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# BUILDING PROSPERITY

**HOUSING AND ECONOMIC DEVELOPMENT**



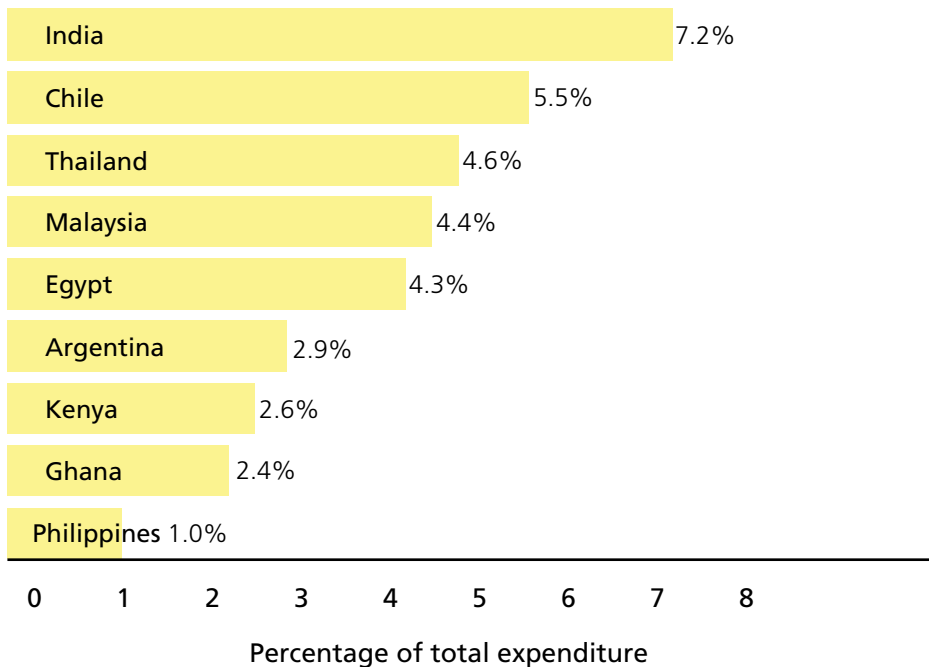
## BACKGROUND

### INVESTMENT IN HOUSING RISING WORLDWIDE

If housing provision is considered valuable to economic growth, policymakers need to affirm their commitment to this effort and rank its priority accordingly in national and regional development plans.

Because the provision of housing has been partly seen as an “unproductive instrument”, a “resource absorber”, a “consumer good” and a “social overhead”, the sector has always been tolerated rather than desired. The result: For decades housing failed to factor in national development plans of most developing countries. When, eventually, the sector began to gain economic importance in the overall national economy, policymakers still ranked it low among competing priorities, but justifying housing on social considerations and political legitimacy.

Now that, too, is changing, albeit slowly. Evidence of this change is the amount of money allotted the sector. In developing countries, housing now accounts for about 2 per cent of total government spending. Similarly, several newly-industrialized nations have increased such spending (as a share to total government expenditure) from 0.3 per cent in 1975 to 4.4 per cent in 1995.



*Government Expenditure on the Housing Sector: Selected Countries, 1995*

Source: IMF (1995)

## **GLOBAL INSTITUTIONS**

Global institutions, also, now view the provision of housing as important to achieving strong economic growth. Among these institutions, the World Bank is the leading financier to housing programmes, investing some USD 873.2 billion from 1972 to 1999. Despite this, the Bank's share of annual lending remains small. In 1999, over one-quarter century after its initial lending operation, housing accounted for just 17 per cent of total loans, despite the importance of housings and related services in that period. The positive development is that despite still low-levels allotted housing, national governments and global institutions now accept the sector's importance to national economies. Consequently, the sector is receiving more attention and money.

## **EFFECTS OF HOUSING INVESTMENTS**

Housing investment has direct and indirect positive impacts. Directly, it creates employment; increases labour productivity and economic recovery; and promotes regional development. Indirectly, home-building spurs demand for building materials and related products such as metal, machinery and wood. Ultimately, such increased industrial activity leads to national economic growth.

Deemed a major boost in the drive for sustainable economic development, housing construction can help stamp out poverty. One of the tools being used to stamp out poverty is, collectively, the Millennium Development Goals. Target 7 of these goals relates directly to housing: it aims to ensure that by 2020 at least 100 slum dwellers worldwide will be living a lot better. Housing can lead in this quest. Additionally, housing provision helps reduce crime; enhances social harmony; opens up economic generating opportunities; and improves health conditions.

Likewise, the performance of the national economy also has importance for the housing sector, chiefly on factors influencing investments. For example, governments can invest in housing and related services to boost economic recovery. Similarly, economic performance has important implications for inflation and interest rates, taxes, subsidies and mortgage lending institutions. Therefore, the broader macroeconomic performance has significant implications for a national economic model and stage of development, which are dynamic determining factors for housing policies and programmes.