public concern to eliminate the externalities of the slums.

From the 1840s a new group of institutions was formed which attempted to find a way to combine the public and private interest in improving working-class housing. The Metropolitan Association for Improving the Dwellings of the Industrious Classes (MAIDIC) was the first organization to be founded in response to the London housing problem.¹⁵ As with other organizations to follow, MAIDIC wished to provide more salubrious and affordable working-class accommodation. The directors of the company argued that any improvement in the social integration and moral health of the working classes was premised upon a commensurate improvement in their physical health and surroundings.¹⁶ If the behaviour of the poor man could be changed in the way in which these organizations claimed, then the result would be directly beneficial to the poor man himself while conferring indirect benefits on the public.¹⁷

Housing organizations aimed to provide a 'model' standard for other landlords to follow. If other private landlords were going to emulate this example, however, they would have to be convinced that it was possible to profit from doing so. Investors were encouraged to buy shares in MDCs on which they received dividends. Lord Stanley described this system as a 'fair and equal bargain between man and man' for 'there was no sacrifice of independence on either side. They [the investors] got a fair return for their capital, and the workman got a better quality of lodging'.¹⁸ These companies intended to act for the good of every class through the improved dwellings that were provided, and the secure investment opportunity they offered.¹⁹ MDCs were providing collective-type goods intended to extend benefits to the wider society, not merely those who financed and consumed the housing services provided. Free riding was therefore an inherent problem. The payment of dividends was

¹³ Burns and Grebler, *Housing*, p. 75.

¹⁴ De Swaan argues that public health problems in general should be regarded as collective action problems: De Swaan, *In care*, pp. 118-42. For an exposition of the prisoners' dilemma facing landlords of unimproved properties, see Davis and Whinston, 'Economics', pp. 106-17.

¹⁵ Tarn, 'Housing', p. 67.

¹⁶ MAIDIC, *Sixth report*.

¹⁷ For details of the dwellings built and their management, see Morris, 'Private profit'; Tarn, *Five per cent philanthropy*; *idem*, 'Improved Industrial Dwellings Company'; *idem*, 'Peabody Donation Fund'; Wohl, *Eternal slum*.

¹⁸ *Times*, 20 Feb. 1854, 'Report of a public meeting held at the London Tavern, on Saturday, the 18 February, 1854', reproduced in MAIDIC, *Healthy homes*, p. 6.

¹⁹ MAIDIC, *Healthy homes*, p. 3.

an effective way of offering a direct 'selective incentive', to use Olson's terminology, to those who chose to cooperate in financing the provision of improved dwellings.²⁰

MDCs were 'philanthropic' in so far as their primary aim was not profit maximization per se but the development of a system of provision which could solve the housing problem. Housing organizations did not consider themselves 'charitable', however, as they did not reduce independence and self-reliance among the working classes, since working men were charged rent for their dwellings. Companies of this type therefore offered people the opportunity of doing good without forsaking their beliefs in the market and in self-reliance among the working classes. MDCs represented a direct challenge to the belief that the market could not provide satisfactory accommodation for the working classes. Because historians of the housing problem have contested this conviction, the next section considers whether MDCs succeeded in demonstrating that it was possible to combine private profit and public benefit in working-class housing.

II

MDCs and other Victorian responses to the housing problem have generally been given a bad press in the subject literature. In the absence of the detailed analysis required to establish the effectiveness of these institutions in fulfilling their aims, they have generally been dismissed as failures. This is an almost inevitable outcome of the perspective adopted. Tam described his book *Five per cent philanthropy* as 'an account of how council housing was born', thus locating MDCs as necessary precursors on a linear path towards public housing.²¹ Wohl also saw state provision as inevitable and argued that 'no housing policy could be successful, unless it was backed up either by unprecedented general prosperity or by a full programme of social welfare benefits'.²² Stedman Jones believed that 'the proper housing of the poor could not be reconciled with the laws of the market' and he criticized those who responded to the problem for failing to recognize this.²³ Gauldie pursued this point further and blamed housing organizations for the perpetuation of the problem, arguing that: 'They led people and Parliament to believe that private enterprise, efficiently directed, could deal with the problems of insanitary housing, homelessness and overcrowding, and perhaps held up the progress

²⁰ Olson, *Logic*, p. 51. MAIDIC argued that 'The necessary capital could only be raised by shares, and without the limitation of liability it would have been impossible to have obtained shareholders': Southwood Smith, 'Results', p. 5. Before the act of 1856 the obtaining of limited liability status was a difficult and expensive process which required the granting of a charter by the Crown. This cost MAIDIC £1,430: MAIDIC, *Healthy homes*, p. 21. According to Bosanquet, however, under the limited liability acts the fee was £20 or more, rising in proportion to the nominal capital: Bosanquet, *London*, p. 267. Cottrell suggests that charters cost £400: Cottrell, *Industrial finance*, p. 43.

²¹ Tam, *Five per cent philanthropy*, p. xiv.

²² Wohl, 'Housing of the working classes', p. 43.

²³ Stedman Jones, *Outcast London*, p. 230.

towards state-controlled housing for decades by encouraging that ill-founded belief.²⁴

A number of implicit assumptions were incorporated, unintentionally or otherwise, in these 'whiggish' accounts of housing history. First, the need for market intervention of some sort was often taken as given and not justified on the grounds of market imperfections, failures, or externalities. Secondly, public provision was valued more than all other forms of market intervention such as regulation, subsidy, and taxation. Thirdly, it was suggested that once provided, working-class housing was best left in the hands of public managers. Daunton has questioned this whiggish consensus, arguing that 'There was no inevitability in the acceptance of subsidised public housing as the end result of policy, as the experience of other countries makes perfectly clear.'²⁵ However, he has not challenged the dismissive view that MDCs did little in response to the Victorian housing problem. Whether MDCs deserve the dismissal they have received is an empirical matter. Their direct impact on the housing 'problem' can be gauged by examining the scale of their activity, the identity of those they housed, and the rents they charged. Their viability as private market institutions for promoting the public good can be assessed by examining the rate of return they offered investors.

One of the principal criticisms levelled at the non-statutory responses to the housing problem is that only public authorities could operate on a sufficiently large scale. According to Wohl, 'Well before the turn of the century the realization set in that the model dwelling movement could not supply sufficient dwellings to make a dent in the housing problem.'²⁶ But if scale alone is taken as a measure of effectiveness, then in London at least it was private organizations and not local government which did most to respond to the housing problem before the First World War. At least 43 organizations were established between 1840 and 1914 in response to the housing problem in London. Thirty-one of these organizations produced 35,864 dwellings, which was over two and a half times the combined contributions of the London County Council, the metropolitan boroughs, and the City Corporation during the same period.²⁷ These private or voluntary sector housing organizations provided between 11 and 15 per cent of all new working-class accommodation built in London between 1856 and 1914.²⁸ Although speculative builders and private landlords still operated on a much larger scale, and housed the majority of the population, they did so in a way which failed to address the perceived problem.

The scale of operation of MDCs in London does not, of itself, demonstrate that these organizations provided an effective response to the

²⁴ Gauldie, *Cruel habitations*, p. 221.

²⁵ Daunton, *House and home*, pp. 2-3; Pooley, ed., *Housing strategies*; Garside, *Conduct*, pp. 47-65. Garside has argued that the rise of council housing cannot be adequately explained by the failures of voluntary provision.

²⁶ Wohl, *Eternal slum*, p. 172.

²⁷ Morris, 'Private profit', pp. 60-4, 259-60.

²⁸ *Ibid.*, pp. 64-9.

housing problem. Stedman Jones has criticized them for failing to house the 'casual poor', claiming that they 'housed more curates and policemen than unskilled labourers'.²⁹ However, the nineteenth-century housing problem was not simply about the casual poor: concern was expressed that the 'respectable' working classes were forced to live in close proximity to the undeserving and that tenants were charged high rents for slum housing which generated external community costs. Thus the provision of more salubrious housing for the respectable working classes at a price equivalent to or lower than the amount they paid for insalubrious and overcrowded slum housing was an effective response to the perceived problem. Did MDCs succeed in housing 'deserving' working-class tenants, or did they 'cherry-pick' more desirable tenants from the labour aristocracy and the lower middle class?³⁰

Table 1. *Booth's classification of the people in London*

Class of tenant	Type of dwellings		
	All London dwellings	All block dwellings	'Philanthropic and semi-philanthropic' landlords' blocks
Lowest	1.1	0.3	0.0
Very poor	9.2	9.1	4.0
Poor	27.1	29.3	19.5
Working-class (comfortable)	62.6	61.3	76.6
Total %	100.0	100.0	100.01
Total tenants ^a	3,459,240	188,219	72,094

Note: a The totals shown exclude the 17.8% of the total London population which Booth estimated were 'middle class and above' as these classes were not housed by MDCs.

Source: Booth, *Life*, 2, pp. 21, 3, 12-13.

Without full data on household composition, income, and expenditure, it is impossible to state conclusively whether households living in model dwellings were financially secure and would have been able to purchase adequate housing for their needs given prevailing market prices. We can, however, use Booth's poverty data to evaluate the impressions of contemporary commentators about the 'social character' of improved dwellings and their tenants.³¹ Booth classified both the population of London as a whole and that resident in block dwellings into approximate income categories.³² Table 1 shows his classification of the population of London as a whole, those living in block dwellings owned by 'philanthropic and semi-philanthropic associations', and those living in all working-class block dwellings, regardless of the type of landlord.

²⁹ Stedman Jones, *Outcast London*, p. 187.

³⁰ Ibid.; Wohl, 'Housing of the working classes', pp. 39-40; COS, *Dwellings of the poor* (1881), p. 137; RCHWC, 'Report', p. 54.

³¹ Morris, 'Private profit', pp. 58-102 provides a more detailed analysis of the output of housing agencies and of their tenant composition.

³² For Booth's class schema see *Life*, first ser., 2, pp. 20-1. For the classification of the population of London see first ser., 2, p. 21; 3, p. 12, and for those resident in dwellings owned by 'philanthropic and semi-philanthropic landlords', first ser., 3, pp. 12-13.

The occupational distribution of the residents of block dwellings was broadly similar to that of the working-class population of London as a whole. The residents of 'philanthropic and semi-philanthropic' block dwellings, the category which includes the major providers of 'model' dwellings, are disproportionately drawn from the more comfortable sectors of the working classes. While nearly 24 per cent were either 'poor' or 'very poor', 77 per cent were 'working class comfortable', that is, they belonged to the regularly employed sections of the working classes. These estimates therefore suggest that the organizations providing 'improved' or model dwellings did select the more 'comfortable' members of the working classes as their tenants. It should be noted, however, that this modest degree of tenant selection was not unique to MDCs. All agencies providing model dwellings, including the London County Council, tried to accommodate 'deserving' tenants who could be described as the most improvable members of the working classes.³³

A degree of self-selection by the tenants may also have occurred as 'respectable' members of the working classes wished to keep themselves apart from their less respectable contemporaries. Although some thought it was socially desirable to mix different social classes so that the less 'respectable' tenants could improve themselves by following the example of others, it was debatable whether this worked in practice. When the East End Dwellings Company (EEDC) tried to develop a mixed community in its Katharine Buildings it experienced a number of problems: 'The bad and indifferent, the drunken, mean and lowering elements overwhelm the effect of higher motive and noble example. The respectable tenants keep rigidly to themselves.'³⁴ Ella Pycroft, one of the rent collectors, regretfully concluded: 'that the tenants of the lowest class can not be kept in the buildings if order is to be preserved and I have been obliged to turn out the rough'.³⁵ 'Respectable' tenants preferred an environment in which they did not have to associate with the undesirable characters they were popularly supposed to encounter in the slums. Thus, tenant selection not only reduced risks for landlords; it also worked to the advantage of those who were accommodated. This conferred a direct private benefit on the tenants as well as an indirect public benefit, given contemporary beliefs about the influences the disreputable could have on the reputable in the slums.

Although MDCs provided the respectable working classes with a higher standard of accommodation than the slums, the degree of public interest served by doing so is partially dependent on the price they charged their tenants. If housing organizations supplied working-class tenants with a higher standard of accommodation than they could get for an equivalent or higher price elsewhere in the private market, this provides evidence

³³ LCC, *Housing question*; Hole, 'Housing', pp. 434-7; Wohl, 'Housing of the working classes', p. 41.

³⁴ This remark was made by Beatrice Potter (better known by her married name, Webb) who collected rents in these buildings: Webb, *Apprenticeship*, p. 277.

³⁵ *Ibid.*; BLPES, Coll. Misc. 43, 'Katharine Buildings: record of the inhabitants', Ella Pycroft to Mr Bond, 22 Jan. 1887.

that MDCs were addressing the public interest with respect to the housing problem.

By providing households with individual tenements with either their own or shared washing facilities, model dwellings were superior to the subdivided tenements of the slums. The housing organizations under study here provided the highest standard of block dwellings for the working classes in London. Ninety-eight per cent of the block dwellings owned by 'philanthropic and semi-philanthropic' associations were reported as being '“Fair”, “Good” or “Very Good,” as to light and air or sanitation' by Booth's survey, while 81 per cent of all block dwellings fell into this category.³⁶ But how much did they charge for this?

Table 2 compares the rents charged for working-class accommodation owned and managed by various landlords providing improved dwellings with those generally charged in the private market.³⁷ The MDCs and housing trusts listed produced 77 per cent of the total sectoral output of 35,000 dwellings referred to above. We would expect that the rental figures given for the private market represent the maximum prices attainable for accommodation of a specified quantity and quality given the prevailing market conditions of the time. In general the highest rents were charged for properties in the private rental sector, followed by those owned by the LCC and the City Corporation. Private organizations providing improved dwellings for the working classes charged the lowest rents although it is difficult to establish whether the dwellings provided by different landlords were comparable in terms of age, location, size, and quality. The EEDC was the only MDC which did not charge lower average rents than the private market.³⁸ Both the IIDC and MAIDIC, however, charged average rents which were below those of the LCC. The average rents charged by the IIDC were generally on a par with those charged by the Peabody Trust which had no shareholder interests to satisfy.

MDCs therefore fulfilled their aim of providing a higher standard of accommodation at an equivalent or lower price than the working classes paid for insanitary properties in central London. These lower prices cannot be attributed to low demand for model dwellings. Although block dwellings were not to everyone's tastes (particularly in suburban areas where MDCs faced competition from speculative house builders), in central areas, where most model dwellings were built, demand exceeded

³⁶ Booth, *Life*, first ser., 3, pp. 13-17. 'Very good' and 'Good' blocks provided sanitary facilities for each tenement and ample light and air, while tenants in 'Fair' blocks shared a water-tap and closet between four, and sunlight did not reach the lower tenements. Tenements belonging to 'philanthropic and semi-philanthropic associations' were seldom described as fair but usually as good or very good.

³⁷ For the procedure used in estimating these averages, see Morris, 'Private profit', app. 4, pp. 268-70.

³⁸ Ironically, the EEDC aimed to house a lower class of tenant than its predecessors: EEDC, 1884 prospectus, quoted in Tam, *Five per cent philanthropy*, p. 100.

Table 2. *Average rents per room in London*

<i>Landlord</i>	<i>1881</i>	<i>1884</i>	<i>1901</i>	<i>1905</i>
Private market	2s. to 5s.	2s. 6d. to 3s. 10 ³ / ₄ d.	2s. 9d to 3s. 6d	2s. 5d. ^b 2s. 10d ^c
Corporation of the City of London	2s. 3d. to 2s. 10d.	—	3s. to 4s.	—
London County Council	—	—	3s.	2s. 11d.
Artizans' Labourers' & General Dwellings Company	2s. 2d. to 2s. 6d.	1s. 6d. ^a	2s. 9d. ^a	—
East End Dwellings Company	—	—	2s. 6d. to 3s. 10d.	3s. 5d.
Four Per Cent Industrial Dwellings Company	—	—	1s. 11d. to 2s. ^a	2s. 11d.
Guinness Trust	—	—	1s. 8d. to 1s. 9d. ^a	2s. 1 ³ / ₄ d. ^a
Improved Industrial Dwellings Company	2s. ^a	2s. 1 ¹ / ₄ d. ^a	2s. 3d. ^a	2s. 4d. ^a
Metropolitan Association for Improving the Dwellings of the Industrious Classes	>2s.	2s. 3d. ^a	—	—
Peabody Trust	1s. 11 ¹ / ₂ d. ^a	2s. 1 ¹ / ₄ d. ^a	1s. 11d. to 2s. 3d. ^a	2s. 3 ³ / ₄ d. ^a
Society for Improving the Condition of the Labouring Classes	1s. to 2s. 4d. ^a	—	2s. to 2s. 8d. ^a	—
South London Dwellings Company	—	2s. 9d. to 3s. ^b	2s. 5d. to 2s. 6d. ^a	—

Notes:^adenotes rent at or below the lowest end of private market rents given for the year^ball boroughs^ccentral boroughs*Sources:*Private market: SCALDI (PP 1882, VII), app. 4; RCHWC, 'Report' (PP 1884-5, XXX), p. 17; Sykes, 'Results', pp. 206-7; *Census* 1901 (PP 1902, CXX), 'County of London', pp. 58-60; *Cost of living* (PP 1913, LXVI), pp. 46-9.Corporation: COS, *Dwellings of the poor* (1881), pp. 68-9; Sykes, 'Results', pp. 238-9.LCC: Sykes, 'Results', pp. 238-9; LCC, *London statistics*, XVI p. 131.ALGDC: COS, *Dwellings of the poor* (1881), pp. 68-9; RCHWC, qq. 12,049-12, 061; Sykes, 'Results', pp. 238-9.EEDC: Sykes, 'Results', pp. 238-9; Dewsnup, *Housing*, p. 167.FPCIDC: Sykes, 'Results', pp. 240-1; Dewsnup, *Housing*, p. 167.Guinness Trust: Sykes, 'Results', pp. 240-1; Dewsnup, *Housing*, p. 167.IIDC: COS, *Dwellings of the poor* (1881), pp. 68-9; RCHWC, qq. 5,036, 11,909, 11,967; Sykes, 'Results', pp. 238-9; Dewsnup, *Housing*, p. 167.MAIDIC: SCALDI (PP 1881, VII), qq. 3,295-6, app. 15; COS, *Dwellings of the poor* (1881), pp. 68-9; RCHWC, q. 1,019.Peabody Trust: SCALDI (PP 1881, VII), q. 3,612, app. 16; RCHWC, q. 11,549; Sykes, 'Results', pp. 238-9; Dewsnup, *Housing*, p. 167.SICLC: COS, *Dwellings of the poor* (1881), pp. 70-1; Sykes, 'Results', pp. 238-9.

S. London Dwellings Co.: RCHWC, qq. 11,020-11,030; Sykes, 'Results', pp. 238-9.

supply.³⁹ As far as the RCHWC was concerned, 'The rush for them shows how excellent they are and how the working classes appreciate them.'⁴⁰

Charging rents which were below market rents may have enabled MDCs to select the best tenants and thereby reduced maintenance costs and losses through bad debts. Whether or not charging low rents also

³⁹ Morris, 'Private profit', pp. 221-3; Dennis, 'Hard to let', p. 79; ALGDC, Lambeth Archives Centre, Minet Library, IV/122 Sun Life Properties Ltd., Minute Book 7, 18 Aug. 1884, 28 Aug. 1884; ALGDC, 'Eighteenth annual report'; RCHWC, 'Report', p. 55.

⁴⁰ RCHWC, 'Report', p. 55

made sound economic sense, the policy was, in the opinion of Wright, the US Commissioner for Labor, the primary test of the 'social economic utility' of MDCs in Britain and elsewhere.⁴¹ These apparently benevolent businesses were addressing the public interest in their activities. Whether or not these public interests were addressed at the expense of private profit will be examined in the next section.

III

Thus far it has been shown that MDCs fulfilled their social welfare objectives; it must now be established whether it was possible for them to do so profitably. Tarn argues, on the basis of early concerns about returns of $3\frac{1}{2}$ or 4 per cent, 'that housing societies could not hope to attract commercial investment, because a return of that sort was not a good investment by the standards of the day'.⁴² This view has become commonplace, although there has been no analysis of the actual returns which patrons derived from model dwellings. It has largely been assumed that investors were acting 'philanthropically' by accepting economic returns which were substantially below those which they could earn elsewhere for other investments of comparable risk. If this were true, it would have to be concluded that MDCs merely offered an alternative form of charitable endeavour, and not an innovative way of combining private profit and public interest. If, however, it can be shown that the returns were economically attractive, it would be possible to conclude that this experiment offered a viable way of solving social problems within a market framework. Empirically, therefore, there is a clear question: what were the returns to patrons of MDCs and how did these compare with the returns on other types of investment?

Table 3 shows the mean average dividends paid per annum by nine property companies.⁴³ These include six MDCs and three property companies which operated in London at the same time but which did not profess to provide model dwellings. MDCs paid dividends which were significantly higher than the consol rate and which were not appreciably different from those paid by ordinary domestic and commercial property companies. These dividends, however, were not the only economic returns which accrued to shareholders.

Investors in companies with a market for their shares can receive a return to their investment in one of two ways: first as a dividend and secondly through an appreciation in the capital value of their holdings. These return mechanisms are not mutually exclusive and both are embodied within the concept of the realized rate of return to financial capital. All other things being equal, a company which reinvests its surplus profits to extend its operations will experience a rise in the price

⁴¹ Wright, *Eighth special report*, p. 432.

⁴² Tarn, *Five per cent philanthropy*, p. 43.

⁴³ The first three companies in the table formally placed a cap on the dividends they could pay shareholders but this had no appreciable effect on their operation in comparison with the dividends paid by other similar companies.

Table 3. *Dividends paid by various property companies, 1870-1915*

Company	Average dividend (%)	Observations	
		Period	No.
Four Per Cent Industrial Dwellings Company	4.00	1887-1915	29
Metropolitan Association for Improving the Dwellings of the Industrious Classes	4.77	1870-1915	46
Soho Clerkenwell & General Dwellings Company	6.55	1885-1915	31
Artizans' Labourers' & General Dwellings Company	4.89	1870-1915	46
East End Dwellings Company	4.82	1885-1915	31
Improved Industrial Dwellings Company	5.00	1870-1915	46
City of London Real Property Company ^a	7.00	1872-1893	22
House Property Investment Company ^a	4.81	1878-1893	16
London Small Property Trust ^a	5.25	1874-1887	13
Consols	2.79	1870-1915	46

Note: ^adenotes property companies which operated in London and did not profess to provide model dwellings.
 Sources: *Stock Exchange Yearbook*, 1875-1916; COS, *Dwellings of the poor* (1873); *ibid.* (1888); Wright, *Eighth special report*; Kay-Shuttleworth and Waterlow, *Dwellings*; SCALDI, 'Report' (PP 1881, VII; PP 1882, VII); RCHWC, 'Report' (PP 1884-5, XXX).

of its shares. Assuming that individual shareholders can sell their shares at any time, they should therefore be indifferent as to receiving a dividend or being able to sell their shares at a profit.

Edelstein's study of investment provides a method of calculation of the 'realised rate of return' as well as comparative data showing the returns for many categories of investment during this period.⁴⁴ These data give a measure of the rate of return to financial as opposed to real capital. As we are interested in the actual returns which investors could realize from their assets according to prevailing market prices, this is an appropriate measure of economic return. Whether or not investors were receiving a good return for their investment is partly dependent on the risk involved in holding such securities and, according to Edelstein, 'the main advantage of this method' of calculating returns 'is that the capital market's evaluation of a firm is appropriately focussed on its future income and risk'.⁴⁵

The rates of return to investment in three MDCs, the ALGDC, IIDC, and MAIDIC, have been calculated using share price and dividend data as given in the *Stock Exchange Yearbook* and in *Burdett's Official Intelligence* which was first published in 1882 and subsequently became the *Stock Exchange Official Intelligence* from 1890 onwards.⁴⁶ Each of the three MDCs was an important agency in the field of model dwellings provision: in total they supplied 41 per cent of all the units of improved working-class housing identified by this study, and 59 per cent of the identified total output of MDCs. MAIDIC was the smallest, but oldest, of the three and by 1914 its fully paid-up issued capital had a face value of

⁴⁴ Edelstein, *Overseas investment*, pp. 111-59.

⁴⁵ *Ibid.*, p. 114.

⁴⁶ The prices used are the average of the highest and lowest prices at which securities were quoted during a given year. Because of the lack of data about the volume of shares traded at any given price, it has not been possible to calculate a weighted average.

£192,000.⁴⁷ The IIDC, one of the largest MDCs, was established in 1862 and by 1914 its fully paid-up issued capital had a face value of £930,069. The ALGDC, established in 1867, was by 1914 the largest of all the housing organizations in London, and by 1914 it had an issued capital of £2,929,130, making it a large company by any standards of the day.

Unfortunately Edelstein does not present his data on an annual basis but shows the average realized rates of return per annum for various types of securities for five sub-periods between 1870 and 1913, and so a similar periodization has been used here, starting with 1887-1896, the first period for which the data on MDCs are available.⁴⁸ In comparing the rates of return on MDCs with those on other securities it is important to choose comparators which were likely to have been considered by contemporaries as offering an alternative to investing in working-class housing. Habakkuk has suggested that investors in housing were 'passive investors' who switched between government securities and public utility type investments.⁴⁹ Investment in British building has also been linked with investment opportunities overseas, particularly in America.⁵⁰ Thus the range of securities presented here is an attempt to reflect these various alternative investments. The returns on railway equities and debentures have also been included to represent common private domestic investments. Table 4 compares the average rates of return per annum for ordinary stocks and shares in MDCs and for various domestic and non-domestic equities and debentures.

These data show that investors were not necessarily sacrificing profits by holding shares in MDCs in comparison with other domestic equities, except during the 'property slump' from 1910 to 1913. In general, higher returns were made on equities than on debentures, which is as would be expected given the relative risks involved. Although the ALGDC's 1879 preference stock performed particularly well during the first period, in the latter two periods this offered lower returns than consols and domestic and overseas debentures. Comparatively, the highest returns were experienced in the first period when MDCs also performed well with respect to overseas investments. Between 1887 and 1896 the ALGDC was the highest performing MDC, with average annual realized rates of return on ordinary shares out-performing all but equity shares in domestic gas and North American social overhead. The IIDC outperformed all but equity shares in domestic rail and gas, and North American social overhead. The average returns to MAIDIC shares, however, were lower than those for all other securities apart from US rail equities.

In the second period, which commences with a peak in model dwellings securities' prices, the returns from MDCs were lower, both absolutely

⁴⁷ All data about issued capital are taken from the *Stock Exchange Yearbook*.

⁴⁸ Edelstein, *Overseas investment*, pp. 153-4. For further details of the calculation of the returns to investment in MDCs, see Morris, 'Private profit', pp. 181-212.

⁴⁹ Habakkuk, 'Fluctuations', p. 220.

⁵⁰ Cairncross, 'Glasgow building industry'; Cooney, 'Capital exports'; *idem*, 'Long waves'; Habakkuk, 'Fluctuations'; Saul, 'House building'; Thomas, *Migration*.

Table 4. *Average realized rates of return (% p.a.) for various securities, 1887-1913*

<i>Security</i>	<i>1887-1896</i>	<i>1897-1909</i>	<i>1910-1913</i>
Model dwellings companies			
ALGDC ordinary stocks and shares	7.27	-1.26	-1.78
1879 preference stock	7.14	0.45	-1.53
1884 preference stock	5.80	0.34	-1.53
IIDC ordinary stocks	5.63	2.27	-1.42
MAIDIC ordinary stocks and shares	2.54	0.66	0.28
Domestic equity			
Rail	6.87	-0.83	1.51
Gas	8.62	2.07	2.13
Non-domestic equity			
US Rail	1.06	16.52	-4.28
N. American Social Overhead	10.40	7.06	3.16
Domestic debentures			
Consols	4.13	0.93	-0.37
Municipals	5.31	1.77	1.32
Social overhead	—	1.55	2.05
Non-domestic debentures			
Colonial and provincial governments	4.95	2.78	1.77
Social overhead	5.20	3.70	2.55

Sources: Edelstein, *Overseas investment*, pp. 153-4; *Stock Exchange Yearbook*, 1875-1915; *Burdett's Official Intelligence*, 1882-1889; *Stock Exchange Official Intelligence*, 1890-1915

and comparatively. The range of returns on MDCs' ordinary stocks and shares, however, was still fairly indistinguishable from other domestic equities although they performed significantly less well than North American equities. The IIDC offered the highest returns of all the MDCs. The ALGDC did not perform well in the second period. In the final period from 1910 to 1913 the average annual returns for all model dwellings securities fell and, apart from MAIDIC, all were negative. Only US rail offered a lower return than the ALGDC and IIDC in this period, while MAIDIC outperformed only consols. This was a period during which the property market slumped and the price of securities in model dwellings experienced a sustained decline.

We must now return to the question of whether investors were sacrificing personal profit for collective good by investing in MDCs. Dividends were comparable with those paid by other property companies and for most of the period the annual average realized returns offered were not markedly different from those paid to holders of other domestic assets. Investors in MDCs did less well in comparison with overseas investment opportunities, although whether or not these are the most appropriate comparators with domestic property investment is a contentious issue.⁵¹ The rate of return after 1910 was low, even in comparison with domestic

⁵¹ Cairncross, 'Glasgow building industry'; Cooney, 'Capital exports'; *idem*, 'Long waves'; Saul, 'House building'.

securities, and shareholders who held on to their investments may have sacrificed some personal profit. Such a conclusion, however, takes no account of the circumstances of the investor. Investors may have been seeking to maximize their returns over a diversified portfolio and, given that prices in model dwellings shares did not follow general market movements, they may have been attractive for this purpose. Unfortunately, however, in the absence of data about shareholders' other holdings, we can only speculate about portfolio diversification. What we do know is that for both the IIDC and ALGDC both the issued and subscribed capital increased throughout the period even when returns were falling.

Some investors in MDCs may have regarded their shares as being similar to debentures or bonds. In the case of a patron who wished to invest and maintain that holding regardless of changes in the capital value, the only concern may have been with the annual dividend paid. In this case such an investor would have enjoyed a steady dividend higher than the interest rate paid on government consols which varied between 2.5 and 3 per cent during the period. It would thus be possible to distinguish between the 'maximizing' investor who actively manages the portfolio in response to changing prices and returns and the 'satisficing' investor who fails to divest in the face of falling returns, although both types of investor did well from MDCs.

For some investors, committed to the social welfare aspects of the provision these companies were making, it may have been the case that possible sacrifices in personal profit levels were not an issue. Some MDCs were identified to the investing public by *The Stock Exchange Yearbook* as pursuing objectives of social or public good rather than profit maximization.⁵² Many more individuals, however, supported MDCs than supported purely philanthropic charities in the field, so the potential to earn profits played at least some part in their decision to invest. The ALGDC advised shareholders to take account both of the share price and of dividends in assessing their returns, while some investors in the IIDC repeatedly bought and sold shares during the year, suggesting that they actively responded to movements in price, thus indicating that shareholders in MDCs showed at least some concern for the economics of their investments.⁵³

In terms of their outputs, MDCs produced more dwellings for the working classes in central London than purely charitable agencies or the local authorities. These dwellings were of a higher standard than could be found for working-class occupation elsewhere in the private rental sector in central London and they were let at rents which were below market rents. In these terms MDCs were acting in the public interest: we have also seen that MDCs offered an investment opportunity which was broadly comparable with other widely held domestic investments,

⁵² *Stock Exchange Yearbook* (1875, 1877).

⁵³ Morris, 'Private profit', p. 176; ALGDC, Lambeth Archives Centre, Minet Library, IV/122 Sun Life Properties Ltd., 'Guard book'.

except during the property slump. MDCs therefore offered an innovative way of combining private profit with the public interest.

IV

MDCs were not the insignificant and unprofitable providers of working-class dwellings as they have been presented in the subject literature. From the 1840s until the late nineteenth century, MDCs and housing charities were the only institutions attempting to demonstrate a model through which a higher standard of affordable working-class accommodation could be provided in central London. Model dwellings were an effective response to the housing problem, which did not generate the externalities of the slums, yet were still profitable for investors. MDCs developed a system of tenant selection and active housing management which demonstrated that working-class housing could be a moderate or low risk, yet profitable, endeavour. This Victorian experiment in 'ethical investment' successfully reconciled social welfare objectives with financial returns, yet it declined in importance in twentieth-century Britain. Why?

Three factors combined to marginalize the role of MDCs before the outbreak of the First World War—technology, ideology, and public sector activity. First, MDCs had always faced difficulties in building in suburban areas where they met with competition from private speculative house builders. MDCs had developed a comparative advantage, however, in providing low-cost high-density accommodation for workers tied to the central London labour market. The value of this advantage was eroded by changes in transport technology which made suburban houses more affordable for increasing numbers of the working classes.⁵⁴ These changing economic conditions were also linked to a redefinition of the housing problem itself.

Public perception began to turn away from considering how society might cope with an urbanized and industrialized nation to planning how this society might be shaped in the future. It was not simply a question of finding a way adequately to house the worker tied to his place of employment in the centre of the city: as transport technology developed and new industries began to emerge it became an issue of how to design whole new communities in suburban or green field locations. In 1906 Raymond Unwin designed Hampstead Garden Suburb, London's answer to the garden city. Individuals such as Octavia Hill and Henrietta Barnett, who had previously been activists in the model dwellings movement, turned their attention away from the persistent problems of the inner city to become promoters of Hampstead Garden Suburb.⁵⁵

⁵⁴ The electrification of the trams in the early 1900s reduced costs, fares, and journey times, and also led to an increase in services on the Underground and some suburban railways, on which fares had been reduced as a consequence of relaxation of the workmen's fares legislation since the 1880s: Barker, 'Transport'.

⁵⁵ Meller, *Towns*, pp. 36–45. For Canon Barnett's view of the 'Ideal City' and a discussion of the development of idealist thought linking town planning with social reform, see Meller, ed., *Ideal city*; for a more general discussion of 'idealism' and welfare policy, see Harris, 'Political thought'.

The conceptualization of the housing problem was also reshaped by the new housing pressure groups formed in this period as the working classes started to take a more active role in demanding and defining better housing conditions.⁵⁶ 'Philanthropic capitalism . . . was . . . remonstrated against for profiteering from working-class housing' by the Fabians, while Harry Quelch of the Social Democratic Foundation spoke out against 'the horrible prison like "model" dwellings which are being constructed all over the metropolis by four per cent philanthropists'.⁵⁷ Within this context a rival form of housing agency was born: the public utility society which, according to Skilleter, 'combined a unique mixture of both co-operative and business characteristics. This made them ideologically acceptable to a range of housing reformers and early town planners, including the co-operative and labour movement and the British Liberal Party'.⁵⁸ Their tenants were shareholders whose profits were credited in capital against the value of the house until they became owner-occupiers.⁵⁹ These societies were closely linked to the garden city movement in terms of both design and personnel, although in numerical terms their output was less significant than that of MDCs.⁶⁰

In addition to facing the erosion of their comparative advantage by technological development and new suburban ideology, MDCs and other private housing providers faced a third challenge: crowding out by public sector activity. On a national level, Garside has shown that the Local Government Board constrained voluntary housing provision.⁶¹ In London, however, the principal challenge came from the LCC which from the 1890s not only set standards for others to follow: the council also became a model builder itself. This resulted in what Emsley has termed, 'a conflict of authority—who should define acceptable housing standards?'⁶² The LCC's aim was to 'endeavour to secure the erection of tenement dwellings which in all respects bear the closest investigation. Any dwellings that the council approved of should be of the best description'.⁶³ Despite these ideals, the LCC had not shown itself to be better able than the MDCs to meet the needs of the poorer sections of the working classes.⁶⁴ In fact, the LCC's building and management costs were higher than those of the MDCs although this was partly a result of the timing of their respective building operations.⁶⁵ By developing suburban estates, however, the LCC was building a style of dwelling more in keeping with changing ideological perceptions about working-class housing.

As a local authority, the LCC was much better placed than MDCs to

⁵⁶ Hole, 'Housing', pp. 473-5.

⁵⁷ Emsley, 'Development', pp. 52-3.

⁵⁸ Skilleter, 'Role', p. 126.

⁵⁹ *Ibid.*, pp. 129, 132.

⁶⁰ *Ibid.*, pp. 131-4.

⁶¹ Garside, 'Impact', pp. 749-54.

⁶² Emsley, 'Development', p. 58.

⁶³ LCC, *Housing question*, p. 43.

⁶⁴ The tenants it housed were of equivalent or higher occupational status: Morris, 'Private profit', pp. 93-5.

⁶⁵ Hole, 'Housing', pp. 487-8; Sykes, 'Results', p. 205.

cope with the changed economic circumstances and political expediencies of the interwar years. Little residential building occurred during the war, yet when it ended the continuation of rent restriction made housing a less attractive investment opportunity, particularly given the increasing claims which the local authorities had been making on landlords prior to the war in the form of rising rates.⁶⁶ Before rents could be de-controlled, supply needed to increase to meet demand and this demand was for a higher standard of housing provision than before the war. Whether the reasons were political, economic, or some combination of the two, a massive programme of building was demanded to provide a new higher standard of homes as outlined by the Tudor Walters report.⁶⁷

MDCs' comparative advantage prior to the war had been in building inner-city block dwellings and while they had provided a not insubstantial proportion of new working-class housing in London there were fewer similar organizations in other parts of the country.⁶⁸ As vehicles for delivering a national programme of housing provision, local authorities had the advantage of comprehensive geographical coverage, guaranteed access to revenue through the rates, local legitimacy through the electoral system, and existing administrative systems which could be expanded if required. Given the unwillingness of voluntary housing organizations to succumb to public regulation of their activities, according to Emsley, they 'were not "plannable instruments" and could not assume a dominant role in public policy'.⁶⁹ Public utility societies were the only private institutions to which the government was willing to extend the same terms of public subsidy as it offered to local authorities.⁷⁰ Even though these organizations had been financially unsuccessful, had produced little, and had succeeded in housing only the middle and upper working classes, both the design of dwellings they provided and the institutional form they adopted were considered more politically acceptable than the joint stock company form of MDCs.⁷¹

The model dwellings movement was not dealt a fatal blow by any one of the three sets of changing circumstances outlined above. In terms of their stated goals, MDCs demonstrated that social welfare objectives could be reconciled with market institutions. Over a period of more than 50 years MDCs provided a concrete example of how private profit could be combined with public good. However, a conjuncture of economic circumstances, ideological change, and public crowding out, led to the marginalization of MDCs and their aim to develop market solutions to social problems.

Although MDCs did not become the dominant providers of social housing in the twentieth century, this reappraisal of their activities shows

⁶⁶ Offer, *Property*, pp. 283–90; Bowley, *Housing*, pp. 3–4.

⁶⁷ Hole, 'Housing', p. 476.

⁶⁸ Ibid. Both Best, 'Housing associations', p. 143 and Ashworth, *Genesis*, p. 84, suggest that provincial MDCs did not perform as well as their metropolitan counterparts.

⁶⁹ Emsley, 'Development', pp. 66–7.

⁷⁰ Housing (Financial Assistance) Committee, 'Final Report' (PP 1919, X).

⁷¹ Skilleter, 'Role', pp. 143–5, 147.

that their failure to do so was not a consequence of inefficiencies and ineffectiveness in the solution to the housing problem which they offered. The historical literature on housing, however, has presented the demise of MDCs as part of the inevitable development of the welfare state. These 'whiggish' interpretations have assumed that state provision was an inevitable response to tensions between the operation of the market and society's welfare goals. However, this tension does not necessarily give rise to state provision: voluntary or private sector organizations may offer responses to social problems, which governments in turn may choose to regulate or subsidize.

MDCs do not fit easily within the 'mixed economy of welfare' as it is usually conceived: they were not commercial companies which maximized private interest at the expense of the public interest, nor were they part of the informal sector offering support to kith and kin. Rather, MDCs sought to address the public interest with respect to the housing problem, a preserve that is usually taken to be the exclusive territory of the non-profit sector and the state. This article has shown that the achievements of MDCs dominated both state and purely charitable effort in the field of working-class housing in central London. There is no established terminology, either historical or theoretical, which adequately captures the characteristics of institutions such as MDCs. 'Ethical investment' is perhaps the most apposite term for describing what these companies did, yet there are differences between its nineteenth- and twentieth-century forms. Ethical investors today are primarily reactive in that they avoid investment opportunities that may lead to environmental destruction or human exploitation. Their nineteenth-century counterparts who financed MDCs went a stage further than pledging money to those who did no harm; MDCs were proactive institutions which sought to find a new way of solving social problems within a market framework.

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