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Uwatt B. Uwatt
Central Bank of Nigeria

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Housing Sector, Economic Growth and Development: Conceptual Issues and Theoretical Underpinnings

Uwatt B. Uwatt*

I. Introduction

The importance of the housing sector in economic growth and development cannot be understated. The sector plays a very important role in the social and economic development of a country. The sector contributes to economic growth and development through its impact on major macroeconomic indicators such as: employment, savings, investment and labour productivity. The construction and use of decent housing also affect the well-being of the people, physical and mental health, as well as the environment. Thus, the construction of qualitative housing by both government and individuals is a necessary condition for sustainable development and increasing the productivity of an economy. However, it is only in the recent past that these interesting facts about the housing sector have come to be widely acknowledged. The robust contribution of the housing sector and various housing programmes to economic growth and development and increased social well-being of the people has made governments the world over, to give ample attention to the lingering problem of housing deficit across both developing and developed countries.

Also, the important role of housing is further underscored by its inclusion as one of the indicators used in the computation of cost of living index. Consequently, the cost of living index is a major factor under consideration for prospective domestic and foreign investors in taking decisions.

Furthermore, housing is one of the necessities of life, which is required to promote both physical and psychological well-being. According to the Maslow’s hierarchy of needs, people are motivated to fulfil their basic needs before thinking of higher-level growth needs. The Maslow’s hierarchy of needs is presented as a five-level hierarchical pyramid, which encompasses the five

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* Dr. Uwatt B. Uwatt is the former Director, Research Department, Central Bank of Nigeria. The views expressed in this paper are those of the author and do not in any way represent the official position of the Central Bank of Nigeria.
basic human needs that consistently drive behaviour. The lowest level of the pyramid is made up of the basic needs, while the more complex needs are at the top. However, Maslow believes that the attainment of the basic needs is necessary before higher needs can influence behaviour. These needs from the bottom of the hierarchy upwards are: physiological, safety, love and belonging, esteem and self-actualisation. The physiological need is classified as the lowest and it deals with the preservation of the human body. This is the need to survive and reproduce as a species. Our basic survival needs include: food, water, air, safety, shelter, warmth, health, etc. Thus, Maslow believes that these needs are the most instinctive, as all other needs remain secondary until these needs are met.

From the foregoing, the importance of housing in economic growth and development cannot be over-emphasised. Therefore, to actualise the potentials of the housing sector in the light of its positive contribution to output expansion, it is, therefore, imperative to improve the sector’s access to finance and to resolve the plethora of challenges facing the industry. Thus, we look at some conceptual issue in relation to the discus and some theoretical arguments bordering the topic at hand.

II. Conceptual Issues on Housing, Economic Growth and Development

According to Daramola (2006), housing encompasses a compendium of services such as residential homes, shelters, schools, parks, amenities and a place of comfort and security which facilitates accessibility, as well as, proximity to jobs, work places and social environment. Housing can also be viewed as a complex product that is crucial for national development in terms of both an economy and welfare of the people (Chatterjee, 1981), because it is an important source of national capital formation, employment generation, improvement in health and income generation. Houses serve a number of economic purposes such as; shelter, cottage factory for production, warehouse, shop for selling and income generator through rents.

Some early economists did not just look at the concept of housing and its contribution to growth and development, but also introduced the concept of better housing and how it might impact on productivity in other sectors of the economy. It was this concept of better housing that informed the decision of governments and organisations to build houses for their staff (Harris and Arku, 2006). Howenstine (1957) argued that better housing might lead to higher productivity, by improving health, reducing absenteeism and so forth. He
evaluated this concept from an economic point of view, noting that, investments should be made in housing only where these were "clearly necessary" as an "adjunct" to the success of other industrial projects. The author further stated that, even when unemployment rates fall, priority should be given to those workers "whose contribution to national productivity could be expected to benefit most from better housing" (Howenstine, 1957, p. 25). This explains why several governments and companies housing projects sprang up. According to Crawford (1995), workers in mining and company towns throughout Europe and North America were commonly allocated built homes by their employers in the early twentieth century. During the 1940s, several British colonies built houses for workers employed in new, modern industries, especially in the mining communities of the African Copperbelt (Heisler, 1971; Parpart, 1983; Tipple, 1981). Also, the US government provided homes for war workers near new suburban defence factories during World War II (Colean, 1940; Nenno, 1979).

Several factors determine the development of the housing sector, key amongst these are the institutional factors which range from the level and structure of finance/investment in the sector to housing polices. Housing finance refers to money provided from any source other than the residents' or builders of the dwelling for the construction or purchase of housing. It includes funds loaned to builders and mortgage funds loaned to individual families by private or public banks, or other types of financial institutions (CBN, mimeo). It also includes various types of housing subsidies provided by government agencies (United Nations, 1974). Subsumed within housing finance is the mortgage structure operational within an economy. This encompasses the level of development of the mortgage industry in terms of depth, access and efficiency, which is usually a precursor to the level of development of the housing sector of an economy. A housing finance system comprises financial institutions, their legal status, administrative procedures and the relationships as well as markets which link them. That is, it is a superstructure of laws, institutions, and relationships between institutional and non-institutional units which facilitate the processes of financial intermediation and capital formation in the housing sector.

Another important determinant of the level of development of the housing sector are the policies and laws established to promote the sector. A housing policy is a tool that is used in town planning for solving housing problems, and, consequently, for the achievement of sustainable housing. This policy is derived from laws, regulations and administrative practices that aid the production and delivery of housing. The policy addresses fundamental issues like land ownership, housing finance, housing construction and delivery. Above all, housing policy requires a strategy for the enforcement of the purpose of the intended
programmes of action such as to the provision of mass housing, employment of labour and enhancement of output growth (Ibimilua and Ibitoye, 2015).

The concept of economic growth refers to the increase in real national income or the increase in per capita real national income (Boyce and Melvin, 1994). Economic development on the other hand can be viewed as a multidimensional process involving major changes in social structures, popular attitudes, and national institutions, the acceleration of economic growth, the reduction of inequality, as well as the eradication of poverty (Todaro and Smith, 2012). Economic growth is determined by several factors such as: supply, demand and the efficiency factors. Key among the supply factors include increase in the quantity and quality of human resources, increase in the supply (stock) of capital goods, improvement in technology, and increase in factor productivity which directly relates to housing. The demand factor is the purchase of the economy’s expanding output of goods and services by the households, businesses and government, while the efficiency factor makes up the sixth factor (McConnell and Brue, 2005).

III. Housing and Economic Growth and Development: Theoretical Issues

The link between housing and economic growth and development is better understood by looking at the drivers of economic growth. In conceptualising economic growth, economists have placed emphasis on capital, labour and the efficiency with which these factors are used (Productivity) in the production of the variety of goods and services in an economy. Key to economic growth is the process of capital accumulation which is often expressed as a law of motion linking it to investment (aggregate savings) and depreciation of capital stock. Capital itself is either aggregated or disaggregated into physical capital, human capital and intellectual capital. While physical and human capital follows the established law of motion of capital accumulation, the intellectual capital is accumulated when technological progress (innovation) occurs. The main driver of economic growth is technological progress which propels productivity or efficiency growth. Absent, technological progress (productivity growth), an economy can perhaps grow for a while by accumulating capital, but eventually, that growth will be chocked off by the diminishing marginal productivity of capital (Aghion and Howitt, 2009).

What distinguishes the various growth paradigms or models from each other is the assumption made about technological progress. While the neoclassical theorists assume that technological progress (productivity growth) is exogenous
and not dependent on economic conditions including economic policy, the endogenous growth theorists assume, and realistically so, that technological progress is endogenous and depends, largely, on the characteristics of the economic environment. A variant of the endogenous growth theory (the AK group), assumes that the economic environment is the level of savings in an economy. In this regard, the way to sustain high growth rate is to save a large fraction of GDP, some of which will find its way into financing a higher rate of technological progress and will, thus, result in faster economic growth (Aghion and Howitt, 2009: P. 13).

The second group of the endogenous growth theorists is the innovation-based or product–variety models which itself has two branches. The first branch which is based on Romer (1990) holds that innovation which often results from Research and Development (R&D) investment, causes productivity growth by creating new but not necessarily improved variety of products. It is more product variety that raises the economy’s production potentials since it allows a given capital stock to be spread over large number of uses, each exhibiting diminishing returns. The second branch sees innovation as resulting in the creation of new and improved quality products to replace obsolete ones – Schumpeter’s creative destruction. It is the existence of a variety of new products, with improved quality, that sustains high growth rates. This is because private expenditure is made by the prospective innovator(s) to increase the stock of innovations that have already been made by past innovators. How fast new innovations emerge depends, largely, on the existing economic environment, including public policies.

These discussions can be summarised by a typical growth model of the form:

\[ Y = AK\alpha L^{1-\alpha} \]  \hspace{1cm} (1)

\[ \Delta K = sY - \delta K \]  \hspace{1cm} (2)

Where \( Y \) is output (GDP), \( K \) is capital stock, \( L \) is labour, \( \Delta K \) is change in capital stock (Investment), \( sY \) is aggregate savings, \( \delta K \) is aggregate depreciation of capital, \( A \) is a productivity parameter, and \( \alpha<1 \) represents decreasing returns to capital. Equation 1 represents production equation while equation 2 represents the law of motion of capital accumulation.

Based on the existing growth theories, the link between housing and economic growth and development lies in the ability of the former to influence capital accumulation through investment. Investment in housing creates capital (housing) assets and, thus, aid capital accumulation. Construction related taxes and fees boost government revenue leading to increase in investment in basic
infrastructure and services, as well as, pro-poor income redistribution. Also, Jobs created from housing construction spending means more income opportunities for the poor which if spent could lead to more job creation through increased demand for basic goods and services (production expansion) or if saved could increase domestic savings and, hence, capital accumulation. Additionally, housing is not only used as shelter but also as a source of income through renting arrangements. Such income provides additional avenue for increased access to basic goods and services as well as investment in human capital and knowledge. More importantly, a well-developed housing finance system can be a veritable source of mobilising financial resources for development. People, generally, attach high priority to home ownership and are willing to make sacrifices in other areas in order to purchase a house. As noted by Arku (2006: P389), “if these resources can be mobilised and properly channelled, a housing finance system could become an important instrument for the under-utilised funds of the household sector and could serve as a tool for the development of both the financial system and the domestic economy”. Besides, access to affordable and decent housing can enhance physical and mental health by reducing the stress and illnesses associated with overcrowding and congestion. This in turn would enhance labour productivity through reduction in man-hours lost due to illness and absenteeism.

Economic development also involves improving the quality of all human lives and capabilities by raising people’s standard of living, self-esteem and freedom (Todaro and Smith, 2012). Consequently, the development of the housing sector leads to the provision of more houses for economic agents, which leads to higher standards of living, improved material welfare and higher economic development

This relationship is summarised in Figure 1 using housing finance as an illustration.
IV. Housing, Economic Growth and Development Debate: Historical Perspective

In spite of the positive link between housing and economic growth and development discussed above, there is still a debate as to the direction of causality. The central issue remains whether housing leads, follows or complements economic growth and development. This debate has evolved over time and in tandem with the evolution of economic growth and development thoughts. Generally, the debate has trended from investment in housing as a necessary evil, to being an essential driver of economic growth and development. However, in recent times the discourse has centred on the housing sector being a key driver of employment and economic growth and development (Harris and Arku, 2006). In looking at the various arguments surrounding the importance of the housing sector in economic growth and development, we focus on the economic contribution of housing, because these have often been side-lined even though they matter a great deal. For
individuals, families and governments, housing involves huge financial expenditures and it is labour intensive. Within the world economies and at any level (local, regional or national) the construction industry (which embodies housing construction) has been adjudged to rival or perform more than the transportation sector and even some aspects of manufacturing sector. The housing sector plays a key role in any economy because it has a huge multiplier effect on household expenditures, ample backward linkages to suppliers, as well as ties to the financial system through residential mortgages (Harris and Arku, 2006).

The arguments and propositions about the role of housing in economic growth and development has been on since about the early 1940s. Several views have been articulated by housing experts about the role of housing in economic development. By the 1940s, the economic role of housing construction was considered as being a useful counter-cyclical tool. This line of idea followed from the Keynesian revolution in the late 1930s and early 1940s during the great depression. At this time, the most important role of the government was to pull economies out of recession through public spending. Economists at the time recognised the construction industry as being so large and labour intensive, hence, saw it as a prime tool for economic management during downturns. Government expenditures in the sector was seen to be able to employ relatively large numbers of people, whose spending would help restore growth (Radford, 1996). The twin goals of stabilising the building industry, and of deploying it as a balance-wheel of the economy was practiced by many governments during the period (Colean and Newcomb, 1952; Lange and Mills, 1979; Mitchell, 1985).

Some development economist viewed housing as a social expenditure and a drag on growth, while some segments argued that housing could be an important adjunct to specific development projects, usually in isolated locations (Gunter and Manuel, 2016). The proponents of housing as a social expenditure argued that the construction industry, including house building, should at best play a secondary role in development planning. They believed that better housing was a social expenditure, a consequence not an agent of growth. In this context growth leads, while housing follows. On the other hand, around the 1960s, some development economist insisted that in some contexts, housing was a prerequisite for economic growth by qualifying it as a necessary adjunct to development. However, Gunter and Manuel (2016) noted that since the 1970s, the contribution of housing to economic growth has been viewed as very pertinent. This is not just because house building is a major employer with large multiplier effects but also, because housing is seen to have social consequences with diverse economic effects. The opinion as to the economic significance of housing began to shift in the late 1960s and was further made pronounced by
the early 1970s with the active participation of the World Bank in the housing field.

The debates and propositions as to the relationship between housing and economic development only began to receive much prominence and attracted sustained scholarly attention during the 1970s and 1980s. The works of Turin (1967, 1970, and 1974) created a platform for the various debates. Researchers such as Drewer (1980); Strassman (1970 and 1985); Wells (1984 and 1985) tried to ascertain the contribution of housing to economic development, and more importantly for policy purposes, determine if the levels of construction influenced, as well as reflected, economic growth. They looked at the contribution of housing in relative terms and tried to ascertain if investment in building and construction rose with the level of development. However, because of poor data the results were inconclusive and, hence, could not answer the question.

To further contribute to the debate, other researchers: Moavenzadeh (1987); Ofori (1990); Werna (1994); Keivani and Werna (2001) examined the nature and organisation of the construction industry in the developing world. They noted that the industry is labour intensive and is significant as a source of employment in the urban area. As the debate expanded, by the 1990s, more researchers began to unveil other economic aspects of housing. The likes of Tipple (1993), Renaud (1999), Chen et al. (1999), and Kumar (1996) drew the attention of scholars to the widespread use of homes as workplaces and as sources of rental income, as well as the links between housing and development finance.

Housing is obviously an investment and as such, the economic effect of the costs incurred and the impact of the associated stream of services cannot be over looked. Housing is a critical element in the “social overhead projects” that are “basic to economic development” (Harris, 1997). In the 1960s, the US Agency for International Development (USAID) began to make substantial housing loans for the construction of houses. Such loans were thought to contribute directly to economic growth and in a variety of ways (Robinson, 1963). Furthermore, the economic contribution of the housing sector gained more prominence in the early 1970s, when the World Bank entered the housing field. The Bank believed that housing and its associated services, can play an important role in promoting economic development, and that it is of no doubt that housing has the capability of contributing significantly to development. This, the Bank noted, is particularly true for economies trying to recover from any form of downturn. This was the case in post-war Japan and America where social housing development was used as an economic stimulant (Waswo, 2013).
In China, housing development has also been an important driver of growth and development (Chen and Zhu, 2008; Wang and Murie, 2011; Wu et al., 2014). Tibaijuka (2013) notes that many Asian countries have prioritised housing development and have positioned it as a mechanism that drives growth, creates employment, acts as an economic stabiliser and redistributes wealth. This is because they see housing as a domestic commodity that is not influenced by external demands and controls.

In Nigeria housing (real estate), though not well developed, is an important sector of the economy. As shown in Table 1, between 1981 and 2018, real estate share of GDP averaged 6.6 per cent. It grew by 4.06 per cent compared to the overall GDP growth of 3.62 per cent. The sector also contributed 0.27 to the overall GDP growth of 3.62 per cent during the period. Empirical studies such as Oladinrin et al (2012) and Okwu et. al. (2017), assessed the relationship between the housing sector and economic growth in Nigeria and their results suggested that the growth of the housing sector has a positive impact on output expansion.

<table>
<thead>
<tr>
<th>YEAR</th>
<th>REAL GDP GROWTH (per cent)</th>
<th>SHARE OF GDP GROWTH (per cent)</th>
<th>REAL ESTATE GROWTH (per cent)</th>
<th>CONTRIBUTION TO GDP GROWTH (per cent)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1982</td>
<td>-6.80</td>
<td>5.90</td>
<td>0.95</td>
<td>0.05</td>
</tr>
<tr>
<td>1990</td>
<td>11.78</td>
<td>5.58</td>
<td>4.97</td>
<td>0.30</td>
</tr>
<tr>
<td>2000</td>
<td>5.01</td>
<td>6.98</td>
<td>3.89</td>
<td>0.27</td>
</tr>
<tr>
<td>2010</td>
<td>9.13</td>
<td>7.56</td>
<td>10.75</td>
<td>0.80</td>
</tr>
<tr>
<td>2011</td>
<td>5.31</td>
<td>7.21</td>
<td>0.43</td>
<td>0.03</td>
</tr>
<tr>
<td>2012</td>
<td>4.21</td>
<td>7.31</td>
<td>5.65</td>
<td>0.41</td>
</tr>
<tr>
<td>2013</td>
<td>5.49</td>
<td>7.76</td>
<td>11.98</td>
<td>0.88</td>
</tr>
<tr>
<td>2014</td>
<td>6.22</td>
<td>7.68</td>
<td>5.12</td>
<td>0.40</td>
</tr>
<tr>
<td>2015</td>
<td>2.79</td>
<td>7.63</td>
<td>2.11</td>
<td>0.16</td>
</tr>
<tr>
<td>2016</td>
<td>-1.58</td>
<td>7.22</td>
<td>-6.86</td>
<td>-0.52</td>
</tr>
<tr>
<td>2017</td>
<td>0.83</td>
<td>6.85</td>
<td>-4.27</td>
<td>-0.31</td>
</tr>
<tr>
<td>2018</td>
<td>1.91</td>
<td>6.41</td>
<td>-4.74</td>
<td>-0.32</td>
</tr>
<tr>
<td>1981-1989</td>
<td>-0.05</td>
<td>6.22</td>
<td>0.87</td>
<td>0.05</td>
</tr>
<tr>
<td>1990-1999</td>
<td>2.31</td>
<td>6.31</td>
<td>4.03</td>
<td>0.25</td>
</tr>
<tr>
<td>2000-2009</td>
<td>7.67</td>
<td>6.65</td>
<td>8.30</td>
<td>0.54</td>
</tr>
<tr>
<td>2010-2018</td>
<td>3.81</td>
<td>7.29</td>
<td>2.24</td>
<td>0.17</td>
</tr>
<tr>
<td>1981-2018</td>
<td>3.62</td>
<td>6.61</td>
<td>4.06</td>
<td>0.27</td>
</tr>
</tbody>
</table>

Source: National Bureau of Statistics (NBS) and Authors calculation
In all these arguments, Prasad (2009) and Forrest (2008) noted that it is difficult to prove causality between housing development and economic growth. However, as seen in most industrialised countries of Europe, Asia and Africa, housing development plays a significant part in the development process and can contribute much to the overall development of a nation. Therefore, development economist and policy makers must see the housing sector as an important tool for growth and development (Chen and Zhu, 2008). In other words, housing and economic growth and development are complementary and the causality is at best bi-directional.

V. Conclusion

The housing sector and its associated services have a significant potential to be a catalyst for economic growth and development (De Soto, 2000). The sector has been used as a growth mechanism in many of the world economies (Prasad, 2009). The potential benefits of a well-developed housing sector ranges from increasing employments and spin-off industry to simulating the informal economy and building formal micro-enterprises. Gunter (2013) regarded housing as a tool for capital accumulation. Looking at most developing economies, the rapid increase in population and relative economic growth means that the demand for all housing types is far greater than the supply. This growing demand for housing comes with the need for more formal housing that is not only for accommodation but equally as a driver of development itself (Bremmer, 2010).

The experience of Asia and other developing countries offers valuable lessons for policy-makers in less-developed countries on the role of housing in economic growth and development. Governments in less-developed countries can intervene in the housing sector through comprehensive policies and large-scale investments, to effectively harness the growth benefits of the sector. Secondly, economic development strategies can be developed in such a way as to strategically situate housing as a tool for economic development. Housing policies should be implemented in such a way that it focuses on the targets of the economic development strategies. However, the objectives of such strategies must look beyond welfare considerations. For example, though housing policies in Singapore have been designed to cater for the housing needs of the entire population, a very important aspect of the housing policies is that it recognises the housing sector as a leading economic sector. Finally, the housing sector, its attendant services and its potentials offers many useful linkages to economic growth and development. From the discussions so far, it can be concluded that housing is a part, rather than a by-product, of the
economic development process and it contributes to growth. Therefore, adequate attention should be given to housing and its associated services, as they can contribute substantially to economic development.
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