

# Housing and Economic Development: Cause or Effect?

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# Agenda

- Brief overview of the debate
- Where do we stand?
- What might we do?
  - Urban and rural
  - Public or private
  - Owning and renting
  - In situ or not?

# Summary of the debate

- Arku (2006) provides an excellent description.
- Many economists, including Paul Samuelson (!), argued that housing was a dead asset, and that capital was better used for manufacturing.
- From Arku: As Strassman (1970a: p. 505) observed: “Financing housing without raising productivity was throwing money into a bottomless pit.” For example, Charles P. Kindleberger, a leading economist of that time, questioned the desirability of investing in housing when resources were scarce (Robinson, 1963: p. 122). Housing investment “was regarded as the classic means of slowing economic growth” (Gilbert & Gugler, 1992: p. 133) or as Drakakis-Smith (1997: p. 799) puts it, “loses out to investment in industry or industrial infrastructure’.”

# But there has been some reconsideration

- But Deaton and Muellbauer (1980) formalized household production—something that is difficult to do without secure housing
- A house is a factory: lots of productive stuff can happen in its presence that can't happen in its absence.



# Human capital and health



# Measurement

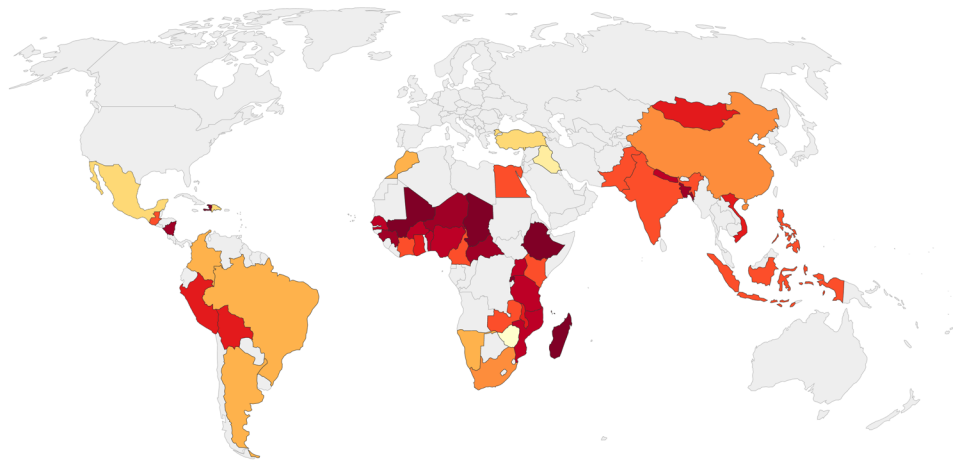
- Housing creates a service flow
- For owners, this is not easy to measure
- This means some countries do not measure it at all
- Understates housing's contribution to GDP

# Share of urban population in slums

## Share of urban population living in slums, 1990

A slum household is defined as a group of individuals living under the same roof lacking one or more of the following conditions: access to improved water, access to improved sanitation, sufficient living area, and durability of housing.

Our World  
in Data



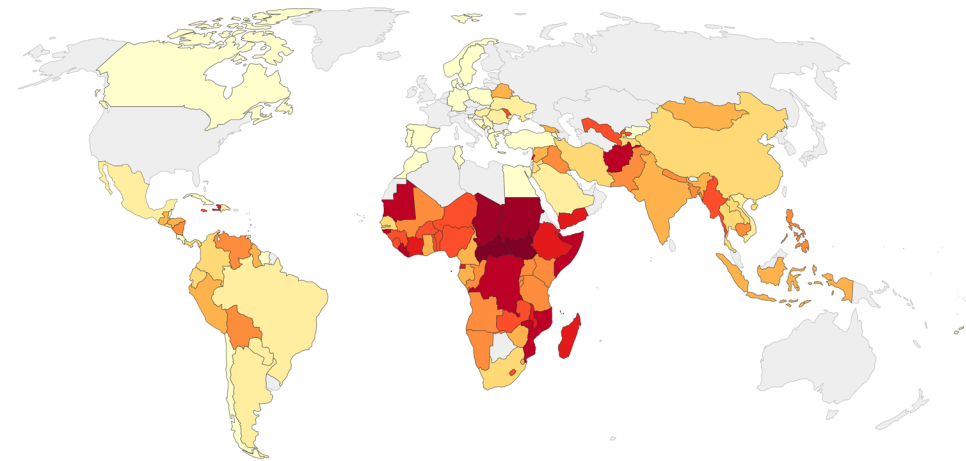
Source: UN-HABITAT (via World Bank)

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## Share of urban population living in slums, 2018

A slum household is defined as a group of individuals living under the same roof lacking one or more of the following conditions: access to improved water, access to improved sanitation, sufficient living area, and durability of housing.

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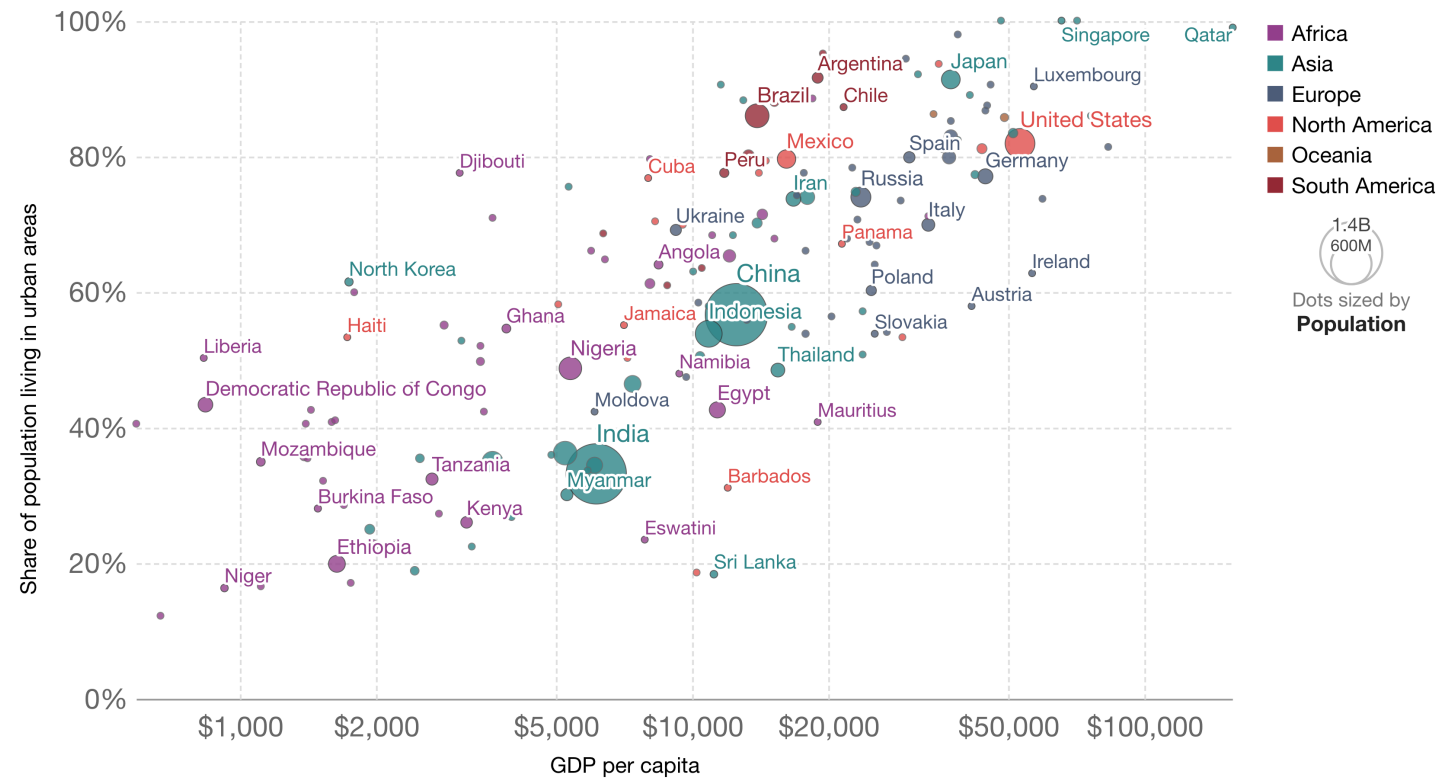
Source: UN-HABITAT (via World Bank)

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# Urban-rural

## Urban population vs. GDP per capita, 2016

Share of the total population living in urban areas versus gross domestic product (GDP) per capita, measured in 2011 international-\$.



Source: OWID based on UN World Urbanization Prospects (2018), Maddison Project Database 2020 (Bolt and van Zanden (2020))  
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# Lack of certainty about causal direction

Henderson (2005)

Buckley, Annez, and Spence (2008)

Peng, Chen, and Cheng (2011)

Nguyen and Nguyen (2018)

	Ln(GDP)	Ln(GDP)	Ln(GDP)
Ln(urbanization)	0.83 (.01)	0.82 (.01)	-.04 (.015)
FE	N	Y	Y
Year Dummies	N	N	Y
R2	0.61	0.61	0.1
Countries	164		

# Public vs private: OTOH, Vienna and Singapore



# OTOH: Sao Paulo and Guateng

## Minha Casa Minha Vida



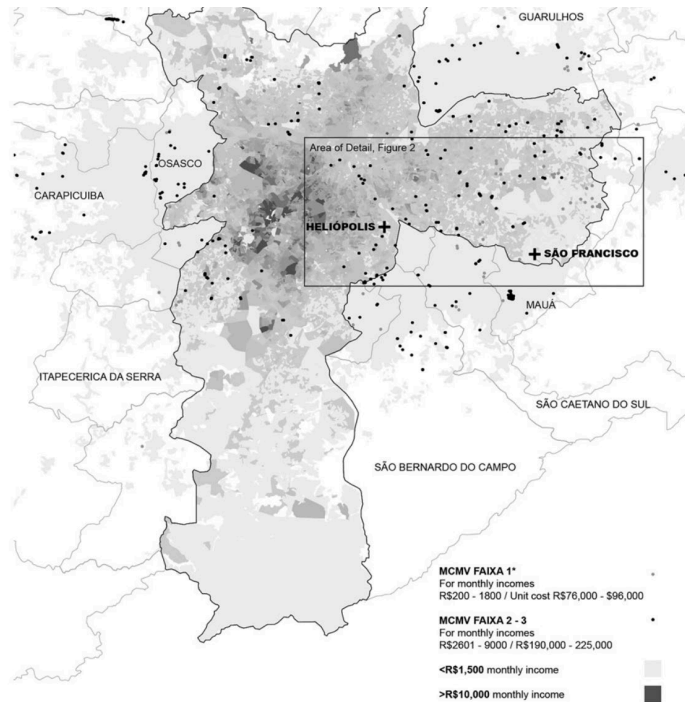
## South Africa Social Housing Programme



# Public-Private

Stiphany and Ward (2019)

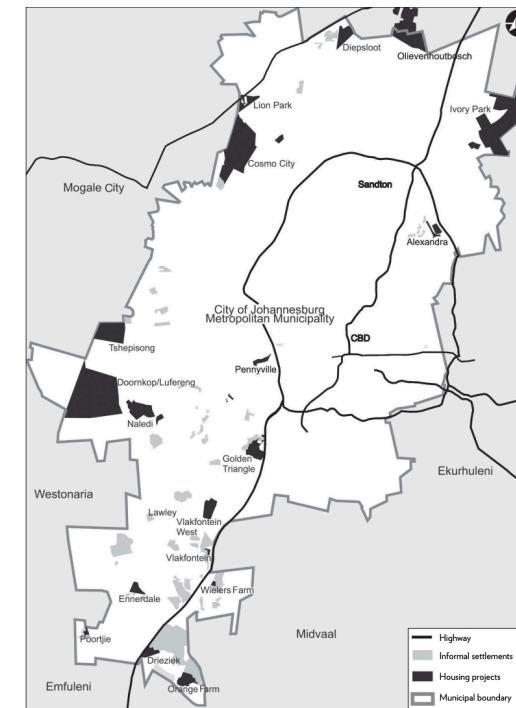
Sao Paulo



**Figure 1.** Distribution of MCMV projects in the Sao Paulo, case studies, and urbanised area. Source: IBGE, Brazilian Federal Ministry of Cities, Rolnik (2014).

Charlton (2014)

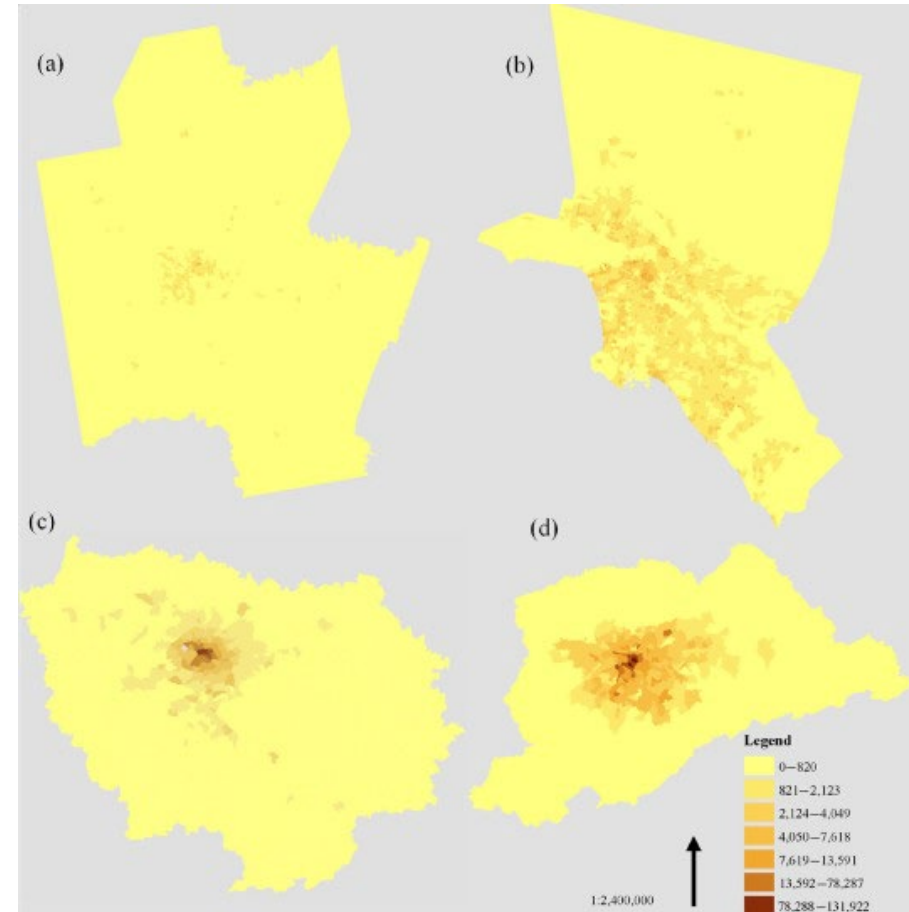
Johannesburg



**FIGURE 9.1.** Low-income housing projects and informal settlements in Johannesburg, 2011  
Source: Data source GDLGH (2011). Cartography by Abdul Abed

# Housing without access is a problem

- Maps from [Rafael H M Pereira \(2013\)](#)
- (d) is Sao Paulo
- Jobs are centrally located;  
MCMV is not
- Similar story in Johannesburg
- Resale value of houses less than  
construction cost



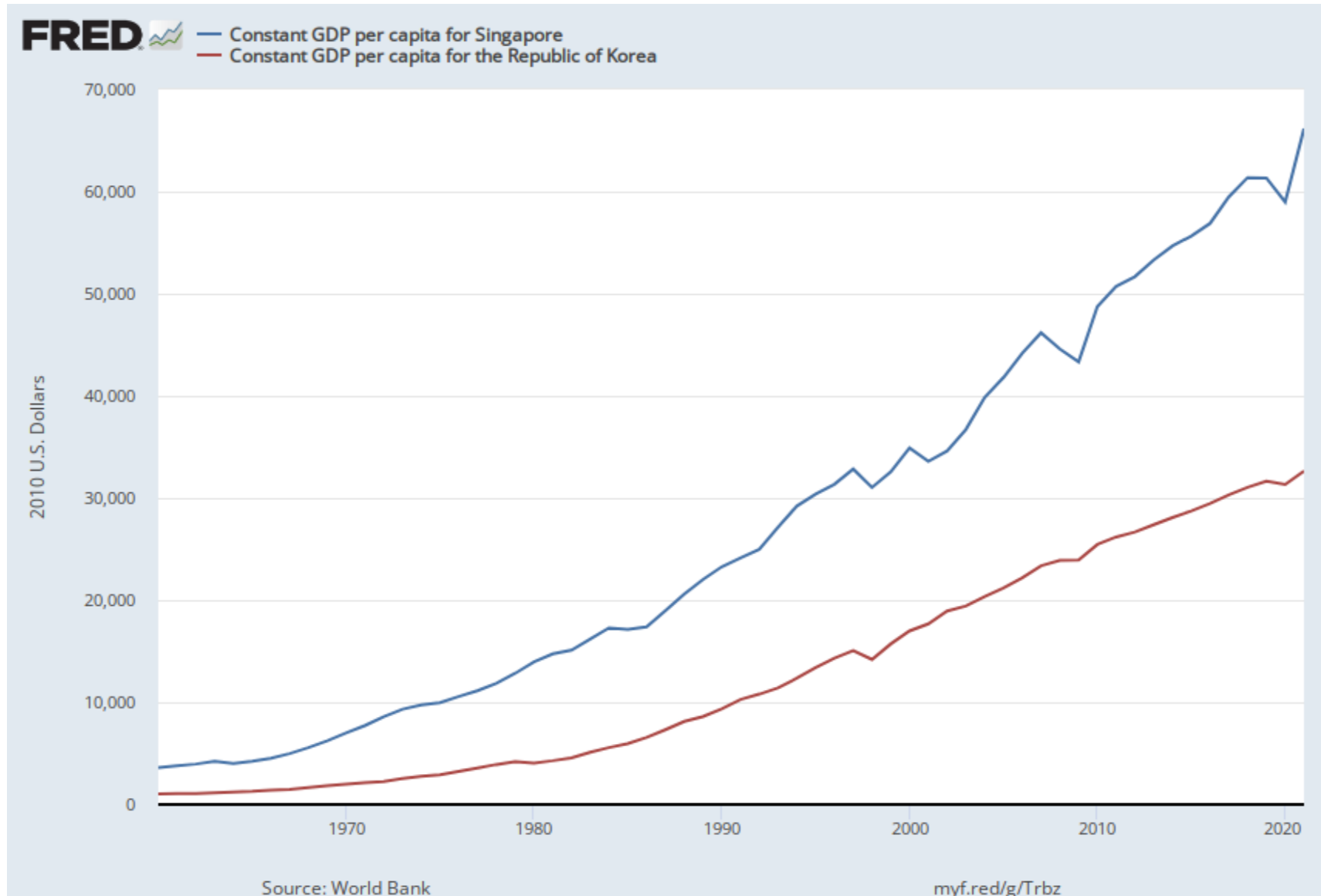
# Renting must be part of the puzzle

- UN Habitat report emphasizes the importance
- Cash Flow Affordability
- Ability to reserve savings for other kinds of investments
- An investment opportunity for the emerging middle class (two unit buildings)
- Information Benchmark
- Labor mobility

# In Situ or New Development

- Correlates to Public/Private
- Proximity to employment
- Proximity to transportation
- Consideration of “all-in” affordability

# Two Approaches, Two Good Outcomes





# Two Approaches

- South Korea
  - Human capital first
  - Then manufacturing/exports
  - Then housing
- Singapore
  - Housing starts early
  - Housing connected to savings scheme
  - Required savings provides infrastructure AND housing