SHAPING FUTURES
Making The Economic Case for Housing

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OUTLINE

1. Housing Policy Cases: Existing Approaches
2. A New Economic Story: Not Financial Stability
3. Housing, Growth and Productivity
4. Evidencing a Story: Housing Processes and Outcomes
5. Improving Stories
1.a. Current Housing Policy Cases.

This presentation emerges from the Shaping Futures group, a co-production about housing policy challenges, approaches and solutions. AND

From ongoing research with the Commission for Sydney and the New South Wales Community Housing Federation, and is drawn from experience in the UK, Canada and Australia.
1.b. Current Housing Sector Approaches

Federal and sub-national governments has shrunk their vision, and provision, for Housing Policies

- Have abandoned a systems view: focussed expenditure programmes on low income and homeless households but tax supports on middle and upper income groups: big system outcomes on inequality, sustainability and competitiveness suggests need a big housing-system view within government
- Have diminished, removed housing ministries and agents: scrapped capacity leaving only shards of effective governance
- Housing lobbies focus on the merit good aspects of housing and the big policy debate numbers are those in ‘housing need’ and poor stock
- Recognition that housing impacts environmental and economic outcomes as well as social, but economic cases area weak
1c. Housing Economic Policy Cases

Housing Lobbies/Ministries
- Needs and social justice
- Building community
- Income and employment
- Multiplier effects

Treasury Finance
- Merit goods, all redistribution
- Same as other goods
- Yes, but less than other policy sectors (cf. infrastructure)
- Cyclical stability (reinforcing cycles, new links post 1990’s)
- Financial Speculation Stability

INFRASTRUCTURE, TRANSPORT MAKES A PRODUCTIVITY CASE: MACRO NUMBERS NOW DISPUTED BUT KEY ESTIMATES OF A FEW ‘KILLER NUMBERS, e.g. value of saved travel time.
About half of net Household Wealth

Major element of Household debt
1d. Have Focussed on Instability/Bubble
2. New Cases Needed: Finance
Stability? Or Productivity and Growth?

1. Policy issues in Canadian press include affordable housing (least). Housing affordability across a wide spectrum. Future stability of Prices (most)
2. Price Stability/bubble issues capture macro- policy ATTENTION
3. Have, in Canada, induced BOC/FM changes in deposit/loan values and in amortisation periods.
4. Can argue have been crude policy and are of short term interest. Were they modelled? Is there a macro-meso model?

Not the most important, long term issue: growth effects are
...But did not explore, consumption, investment consequences of house prices...
UK Change in consumption relative to income among mortgagors with different LTI ratios between 2007 and 2009\(^{(a)(b)(c)}\):

![Bar chart showing percentage point change in consumption to income ratio across different LTI ratios.]

Sources: Living Costs and Food (LCF) Survey, ONS and Bank calculations.

(a) Change in average non-housing consumption as a share of average post-tax income (net of mortgage interest payments) among households in each mortgage loan to income category between 2007 and 2009.

(b) LCF survey data scaled to match National Accounts aggregates (excluding imputed rental income, income received by pension funds on behalf of households and FISIM). Loan to income ratio is calculated using secured debt only as a proportion of gross income.

(c) Repeat cross-section methodology used, with no controls for other factors, or how households may have moved between LTI categories between 2007 and 2009.
2a. THE REAL STORY FOR HOUSING IS ESSENTIAL INVESTMENT FOR GROWTH AND PRODUCTIVITY:

SECTOR NEEDS AN ECONOMIC STORY TO MAKE BETTER CASE AS ESSENTIAL ECONOMIC INFRASTRUCTURE TO FINANCE MINISTRIES, FINANCIAL PRESS. THIS INVOLVES ASKING THE HOUSING SECTOR TO CHANGE:

Professional competence within housing organisations and peak bodies to understand and make economic cases

► Use of concepts: opportunity costs, systems, macro/micro
► Development and gathering of Evidence
► Language, Rhetoric: economics as Rhetoric
2. AND IN GOVERNMENTS NEW ECONOMIC STORY FOR HOUSING REQUIRES

- Some Ministry, at Province and federal level to take responsibility for market outcomes (the 30pc increase in Toronto?)
- Economics and Finance ministries to grasp economics of housing system
  - Spatially fixed, multi attribute investment: always ‘local’ important
  - Emergent structures in housing and labour markets
  - Complex recursive adjustments
  - Long periods of disequilibrium prices, unfolding dynamics
  - Wealth effects within the system
- What is the evidenced understanding Federally, Provincially and in major regional housing markets?
- Likewise, at these scales, what models of the housing economy-economy? Drop simple theorising as basis for advice.
- Drop simple supply side (only) solutions: not how system works

**ASK, WHAT IS THE CASE FOR HOUSING AS ESSENTIAL ECONOMIC INFRASTRUCTURE FOR ECONOMIC GROWTH AND PRODUCTIVITY ENHANCEMENT**
3.a WHY DOES PRODUCTIVITY MATTER.

Raising productivity, the effectiveness of resource use, (re)-emerging challenge as

- RISING GDP (now softer) per capita last 3 decades
- Strong terms of trade, favourable demographic
- Reliance on capital deepening, more capital per worker
- BUT: Multi-Factor productivity (innovation) has been poor in Canada

**Growth drivers are human capital, business capital and innovation; now recognise infrastructure, what about housing/land?**
3.b Housing Outcomes and Processes Shape Growth via Human Capital, Innovation etc.

1. Recognise that ‘housing’ applies to ‘process’ (VERBS) as well as ‘characteristics’ (NOUNS) outcomes.

2. Housing ‘characteristics’ ‘outcomes’
   - Housing: size, comfort, style
   - Neighbourhood
   - Location: jobs, play, schools, shops (see transport)
   - Metropolitan supply: quality, availability
   - Prices, rents, price changes

3. Synthesise evidence of ‘effects’ on drivers of productivity

4. Examine impacts at different spatial scales, aggregate to metro-regional scale

HUMAN CAPITAL, BUSINESS CAPITAL, INNOVATION plus effects on SPENDING AND CONSUMPTION
3d  A MACRO MODELLING APPROACH: NO?

Infrastructure

- At national scale, effects from production functions, Aschauer (1988, 1990)
  - Suggest strong impact
  - Now questioned, new methods, new data
- Recently, convincing metro-regional estimates are all about transport; estimates are location, sector specific, not universal; killer statistics of time savings: see what consultants do!
- Often claims the housing gains! (commuting)
- What are the killer numbers for housing
- See how infrastructure effects for health and schooling infrastructure are treated

For housing,

- Few macro estimates, no convincing modelling approaches
- Make case from micro and metro levels
4a. KINDS OF APPROACH

First: Modelling major system changes (like saved travel time)
  - Developing models, Improving CGE models
  - Issues, consumption effects of ‘excess’ housing costs

Second: Constructing social/spatial ‘archetypes’ at local/metro levels

Third: eclectic evidence review
4b. CITY, REGIONAL LEVEL EVIDENCE

CLEAR EVIDENCE ON

- Residential density and productivity (2-8pc of GDP)
  - Labour markets effects
  - Innovation systems
- Net advantages, housing costs and location
  - Wage Inflation
  - Distorting away from most productive locations (Krugman, Hsieh, Albuoy)
- Higher housing costs reduce spending on tradeable goods with higher returns to scale and productivity

ABSOLUTELY CRUCIAL in METROPOLITAN ECONOMIC STORIES
4c. HOMES, NEIGHBOURHOODS

**Housing Size, Comfort, Amenity**
- Impacts on health, learning ability (Human K)
- Impacts on energy use, costs, carbon production (Natural K, K)
- Effects on Home business formation and growth (Business K)

**Neighbourhood and Location (Separating selection and neighbourhood effects important)**
- Social capital formation, trust (K)
- Teenage school and work performance (HK)
- Employer address discrimination (HK)
- Quality and variety in n’hood: Florida ‘boho’ effects

**Emergent Spatial Structures**
- Time spent travelling to fulfill household activity pattern (gain claimed by transport!), (HK)

**Price and Rent effects on growth: need a whole new essay:** What Does it do to Patterns of Savings, Investment and Economic Culture: have we created a rentier economy rather than entrepreneurial economy
5. HOW DO YOU START? LOOK AT WHY MISSED OUT? YOUR PRACTICE, THEN EVIDENCE.

1. Raise evidence and modelling capacities within Finance and Treasury
2. Integrate economic approach across Finance, Planning, Housing, Infrastructure within governments
3. Make the modelling and related approaches to sectors available to them: transparency
4. Raise capacities within housing sector, market and non-market to have an informed modelling (big data, use it)
5. At local scales have economic development, infrastructure, housing and planning articulate the impacts of housing outcomes on jobs and income (talk to each other)
6 Developing a similar conversation with key business interests on how housing outcomes are impacting competitiveness.

AN ECONOMICALLY INFORMED STORY FOR INVESTMENT IN ESSENTIAL HOUSING INFRASTRUCTURE WILL SHAPE BETTER OUTCOMES