



*INTELLIGENT CITIES
AND A NEW
ECONOMIC STORY
CASES FOR HOUSING*

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THREE POLICY PARADOXES



1. *GROWING FISCAL IMBALANCE*

1. All orders of government recognise the importance of city regions in the economy
 - Metropolitan areas, major growth in the economy
 - Not just big, but distinctive, and future growth
 - Key nodes of innovation, growth and global connection

PROBLEMS AND COSTS OF GROWTH LOCATED WITHIN METRO REGIONS, BUT TAX REVENUES FLOW TO PROVINCIAL/STATE AND FEDERAL LEVELS: COSTS OF PROBLEM INCIDENCE AND RESOURCES FOR POLICY SOLUTION INCREASINGLY DISASSOCIATED

2. HOUSING IN THE ECONOMY

Housing is a major sector in the economy, important
RECURSIVE ECONOMIC GROWTH/ HOUSING CONNECTIONS:
ECONOMY TO HOUSING TO ECONOMY.

Housing sector a range of weighty outcomes in economy

- ▶ 20-25pc household expenditures
- ▶ 10-15pc direct employment (and multiplier)
- ▶ Major non-pension assets, and debts held by households

BUT FEW GOVERNMENTS HAVE A COHERENT STORY, AND ESPECIALLY AT METROPOLITAN SCALES, OF THE ECONOMIC CONSEQUENCES OF HOUSING ACTIVITIES AND OUTCOMES and RELY ON SOCIAL JUSTICE ARGUMENTS, OCCASIONALLY ENVIRONMENTAL SUSTAINABILITY



3. HOUSING POLICIES AS NOW PURSUED MAY HAVE PERVERSE ECONOMIC OUTCOMES

Thomas Piketty's work shows

- ▶ Wealth and income inequalities increasing within OECD countries since mid 1970's
- ▶ Housing wealth shifts a key element in that pattern

BUT CAN ALSO ARGUE THAT THE SAME PROCESSES REDUCE GROWTH AND PRODUCTIVITY AND SHAPE THE FORMATION OF AN ECONOMY NOT OF ENTREPRENEURS BUT OF A GROWING RENTIER ECONOMY/SOCIETY,

SO WHAT IS THE ECONOMIC STORY FOR THE INTELLIGENT CITY?



ELEMENTS OF AN ECONOMIC STORY



ECONOMICS IN POLICY

ECONOMICS AS AN INFORMED RHETORIC TO INFORM POLICY-MAKING, CONCERNED WITH:

- ▶ USE OF SCARCE RESOURCES FOR COMPETING ENDS
- ▶ ALLOCATION, INCOME, DISTRIBUTION AND GROWTH
- ▶ **SYSTEMS FRAMEWORK**, MARKET , NON-MARKET, MIXED



UNDERSTANDING OF HOUSING IN ECONOMY, FINANCE MINISTRY PERSPECTIVE

COMMON STORIES

- ▶ JOBS: Keynesian multiplier and fiscal stimulus
- ▶ STABILITY: reinforcing cycles (post 1990)
- ▶ REDISTRIBUTION: 'political' choices, largely fiscal displacement (the rewards for 'Social sector lobbying')

THIS IS THE 'ACCEPTED' STORY IN FINANCE AND TREASURY POST GFC.....but not enough, GROWTH STORY MATTERS.

WHAT IS THE CASE FOR HOUSING AS ESSENTIAL ECONOMIC INFRASTRUCTURE FOR ECONOMIC GROWTH AND PRODUCTIVITY ENHANCEMENT?

PRODUCTIVITY: YOU KNOW WHAT IT IS!

Productivity is: **a measure of the effectiveness of the use of resources in the production of outputs.**

Different Scales: at the **micro** level of individual enterprises (social housing provider, builder) or the **(meso)** overall **sector** (e.g. construction); more commonly in economic policy estimated at **macro** metro-regional and national level.

Measured: at micro levels by various 'what works' approaches: at macro by **estimating production functions**, a physical relationship between measured inputs and measured outputs ,

$$Q = Q(K, L, X) + e$$

given values by applying factor and product prices.

THINKING PRODUCTIVITY MATTERS FOR HOUSING.....



WHY DOES PRODUCTIVITY MATTER (now).

Across the OECD raising productivity and reducing inequality are the (re)-emerging challenges. For Australia, UK and Canada

- High growth in GDP per capita over last three decades?
- Reflects strong terms of trade, favourable demographic (Aus and Can)
- A reliance on capital deepening, more capital per worker
- BUT: Multi-Factor productivity (innovation) has been poor (UK better)



2.4 IN THE DECADE AHEAD

FUTURE TRADE, DEMOGRAPHY LESS FAVOURABLE. CITY PRODUCTIVITY HAS TO GROW TO ENSURE ECONOMIC COMPETITIVENESS AND WELLBEING. HOUSING MATTERS IN THIS BECAUSE IT IS A CRITICAL, ESSENTIAL FORM OF ECONOMIC, AS WELL AS SOCIAL AND ENVIRONMENTAL INFRASTRUCTURE



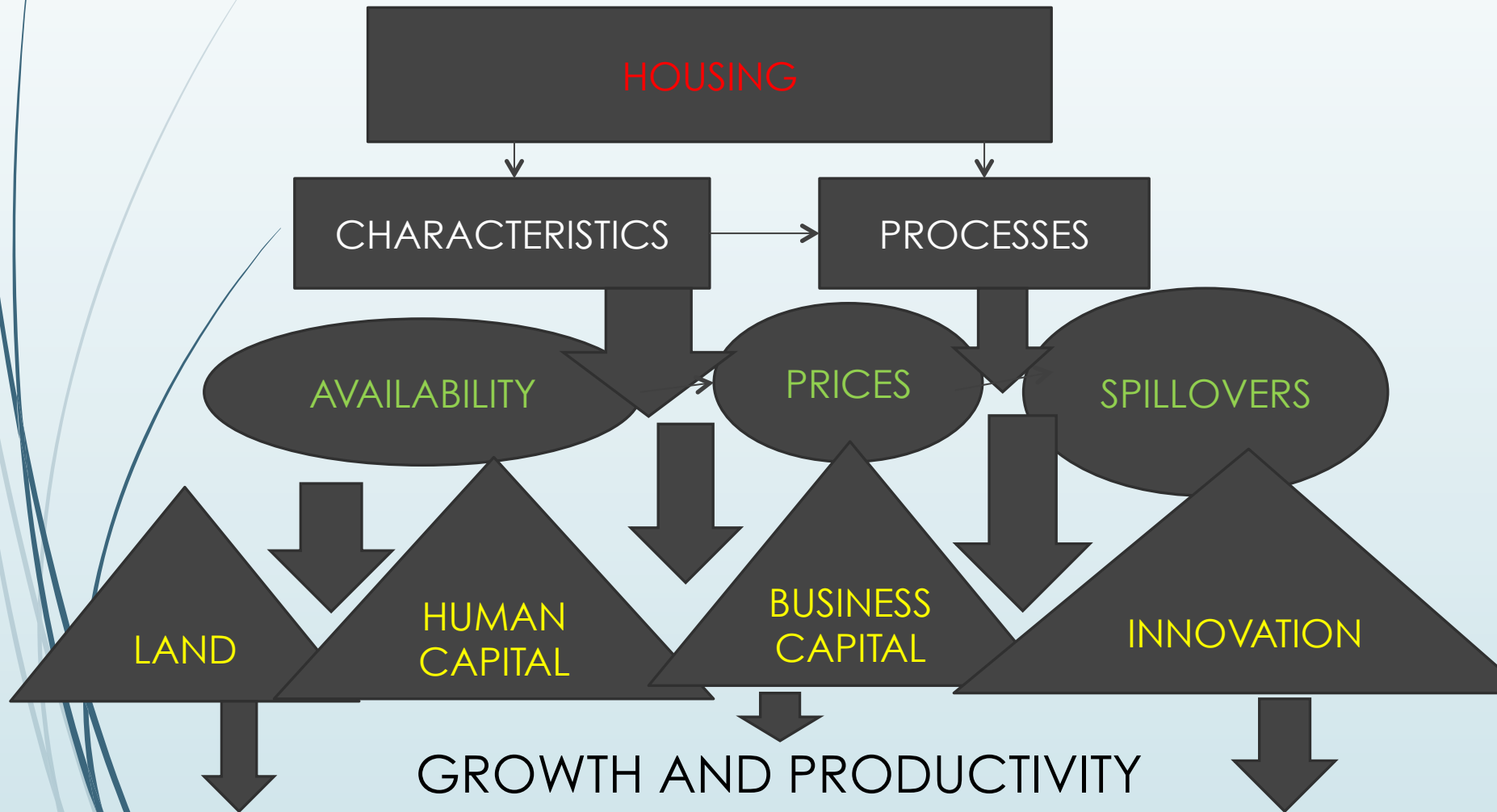
A NEW HOUSING STORY

FRAMEWORK AND EVIDENCE FOR NEW STORY OF HOUSING FOR ECONOMIC PROGRESS

focus here on the impacts of housing as economic infrastructure (social, environmental also matter)

1. Recognise that 'housing' applies to 'process' (VERBS) as well as 'characteristics' (NOUNS) outcomes.
2. Housing 'characteristics' and 'processes', '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: **HUMAN CAPITAL, BUSINESS CAPITAL, INNOVATION.**

HOUSING HOUSING, OUTCOMES, GROWTH.





NEW HOUSING APPROACH

1. Adopt a bottom-up perspective
2. Ensure reach from local to global
3. Essential to adopt a MOG view
 - ▶ Critical to recognise CITY economic policy roles
4. Start with logic chains

**HOUSING IS DIFFICULT, DON'T BE TOO REDUCTIONIST,
DON'T THROW OUT BABY WITH BATHWATER**



A MACRO MODELLING APPROACH: not worth it yet?

Estimates in Infrastructure from production functions

- At national scale, Aschauer (1988,1990)
 - Suggest strong impact
 - Now questioned, new methods, new data
- Recently, convincing metro-regional estimates; estimates are location, sector specific, not universal; **killer statistics of time savings**
- Often claims the housing gains! (commuting)

For housing,

- few macro estimates, no convincing modelling approaches
- Make case from micro and metro levels



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
 - Higher housing costs reduce spending on tradeable goods with higher returns to scale : **ABSOLUTELY CRUCIAL**
 - Higher housing output rates can generate labour skills

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)
- Time spent travelling to fulfill household activity pattern (gain claimed by transport!), (HK)
- Quality and variety in n'hood: Florida 'boho' effects

Price and Rent effects on growth: need a whole new essay



STARTING THE STORY AS CITY- REGION CONVERSATION



RESEARCHING EVIDENCE, PRACTICE

Method (in AHURI study)

- A review of local area and metropolitan economic development plans
- Separate Interviews with policy-makers
 - local economic development officials views on priorities/housing
 - Housing officials and their view on economic impacts
 - Planners on housing and economy linkages
- Bringing the Groups together
- Developing a similar conversation with key business interests



SOME KEY QUESTIONS

Key Questions

- ▶ Do housing strategies consider economic drivers of change, assess impacts, and do economic development plans link to housing provision?
- ▶ What are the key housing issues that are seen to affect economic development at the local area and metropolitan levels?
- ▶ How is housing leveraged to promote local economic development?
- ▶ How do stories differ across different types of places



KEY CONCLUSIONS



1. Though housing, productivity and economic development relationships are under-researched it turns out that policy makers are well aware of their importance in a variety of different local economy contexts
2. In most cases we have little if any evidence documenting the importance or otherwise of the issues these relationships raise
3. For example, there are few Australian estimates of agglomeration economies that are an important motivation for precinct and cluster ideas about mixed use land planning
4. Our reading of economic development and housing strategy plans also highlights some concerns about the implementation of policy
5. There needs to be a better informed housing dimension to local economic development visions, strategies and assessments

KEY CONCLUSIONS

6. The practice of planning is inadequate in relation to the contemporary tasks of understanding and regulating market driven housing systems. In the housing context there is a reliance on demographically deterministic models that offer firm annual forward estimates of housing investment requirements, but ignore the consequences for price, rents and other market outcome.
8. As a consequence, the economic implications of housing strategy plans are neglected.
9. A new conversation on economic development and housing is needed within local/state bureaucracies and a housing outcomes-productivity impact assessment has to lie at the heart of that change.
10. These lessons equally need to be learned and housing understood as essential economic infrastructure at local, state and federal levels, in finance and housing divisions, and in the major housing lobby and education groups too.