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The Centrality of Housing to Economic Development

1.1 Introduction

This book seeks to focus on a puzzlingly underserved issue of economics on the role of investment in housing. For many years, housing, and its associated activities, was either treated as an adjunct to economic and industrial policy or at best as a marginal item in the economic planning process. After several decades of debate on what housing might contribute to economic growth, it is now a widely held view that housing is not just a peripheral activity but a central force of sound economic development, much in the same way as investments in transportation, power and communication. Contrary to earlier theoretical and policy obfuscations on the nature and the relative importance of housing, we now have clear empirical evidence that demonstrates the multi-faceted ways in which housing impacts on the process of economic growth. This book sets out to demonstrate these multi-dimensional aspects of housing investment highlighting the social, economic and institutional and policy factors that make the issue urgent and central in our time.

Our key proposition deriving from both experience and the theoretical scholarship is that housing investment contributes directly and indirectly, through backward and forward linkages in the economy, to national economic growth and, to a large extent, to national capital stock (UNCHS/ILO, 1995). There are, for example, strong systemic linkages between construction and real estate that make the property component of housing a major economic driver of national economies at all levels of development. It is an important tool for solving the employment and the underemployment problem and for building up national human capital (Green, 1997; Hirayama, 2003). Furthermore, the co-evolution of the institutions of the housing market and the wider economic changes at all levels of development were poignantly brought to the fore of academic and policy debate by the widespread ramifications generated by the sub-prime lending crisis in the US, the biggest economy in the world. The reverberating shock of the crisis should not surprise us, given that the housing

capital stock of the US is larger than that of business capital (Greenwood and Hercowitz, 1991; Skinner, 1994). The current housing crisis on home ownership impacts considerably on economic variables such as incomes, prices of materials, cost of construction and interest rates.

Housing, therefore, could have answers to the most pressing question for economics: how to solve the problem of the massive scale of extreme poverty, an issue that occupies the minds of most economists and a number of international organizations such as the one I currently lead. The poverty trap as Jeffrey Sachs (2005) describes it contains in itself the seed of economic stagnation, where households and societies are unable to save and invest in decent housing, leading to poor economic growth. The example cited above regarding the national systemic integration of economic activities such as the linkages between construction, building materials, and trade in contingent goods and services is a throwback to Adam Smith's notion of the nexus of expanding markets and increased specialization. As small enterprises (households) save and invest in progressively higher value housing activities (building materials and services, for example), they give rise to new markets with other enterprises (small and large households) and consequently require increasing specialization of the sector. The imperative of increasing specialization gives rise to innovation which, in turn, leads to higher quality goods and services and inevitably to higher income. The huge gap between rich and poor nations is rooted, to a large extent, in technological innovations in all sectors, including housing.

Given what we now know of the housing, building and planning sectors, collectively known as the real estate sector, it is evident that it has failed to gain the recognition it deserves in mainstream macroeconomic planning and policy formulation, particularly in the developing countries. As a result, of all the basic human needs, decent shelter remains one of the most neglected and unachievable goals at all levels of development policymaking. While the quality of housing (shelter) in the countryside has generally been below decent housing, the situation is much worse in the urban areas where, by 2005, about 1 billion people lived in slums and squatter settlements. This amounts to one-third of the global urban population. The world has become progressively urbanized, and for the first time a majority – 51 per cent of humanity – now lives in cities and towns (see Table 1.4 at end of chapter). Housing deprivation is greatest in Africa, where 72 per cent of urban populations are slum dwellers, followed by Asia at 46 per cent and Latin America at 32 per cent. But developed countries also face the urbanization challenge, with 6 per cent of their urban populations classified by the United Nations Human Settlements Programme (UN-Habitat) as living under slum-like conditions, without access to adequate shelter (see Table 1.5 at end of chapter). Their lives are characterized by lack of access to safe drinking water, sanitation or secure tenure, and a lack of durable buildings and overcrowding (UN-Habitat, 2003).

Conceptually, housing is a set of durable assets, in addition to being a bundle of services and an array of economic, sociological and psychological phenomena. Apart from providing shelter, a key basic need, it is also believed

to be one of the key elements that link tangible economic and social aspects of any settlement. Without housing, workers cannot be productive, and entire urban and national economies will feel the impact. Housing and associated services are essential for both production and human welfare, particularly health. From this perspective, therefore, housing is critical to both social and economic development of nations. A minimum level of housing standards, or adequate shelter, is almost, if not fully, a public good. The goal of housing policy is a well-functioning housing sector that serves the interests of all stakeholders and at the same time contributes to the realization of broad national socioeconomic goals and objectives. Such stakeholders include housing consumers, housing producers, local and central governments, and housing finance institutions (World Bank, 1993).

In order to realize this goal, appropriate policy instruments are required to ensure that the housing market functions well. The conceptual framework of a well-functioning housing sector shows that the main demand and supply factors are socioeconomic in nature. These factors influence the affordability of rents and the prices of housing. On the demand side are the macroeconomic environment, demographic conditions, and access to housing finance, taxation and housing subsidies especially targeted at the poor and low-income groups. Supply side factors comprise availability of developable land, appropriate building construction technology and suitable construction materials, skilled labour, and reliable infrastructure. Other important factors include institutions and physical planning regulations. How these factors interact and yield the desired housing outcomes are determined by, among other factors, the type of policy instruments and implementation monitoring and evaluation and how the results are utilized in policy learning and refinements. An ambiguous fact most scholars agree on is that there is a recursive relationship between housing and the broader macroeconomic environment. While housing plays a key role in driving development, the macroeconomic environment, in turn, has a very significant impact on the housing sector.

While housing investments have generally increased over time, access to housing remains a key challenge, especially in developing countries, where, relative to the developed world, investment has generally been low, resulting in inadequate housing delivery and consumption. Between the City Summit (Habitat II) held in Istanbul in 1996 and the beginning of the 21st century, access to decent and affordable housing in the urban areas of developing countries has not improved significantly. This situation has persisted in part because of the unfavourable macroeconomic context of urban development. Investment in the housing sector depends on the national economic framework, particularly the capacity of developing countries to finance their needs. Investments and savings have not been mobilized adequately to finance critical needs such as housing and infrastructure, which would, in turn, have contributed to national development.

As a result of improvements in housing finance markets in most parts of the world in the past two decades, potentially available funds for housing have

increased. However, the elites and urban dwellers have benefited more, to the detriment of the poor and low-income groups. In most parts of Africa, housing microfinance instruments have not been widely available. The mortgage market has not impacted positively on the more disadvantaged groups due to what UN-Habitat (2005a, p146) describes as ‘the difficulties with respect to their scale of income and the degree of informality’.

Given the critical importance of the real estate sector, the pertinent questions are:

- How and why did housing, a core basic need, end up being neglected if not entirely forgotten by economic planners?
- Why has humanity forgotten, or appeared to have forgotten, to pay requisite attention to and invest in a sector that provides for its own living space, its own habitat?
- Has this sector been forgotten or has the provision of shelter simply proven so formidable that even with the best efforts, solutions have simply not been found?
- In other words, is the present unsatisfactory state of housing in the developing countries a result of wilful neglect by government economic planners and political decision-makers, or is it a demonstration of a lack of clear understanding on the nature and functioning of the sector itself?
- Isn’t housing clearly a public or merit good – a good from whose consumption others derive benefit and, therefore, one that must be supported?

1.2 Rapid and Chaotic Urbanization

This chapter is organized as follows. The present section places in context the notion of rapid and chaotic urbanization, while the next two discuss the impact of globalization and the role of housing in stimulating growth and development. After which, the next two sections discuss the poverty reduction strategy papers (PRSPs) and the key argument of the book. The last section puts forward the objectives and the structure of the book.

Perhaps the most significant characteristic of the macroeconomic context of urban development is the rapid and unplanned urbanization of the national economies. Housing is the major land user in urban centres, and as these expand, so do areas devoted to housing. Low consumption of good housing results in poor-quality human settlements such as slums, with adverse impacts on household and macroeconomic performance and social wellbeing. Yet the world continues to witness urbanization at an unprecedented rate. UN-Habitat (2005b) estimated that by 2007 the world’s urban population would exceed its rural population – for the first time in human history – and that 2 billion people would be added to the number of urban dwellers in the developing countries over the next 25 years. Table 1.1 provides an insight into the expected increase in population and the need for housing and services. For governments and city managers, this poses a major challenge in view of the fact

Table 1.1 *People requiring housing and urban services by 2030*

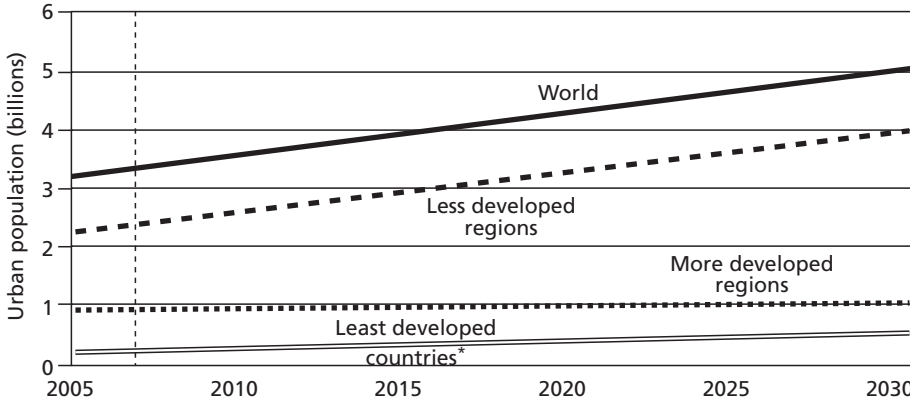
Urban population (2003)	3,043,934,680
Estimated urban population (2030)	4,944,679,063
Additional urban population (2003–2030)	1,900,744,383
Population living in slums (2001)	923,986,000
People requiring housing and urban services by 2030	2,824,730,383

Source: UN-Habitat (2005a, p5)

that urban centres are the engines of economic growth and contribute significantly to gross domestic product (GDP) in particular and to sustainable national development in general. Figure 1.1 shows the projected trends in urbanization and slum populations between 2005 and 2030. Unless radical measures are taken, by 2030 slum populations will rise to 2 billion, with attendant threats to public health, safety and security both within and between nations.

Historically, urbanization has been associated with transition from low-paid jobs in agriculture to higher-paid occupations in industry and services, both of which spur productivity growth, technological accumulation and innovation. In the course of economic development and structural transformation, agriculture is known to be a residual employer. Technological progress improves agricultural productivity very fast. Surplus farm labour then moves on to work in secondary and tertiary sectors, mostly in urban areas. Accordingly, urban-based economic activities represent more than 50 per cent of GDP of all countries in the more urbanized countries in Latin America and in Europe. Almost 62 per cent of national value added in Mexico is attributed to the 10 largest metropolitan areas. Mexico City, with 14 per cent of Mexico's population, generates 34 per cent of its gross national product (GNP), while Lima, with less than 30 per cent of the population, generates 40 per cent of the national output. African cities generate about 60 per cent of the continent's GDP, yet the rate of urbanization is only 34 per cent (Tibaijuka, 2004). The efficiency of cities as generators of economic growth is undisputed. The Asian Development Bank (1996) estimated that almost 80 per cent of new growth in Asia originates in the economies of the cities. Cities gain from an abundant and skilled labour force, economies of urban scale, and agglomeration, in addition to demand for consumers and intermediate goods. Urbanization also impacts positively on rural areas. Apart from being a market for farm products, urban settlements absorb surplus farm labour coupled with the remittances sent to rural-based families. Despite overwhelming evidence of the benefits of urban settlements, however, a case still needs to be made for enhanced investment in the urban sector in general and the housing sector in particular.¹

Table 1.2 (see end of chapter) compares trends in investments in the housing and urban development sector for selected countries. Table 1.3 (see end of chapter) shows how the housing and urban development sector did not feature at all in the first generation of PRSPs, which are investment guidelines



Note: This graph is based on current definitions of more and less developed regions. Some countries will move into the more developed category over time, so this graph would look quite different in 2030 if this fact could be taken into account.

* The least developed countries, as defined by the UN General Assembly in 2003, include 34 in Africa, 10 in Asia, 1 in Latin America and the Caribbean, and 5 in Oceania.

Source: UNDESA (2007)

Figure 1.1 Future growth in urban areas

for developing countries under the tutelage of the World Bank. The relative neglect of the sector is obvious and has been exacerbated in part by the very rapid rate of urbanization. Investments have failed to keep up with the provisions of housing and other requisite social services, condemning many to a life of indignity in slum and informal settlements (Figure 1.1).

Despite the challenges facing cities, it is posited that the positive economic functions that they fulfil can be made much more effective through appropriate policies and investments that meet these challenges. These challenges include poor infrastructure and public services, qualitative and quantitative housing inadequacies, and environmental degradation. This is why UN-Habitat ‘sees a growing need to push for a more holistic approach on the rural–urban divide, so that cities become an engine for positive change’ (2006a).²

1.3 Globalization

In addition to rapid urbanization, the fortunes of most developing countries are now closely linked with globalization and technological change, depending on their perceived national advantages, potential profitability and availability of skilled labour, among other factors. These two major external forces are influencing the growth of cities, especially in Latin America and Asia and to a lesser extent in Africa. There has been a rapid increase in the flows of capital, labour, technology and information in international trade, from US\$579 billion in 1980 to US\$6272 billion in 2004 (Cohen, 2004). Cities that offer good incentives, market-based legislation and institutions, reliable physical infrastructure, and political stability are known to advance economically at a

greater pace than others. In a related manner, larger cities that are capable of offering very efficient conditions for information dissemination tend to benefit most from the emergence of information-based service industries as well as financial and producer services. A typical example is Bangalore in India, which is benefiting tremendously from software out-sourcing. The process of globalization, albeit differentially, continues to enhance international trade in goods, capital flows and mobility of labour, culminating in a more integrated world economy. It is also creating interdependence between cities across national boundaries and regions of the world. The global impact of the recent sub-prime mortgage crisis in the US and trans-Atlantic effects is a case in point.

However, while the process of globalization has been credited with certain benefits, there are fears that some of the irreversible impacts of the process might have greater externalities on cities, housing markets and socioeconomic development. Cities also face the challenge of opening up to the free exchanges with other cities and cultures as they try to protect their residents from negative aspects that come along with the free flows. Studies conducted by UN-Habitat recently conclude that ‘while globalization has no doubt brought stimulated economic growth, the benefits and costs have not been evenly distributed. In many countries, real wages have fallen and costs have risen. The number of people living in poverty has increased, and equalities are worsening – especially in cities (UN-Habitat, 2006a).’³ The policy challenge therefore is how governments and development partners can maximize the benefits while minimizing the adverse externalities generally and link housing investments with other sectors in more creative ways in particular.

Until now, a systematic examination of housing policy and how investments in the housing sector contribute to sustainable national development, especially for developing nations, has not been carried out by technocrats and policymakers. Hence housing services tend to be relegated to the field of basic social needs or non-productive consumer durables. As such, they hardly merit an investment policy in the process of economic development. Paragraph 65 of the Habitat Agenda notes that shelter policies in general, and housing in particular, play an important role in addressing the problem of poor urban living conditions, especially in developing countries. The paragraph notes that ‘periodic evaluation and revision of enabling shelter policies is the cornerstone of adequate shelter for all’ (Habitat Agenda, 1996).⁴ These affirmations are quite germane to our thesis, given the inherent contribution of housing to national economic development. For this reason, housing as a central issue in economic development is a major point of focus in this book. We articulate the point in the next section.

1.4 Housing as a Catalyst for Economic Growth and Development

The analysis of the objectives set out in many national development plans (NDPs) reveals the clear importance accorded to economic growth. Emphasis is

generally placed on sectors regarded as growth stimulating. A very popular sector in this context is manufacturing industry, with objectives for this sector being to channel significant investments in capital goods industries to boost import substitution and to develop the domestic resource base. Similarly, agriculture is also given importance, with expectations that the sector could increase employment and food security and foster rural development, especially with the coupling of this sector to the industrial sector. Historically, because the majority of the population in the early stages of development lived in rural areas, various governments placed emphasis on rural development and provision of basic needs.

Attainment of the above objectives is implicitly dependent on the availability of good quality and functional physical infrastructure such as transportation and irrigation facilities, dams, hydroelectric plants, housing, and educational and health facilities. Physical infrastructure has strong linkages with the building and construction sector. These sectors are one of the most important industrial sectors in the national economy because they serve as the basic means for the implementation, expansion, improvement and maintenance of all civil engineering works and human settlements projects.

Housing as a sector is particularly recognized when it is rightly appreciated as a product and as a process. On the one hand, housing as a product means not only the shell or structure of dwellings, but also their design and basic built-in equipment, the amount and location of space, and the cooling, heating, lighting, sanitary and similar facilities. It is also the layout and equipment of the neighbourhood, such as open space, playgrounds, streets, walkways, utilities, nursery and elementary schools, shops, and other neighbourhood facilities. On the other hand, housing as a process is more than construction. It includes the dwelling design, the neighbourhood layout, mortgages and other finance, city and regional planning, public control aids and enterprises through such routes as building and housing codes, mortgage insurance and housing redevelopment authority. It includes maintenance and repair, remodelling, neighbourhood services and conservation (Mundelker and Montgomery, 1973).

The recognition of these attributes led Jan Tinbergen to conclude that for a country to be stable and to offer a basis for economic activity and development, a certain number of fundamental investments must be made. There must be a minimum of housing (Tinbergen, 1958, p6). Furthermore, Albert Hirschman regards investment in social overhead capital facilities such as housing, roads, water and electricity as developmental stimulus. Investment in housing immediately creates income and employment; hence it brings immediate benefits to those that are employed, as well as to those who will be the consumers or users of the final product. Housing construction activity has appreciable 'multiplier' effects, increasing output, income and employment, pervading the entire economy through the utilization of inputs from other sectors. Thus supply of housing has the potential to generate key investments in production, employment, income and savings and investment in the economy as a whole. Also, houses potentially yield certain income that is protected against fluctuation in the value of money.

Consequently, some development economists, such as Walt Whitman Rostow, Hirschman and Tinbergen, advocated that development policy should as a matter of priority emphasize and explore the benefits of backward and forward linkage effects. In view of this, the building industry according to Tinbergen is strategically important in the process of investment and hence the government should encourage and regulate it. Such regulatory activities include issuance of development permits, as well as guidance of the quantity surveyor and nature of investment. The contribution of the housing industry to national development has historically been significant. For example, in a comparative analysis of the share of labour incomes in the net value added for some industries in The Netherlands, Tinbergen (1967, p251) demonstrated the robust contribution of the building industry, which amounted to 72 and 65 per cent in 1950 and 1960 respectively (Table 1.5 at end of chapter).

In his seminal analysis of the British economy during the 19th century, Rostow (1949) reviewed the performance of the key sectors during the 1874–1879 depression and concluded that housing and construction were explicit catalysts for development even during economic depression. The British economy prior to the depression depended on supplying capital goods and capital to developing areas. Following the reduction in offshore orders for goods and inducement to foreign investment, the government diverted most of the available funds into the construction of housing and public buildings as a strategy to stimulate the economy. Together with technological improvements in the manufacturing and use of steel, new mining operations, and installation of new machinery, this meant that average annual employment was sustained beyond 95 per cent until 1878.

According to Rostow, in 1874, the first full year of the depression, industries previously regarded as prime movers, such as ship-building and iron, recorded a decline in production and orders, whereas the home-building trade and engineers maintained activity at respectable levels:

Home trades – unconnected directly with export fluctuations – show unemployment among carpenters and joiners lower, in fact than in 1873 at about 0.8 per cent. Unlike the chemical industry, the Hudders-Field wooden-mills supplying particularly to housing remained fully sustained. Again for business, 1875 was depressing with many failed enterprises, yet only the building trade reported unmixt prosperity, with a mere 0.6 per cent level of unemployment.

Although a peak in the building trade was attained in late 1876, there was a general decline in virtually all kinds of trade, followed by an increase in employment, largely due to prosperity in building construction. The level of employment was described as the highest point in the 50-year period preceding the World War I (Rostow, 1949, pp179–181). Rostow further explained that

the boom in house-building in Britain was partly stimulated by ‘the uncertainty of the capital market and the disrepute into which foreign investment had fallen’ (1949, p180).

A cross-country review of the contribution of housing construction to capital formation in the early 1970s by United Nations Centre for Human Settlements (UNCHS) showed that in the centrally planned economies the increase in GDP over a five-year period was surpassed by the increase in capital formation in housing construction. Results of the data analysis indicated that in most of the 49 countries investigated, residential construction represented about 4 per cent of GDP, 20 per cent of fixed capital formation and 35 per cent of total construction (UN, 1976, pp161–162).

Further evidence that the housing sector is a developmental catalyst is given by an examination of the proportion of central government expenditure on housing and community services. Data for 1980 and 1984 from several countries show that while housing expenditure was generally lower than the expenditure on economic services, it was however higher than the expenditure on mining, manufacturing and construction combined. The value is even more significant if the proportions expended on electricity and roads are added to the share of housing and community services.

1.5 Poverty Reduction Strategy Papers

In the late 1990s the World Bank and the International Monetary Fund (IMF) made the preparation of PRSPs by debt burdened developing countries a major conditionality for loan rescheduling and relief. In addition, PRSPs are meant to serve as the Comprehensive Development Framework for both domestic policies and programmes to reduce poverty, as well as for development aid (World Bank, 2002). However, most of the early PRSPs prepared by most developing countries failed to include housing as one of the sectors critical to poverty reduction. Notably, the *PRSP Source Book* produced by the World Bank to serve as a guide to assist countries in the development and strengthening of the papers does not explicitly mention housing. Rather, the source book focused on macroeconomic and structural issues, rural and urban poverty, human development, the private sector, infrastructure, and cross-cutting issues such as governance, participation, gender, communication in PRSPs, and the environment (<http://go.worldbank.org/318LYX080>). This situation compelled the Executive Director of UN-Habitat to advocate in strong terms the need for the explicit recognition and inclusion of housing in PRSPs.

For example, the PRSP prepared by the Government of Ghana in 2002 included infrastructure, mining, tourism, agriculture and industry as the drivers of poverty reduction, while gender and environment were considered as important cross-cutting sectors. Housing was not included in the paper. The interim PRSP prepared by Burundi in November 2003 did not recognize qualitative and quantitative housing deficiency as constraints to growth and a source of poverty (Section V.3.5), just as there were no data on housing condi-

tions. Nonetheless, the government planned to improve access to housing finance. The Bolivian PRSP that was prepared in 2001 did accord recognition to housing and sanitation in rural areas, but not to urban areas, where shortage of housing is acute (see www.worldbank.org/poverty/strategies/review/index.htm for samples of PRSPs). Discussions of PRSPs and housing are further elucidated in Chapter 4.

1.6 The Key Thesis of the Book

From the foregoing argument, the book articulates a central proposition and a number of specific supporting theses. The broad proposition of the book is that a symbiotic relationship exists between housing, in its broader dimension, and the factors by which we measure economic development. It posits that investment in housing, as well as an efficient handling of housing supply, development and access, generates a high multiplier effect to the wider macroeconomic and social system. The dynamics of this interplay of factors tends to reverberate back to housing, making it more robust and resource optimizing. An in-depth analysis is made in the book to demonstrate the linkages between housing and employment, growth, incomes, savings and asset formation, productivity, and welfare. Ultimately, we argue that attempts at building long-term prosperity must include housing as a major contributor to national wealth creation efforts. Attempts to end mass and endemic poverty are intertwined with raising labour output per worker and creating employment, all of which lead to improving living standards, enhancing the quality of life and promoting inclusiveness.

The book further argues that the body of scholarly analysis in the past century and a half tends to reveal a paradigm shift in the role of housing, from being a mere stimulus and catalyst for economic revitalization into becoming an embedded productive factor for sustainable development. Indeed, empirical evidence from countries whose performance is illustrated through case studies in the book confirms that prioritizing investments in housing as well as the forward and backward linkages in the socioeconomic system have contributed significantly to the rapid rate of growth experienced by those countries.

The symbiosis between housing and economic development is enhanced through the intermediation of the fiscal and financial systems. The latter not only valorizes asset formation, provides the linkage to markets and underwrites shelter investments, but also acts as a regulatory instrument for influencing the geographical locus, size and rate of housing development.

Optimizing the role of housing in economic development entails the formulation of requisite context-specific policy and institutional frameworks that foster efficient and equitable functioning of the housing system both in terms of home-ownership as well as rental housing. Further, it requires putting in place mechanisms that correct the inevitable social disequilibrium generated by the cyclical nature of macroeconomic development. In periods of low economic performance, including recession, institutional compensatory mechanisms,

such as subsidies, welfare provisions and tax reductions, can be deployed to assist those who are unable to cope effectively with the market conditions.

Mindful of the institutional contexts, we now know that housing policies could be used to reactivate the economy by generating demand and supply factors that positively impact on employment and income generation in various related sectors of the housing chain of production and consumption.

Equally critical in ensuring appropriate policy and institutional frameworks is the need to build the vital linkages between housing policy and those of other sectors of the socioeconomic system. In-built synergies have to be promoted within multisectoral policy regimes, with housing incorporated as a key policy instrument that feeds into the other areas of health, employment, fiscal and financial systems, livelihood development, infrastructural investments, and territorial development. The propensity of policymakers to sectorize housing and the failure to link it with other prime movers of socioeconomic development has led to well-known social malaise, manifested in proliferating slum settlements in cities of the developing world and the different forms of social exclusion observed in the developed world.

Our final proposition is that housing has a powerful effect on enhancing welfare and social functions. Due to its widespread and systemic impact on skills formation, it improves human wellbeing, fosters inclusiveness, and leads to the enhancement of household asset and capital formation. All these outcomes, however, depend on the extent to which policy and institutional distortions which often alienate a bulk of the population are rectified.

1.7 Objectives and Structure of the Book

This chapter introduces the book and presents its main thesis. It advances the rationale for the book within the multi-dimensional nature of housing, arguing the case for access to affordable and decent housing as an imperative to human wellbeing. It reviews the trend in global population in general and urban slums in particular. The implication for meeting the challenge of housing deficiency in the face of rising demand is highlighted. Using relevant data, this chapter positions the housing sector in the leading sector theories as espoused by Rostow, Hirschman and Tinbergen. The chapter shows that even during the 1874–1879 depression in the UK, the housing sector remained strong, contributing to employment and growth while the traditional growth sectors floundered.

Chapter 2 describes in a comprehensive manner the conceptual framework for examining the intricate relationship between housing and economic development. The framework indicates that the relationship between housing and economic development is a complex circular process. Key drivers of the housing sector include demand for housing, stages of economic development, the economic model, political and economic systems, macroeconomic variables, and institutions. While housing drives the economy, the performance of the sector is also affected by factors influencing investment.

Chapter 3, a historical exploration of the changing concepts and policies,

sheds more light on the evolution of ideas explaining why government investment in the housing sector was quite low in most countries until the 1950s. Prior to this period, the sector was regarded as possessing a high capital/output ratio compared to agriculture and industry.

Chapter 4 provides both theoretical and empirical arguments, as well as deploying a wide range of case studies, to assess the contribution of housing to economic development and how macroeconomic variables such as interest rates affect housing development. Some of the contributions include economic growth, forward and backward linkages, and improved health and productivity. Also, the potential contributions of housing investments to the attainment of the Millennium Development Goals (MDGs) are highlighted. The major conclusion reached is that housing is as important in economic growth and development as are sectors such as agriculture, manufacturing and mining.

Chapter 5 provides an in-depth discussion of the linkage between housing finance and economic development. The various types of housing finance and their sources are reviewed. The chapter emphasizes the point that different kinds of institutional innovations have led to the growth of the near moribund mortgage financial instruments. New institutional mechanisms have emerged to cover a wide range of financial products, organizations and delivery mechanisms. In addition to the conventional mortgage, some of the recent sources of housing finance include derived demand subsidies and microfinance and their innovative variants, as further explained by the case studies. The chapter concludes that more effort is still required in order to serve the poor.

In Chapter 6 the role of housing as a social policy instrument is examined. Taking each of the three groups of countries (developing, transition and developed) in turn, the chapter examines the context in which housing policy has evolved and been implemented. The chapter explains that housing as a social policy instrument is meant to improve the living conditions of the population, especially in provision of decent housing, access to basic services and improved healthcare. Following this clarification, the phases through which housing policies have passed are then examined and linked to the drivers that led their adoption. On the one hand, drivers of housing policies in developing countries include acceptance of Turner's advocacy of sites and services, assumption of a new role for housing from social overhead to an economic sector, and the internationally promoted urban development agenda. On the other hand, housing policies in the transition countries are classified into two groups. During the socialist era, housing policy in these countries was made subordinate to economic policy. Currently all these countries place emphasis on privatization of the housing sector and building of public-private partnerships towards improved housing delivery. Finally, the chapter explains that early intervention in the now developed countries was aimed at improving public health, although aggressive public housing construction took place after World Wars I and II.

The concluding chapter highlights key policy lessons, issues and recommendations.

Table 1.2 *Comparative trends in investment in housing, infrastructure and key economic sectors, 1980–2002 (per cent)*

Countries	Expenditure on housing and community amenities				Expenditure on economic affairs				Expenditure on mining, manufacturing and construction			
	1980	1994	2000	2006	1980	1994	2000	2006	1980	1994	2000	2006
Argentina	4.97	N/A	2.11	N/A	20.39	N/A	N/A	N/A	N/A	N/A	0.18	N/A
Australia	0.87	1.41	N/A	0.73	7.68	N/A	N/A	6.6	N/A	0.37	N/A	N/A
Bahrain	13.54	1.61	2.77	N/A	27.15	0.14	N/A	N/A	N/A	0.37	0.31	N/A
Bangladesh	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Bolivia	N/A	0.64	2.26	0.42	N/A	2.9	N/A	8.34	N/A	0.31	0.37	N/A
Bulgaria	N/A	1.88	1.37	0.84	N/A	0.54	N/A	10.69	N/A	1.02	N/A	N/A
Canada	2.35	N/A	1.37	1.7p	19.38	N/A	N/A	6.14p	N/A	N/A	N/A	N/A
Chile	N/A	5.26	4.07	1.37	N/A	N/A	N/A	13.26	N/A	N/A	N/A	N/A
Czech Rep.	N/A	1.16	3.05	2.52p	N/A	2.66	N/A	14.82p	N/A	3.44	0.38	N/A
Denmark	N/A	N/A	1.87f	1.11p	N/A	N/A	N/A	6.3p	N/A	N/A	0.41f	N/A
El Salvador	2.67	7.79	1.7	2.41	22.99	2.82	N/A	12.09	N/A	1.23	0.1	N/A
India	N/A	7.33f	4.56f	5.72f	23.86	N/A	N/A	16.88f	N/A	2.36f	1.87f	N/A
Israel	0.22	5.85	3.04	1.23	3.89	2.11	N/A	6.22	N/A	3.03	1.93	N/A
Kuwait	8.24	4.84	N/A	8.62	20.31	0.22	N/A	15.84	N/A	0.22	N/A	N/A
Maldova	N/A	N/A	0.1	0.55	N/A	N/A	N/A	8.75	N/A	N/A	0.08	N/A
Mauritius	4.23	N/A	N/A	N/A	11.68	N/A	N/A	N/A	N/A	N/A	0.68	N/A
Mexico	2.58	N/A	6.92	N/A	31.12	N/A	8.11	N/A	N/A	N/A	N/A	N/A
New Zealand	1.07	N/A	0.19	2.02p	15.02	N/A	N/A	7.76p	N/A	N/A	N/A	N/A
Norway	N/A	N/A	N/A	0.31	N/A	N/A	N/A	9.08p	N/A	N/A	N/A	N/A
Pakistan	2.83	N/A	N/A	0.3	37.19	N/A	N/A	7.84	N/A	N/A	N/A	N/A
Poland	N/A	N/A	1.12	0.83	N/A	N/A	N/A	6.38	N/A	N/A	0.49	N/A
Russian	N/A	N/A	0.58	0.92	N/A	N/A	N/A	3.2	N/A	N/A	2.29	N/A
Seychelles	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	0.21	N/A
Singapore	6.17	N/A	10.73	N/A	17.52	N/A	N/A	N/A	N/A	N/A	0.02	N/A
Slovakia	N/A	N/A	2.08	0.45p	N/A	N/A	N/A	11.91p	N/A	N/A	1.53	N/A
Slovenia	N/A	N/A	N/A	0.4	N/A	N/A	N/A	9.5	N/A	N/A	N/A	N/A
Switzerland	0.98	N/A	N/A	0.54	30.01	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Thailand	5.15	N/A	4.48	2.72p	20.8	N/A	N/A	20.03p	N/A	N/A	0.75	N/A
Tunisia	5.82	N/A	N/A	N/A	27.34	N/A	N/A	N/A	N/A	N/A	0.75	N/A
United States	2.82	2.65	2.56	1.88p	10.39	N/A	N/A	5.8p	N/A	0.07	0.06	N/A
Venezuela	1.88	N/A	6.4	N/A	20.86	N/A	N/A	N/A	N/A	N/A	0.8	N/A

Table 1.2 *continued*

<i>Expenditure on housing and community amenities</i>				<i>Expenditure on economic affairs</i>				<i>Expenditure on mining, manufacturing and construction</i>				
1980	1994	2000	2006	1980	1994	2000	2006	1980	1994	2000	2006	
3.6	N/A	0.62	N/A	4.45	2.59	2.59	N/A	8.83	N/A	6.28	N/A	Argentina
1.43	1.4	N/A	N/A	1.9	N/A	N/A	N/A	8.36	7.57	N/A	9.77	Australia
0.63	0.19	0.41	N/A	1.67	2.63	2.63	N/A	10.76	12.01		N/A	Bahrain
N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	Bangladesh
N/A	1.02	2.96	N/A	N/A	8.1	8.1	N/A	N/A	18.46	19.84	22.12	Bolivia
N/A	2.24	1.69	N/A	N/A	6.74	6.74	N/A	N/A	3.35	4.34	5.01	Bulgaria
2.2	N/A	1.48	N/A	0.23	0.94	0.94	N/A	3.83	N/A	2.29	2.6p	Canada
N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	13.92	17.81	16.86	Chile
N/A	2.02	2.62	N/A	N/A	4.64	4.64	N/A	N/A	11.21	9.38	9.52p	Czech Rep.
N/A	N/A	0.99f	N/A	N/A	2.33f	2.33f	N/A	N/A	N/A	12.69f	12.3p	Denmark
2.74	1.84	5.63	N/A	3.99	9.8	9.8	N/A	19.3	13.17	21.23	14.18	El Salvador
6.93	4.74f	5.29f	N/A	N/A	1.88f	1.88f	N/A	1.95	1.87f	2.63f	3.81f	India
0.18	1.64	0.78	N/A	1.19	2.22	2.22	N/A	9.42	13.6	13.54	15.41	Israel
0.14	0.56	N/A	N/A	3.96	N/A	N/A	N/A	9.22	10.92	N/A	12.04	Kuwait
N/A	N/A	3.1	N/A	N/A	1.67	1.67	N/A	N/A	N/A	3.98	8.65	Maldova
6.38	N/A	4.83	N/A	1.42	5.15	5.15	N/A	17.27	N/A	16.15	N/A	Mauritius
		N/A	N/A	6.45	N/A	N/A	N/A	17.93	N/A	24.78	N/A	Mexico
5.42	N/A	0.76	N/A	2.46	2.92	2.92	N/A	14.69	N/A	16.29	18.57p	New Zealand
N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	5.98p	Norway
2.13	N/A	N/A	N/A	1.65	N/A	N/A	N/A	2.69	N/A	N/A	1.59	Pakistan
N/A	N/A	1.48	N/A	N/A	1.4	1.4	N/A	N/A	N/A	4.17	11.57	Poland
N/A	N/A	1.3	N/A	N/A	3.38	3.38	N/A	N/A	3.22p	2.26	3.94	Russian
N/A	N/A	5.59	N/A	N/A	2.61	2.61	N/A	N/A	N/A	7.1	N/A	Seychelles
0.43	N/A	0.67	N/A	4.48	12.23	12.23	N/A	14.45	N/A	21.03	N/A	Singapore
N/A	N/A	4.77	N/A	N/A	3.98	3.98	N/A	N/A	N/A	9.84	3.92p	Slovakia
N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	12.66	Slovenia
12.98	N/A	N/A	N/A	3.88	N/A	N/A	N/A	3.35	N/A	N/A	4.98	Switzerland
9.22	N/A	8.83	N/A	9.15	11.23	11.23	N/A	20.08	N/A	8.32	19.56p	Thailand
14.29	N/A	7.69	N/A	1.63	2.59	2.59	N/A	16.79	N/A	18.01	N/A	Tunisia
1.24	1.41	2.33	N/A	1.59	2.58	2.58	N/A	2.65	1.61	1.78	2.56p	United States
4.14	N/A	0.41	N/A	2.71	2.74	2.74	N/A	24.5	N/A	22.13	N/A	Venezuela

Note: N/A = not available.

Source: IMF (1982, pp38–45); IMF (2001, pp6–7); IMF (2004, pp27–31); IMF (2007a, pp27–31)

Table 1.3 *Urban and rural population of the world for selected periods, 1950–2030*

<i>World</i>	<i>Population (billions)</i>					<i>Average annual rate of change (per cent)</i>	
	<i>1950</i>	<i>1975</i>	<i>2000</i>	<i>2005</i>	<i>2030</i>	<i>1950–2005</i>	<i>2005–2030</i>
Total	2.52	4.07	6.09	6.46	8.20	1.71	0.95
Urban	0.73	1.52	2.84	3.15	4.91	2.65	1.78
Rural	1.79	2.56	3.24	3.31	3.29	1.12	–0.03
	<i>Percentage urban</i>					<i>Rate of urbanization (per cent)</i>	
	29.0	37.2	46.7	48.7	59.9	0.94	0.83

Source: www.un.org/esa/population/publications/WUP2005/2005wup.htm, accessed 21 May 2008

Table 1.4 *Total and urban population by major area for selected periods, 1950–2030*

<i>Major area</i>	<i>Population (millions)</i>					<i>Average annual rate of change (per cent)</i>	
	<i>1950</i>	<i>1975</i>	<i>2000</i>	<i>2005</i>	<i>2030</i>	<i>1950–2005</i>	<i>2005–2030</i>
Total population							
Africa	224	416	812	906	1463	2.54	1.92
Asia	1396	2395	3676	3905	4872	1.87	0.88
Europe	547	676	728	728	698	0.52	–0.17
Latin America and the Caribbean	167	322	523	561	722	2.20	1.01
Northern America	172	243	315	331	400	1.19	0.76
Oceania	13	21	31	33	43	1.72	1.01
Urban population							
Africa	33	105	294	347	742	4.29	3.04
Asia	234	575	1363	1553	2637	3.44	2.12
Europe	277	443	522	526	546	1.17	0.16
Latin America and the Caribbean	70	197	394	434	609	3.31	1.35
Northern America	110	180	249	267	347	1.62	1.05
Oceania	8	15	22	23	31	1.96	1.18

Source: www.un.org/esa/population/publications/WUP2005/2005wup.htm, accessed 21 May 2008

Table 1.5 Global urban slum population projections, 1990–2020

	Slum population (thousands)					Slum population target 11 (thousands)						
	1990	2001	2005	2010	2015	2020	1990	2001	2005	2010	2015	2020
WORLD	714,972	912,918	997,767	1,115,002	1,246,012	1,392,416	714,972	912,918	976,858	1,070,494	1,175,132	1,292,065
Developed regions	41,750	45,191	46,511	48,216	49,983	51,815	41,750	45,191	45,507	46,167	46,851	47,560
EURASIA (countries in CIS)	18,929	18,714	18,637	18,541	18,445	18,350	18,929	18,714	18,228	17,725	17,225	16,727
European countries in CIS	9208	8878	8761	8617	8475	8336	9208	8878	8568	8234	7906	7583
Asian countries in CIS	9721	9836	9879	9932	9986	10,040	9721	9836	9663	9499	9334	9168
Developing regions	654,294	849,013	933,376	1,050,714	1,182,803	1,331,498	654,294	849,013	913,874	1,009,0265	1,116,140	1,236,719
Northern Africa	21,719	21,355	21,224	21,062	20,901	20,741	21,719	21,355	20,758	20,133	19,513	18,898
Sub-Saharan Africa	100,973	166,208	199,231	249,886	313,419	393,105	100,973	166,208	195,245	240,808	297,955	369,631
Latin America and the Caribbean	110,837	127,566	134,257	143,116	152,559	162,626	110,837	127,566	131,390	137,174	143,340	149,913
Eastern Asia	150,761	193,824	212,368	238,061	266,863	299,150	150,726	193,824	207,923	228,583	251,742	277,704
Eastern Asia excluding China (optional)	12,831	15,568	16,702	18,236	19,911	21,739	12,831	15,568	16,348	17,494	18,744	20,109
Southern Asia	198,663	253,122	276,432	308,611	344,537	384,644	198,663	253,122	270,637	296,283	324,914	356,644
Southeastern Asia	48,986	56,781	59,913	64,073	68,521	73,279	48,986	56,781	58,636	61,420	64,398	67,583
Western Asia	22,006	29,658	33,057	37,860	43,360	49,659	22,006	29,658	32,371	36,379	40,968	46,224
Oceania	350	499	568	668	786	924	350	499	557	643	744	863

Note: CIS: Commonwealth of Independent States. Target 11, see Chapter 2 and the Millennium Development Goals.
Source: UN-Habitat (2006c, p190)

Note

- 1 See Bloom and Khanna (2007) for discussion on the urban revolution.