

# STIMULATING SOUTH AUSTRALIA

---

## PUBLIC HOUSING IN SOUTH AUSTRALIA AND THE WIDER IMPACT OF THE AUSTRALIAN GOVERNMENT'S STIMULUS PACKAGE

**BARRY BURGAN, SIMON MOLLOY AND JOHN SPOEHR**

**Report prepared for the  
Public Service Association of SA**



AUSTRALIAN INSTITUTE FOR SOCIAL RESEARCH

August 2009

## Table of Contents

Executive summary .....	3
Introduction and background .....	5
Public housing investment: economic and social impacts.....	5
Trends in housing construction activity and rental markets .....	6
Economic impacts of expenditure on public housing.....	13
A simple view of the economic impacts of public housing: gross activity impacts .....	13
An extended view: net activity impacts.....	16
Other economic benefits of public housing.....	17
The context of the broader infrastructure plan.....	18
Appendix 1: Literature Review The Economic Contribution of Public Housing.....	21
REFERENCES.....	28

# Executive summary

This paper examines the impact of the Australian Government's \$42 billion stimulus package on the South Australian economy and labour market. It seeks to identify the impacts on output and employment of the package, particularly as it relates to investments in housing.

In South Australia, approximately 8,000 private sector houses are commenced each year, along with 2,000 'Private Other' dwellings<sup>1</sup>, and 600 public sector dwellings. The total value of residential construction in 2006-07 in South Australia was of the order of \$6,200 million – around 5% of Gross State Product. Housing is a significant contributor to total economic activity. The Global Economic Crisis (GEC) has already had a demonstrable slowing effect on the level of activity in the Australian and South Australian housing market, and this is set against relatively low government investment in public housing over recent years.

An additional expenditure of \$51.8 million on public housing in South Australia is part of a government (State and Commonwealth) commitment in response to the Global Economic Crisis. This expenditure has been modelled for its impact on the South Australian economy in the context of the Global Economic Crisis, that is, where there is some level of involuntary unemployment of labour and capital. We estimate that the stimulus in housing will generate:

- Around 107 FTEs of employment directly in building, plus an additional 155 in trades plus other suppliers (for home construction). The employment impact of the second round or 'flow on' effects due to the general stimulation of economic activity is 313 FTE positions, giving a total of direct and indirect employment impact of 574 FTEs. The annual breakdown of this employment increase depends on the timing and duration of the spending.
- Around \$14.3 million of value added (returns to labour and capital) directly in building, plus \$12.1 million in trades plus other suppliers. The impact on economic activity arising from second-round effects of this initial stimulus is \$30.3 million giving a total impact on economic activity or Gross State Product (GSP) of approximately \$56.7 million.

Therefore, the impact on GSP (\$56.7 million) is slightly in excess of the stimulus (\$51.8 million). This final impact on GSP includes the effect of 'import leakages' – an increase in South Australian imports due to the stimulatory expenditure, that is, some of the stimulatory effect is 'lost' to imports. But, at the same time, since similar stimulatory expenditures are taking place in other states of Australia, South Australian suppliers to the construction industry nationally will benefit from the stimulus as well. This effect, however, is not captured in our estimates.

It is also relevant, in this context, to compare the stimulatory effect of spending on housing compared with spending in other areas. There is certainly a significant multiplier effect associated with spending on domestic housing. In addition to this relatively favourable multiplier impact, housing is also a good target for stimulus spending because the stimulus can be achieved quickly (compared with more complex large-scale infrastructure projects) and therefore when it is needed. Also, expenditure can be staggered and incremental enabling the stimulus effect to be tailored over

---

<sup>1</sup> Private other are non-detached buildings constructed by the private sector – including town houses, units, apartments etc

the recessionary period as needed. Further, there are longer term benefits associated with the provision of housing such as:

- Providing tenants in rental markets more choice and flexibility, and empowering them in negotiation and through increased security of tenure.
- Capacity to strategically focus urban renewal projects and generating associated externality benefits.
- Improving a range of other social outcomes that are linked to improved housing such as, decreased crime, decreased homelessness, more stable family structures etc, that also provide important long run economic benefits .

Another factor to bear in mind when considering these economic impacts is the possibility of 'crowding out'. Crowding out occurs when an increase in government expenditure displaces, either directly or indirectly, private sector spending. In the current economic environment crowding out is less likely to be a concern because private investors are cautious, demand for public housing is high and historically high levels of immigration and population growth are keeping the general level of demand for housing high.

The commitment to housing investment is part of the broader stimulus package. The State Government indicates that the extent of financial stimulus that will occur in South Australia in 2009-10 is \$1,035 million. It is estimated that this expenditure will generate in the order of 11,000 jobs in South Australia 2009-10. This represents in excess of 1.5% of underlying employment. Therefore the package will produce a substantial offset to the impact of the GEC. The estimated stimulus to GSP is of the order of \$1.06 billion (or 1.55% of GSP). Over 60% of this estimated increase will be in the form of increased aggregate household income. About 20% of this impact occurs directly on the projects, and 30% in direct suppliers. The balance occurs through flow on or extra impacts

While this investment in infrastructure will have a significant short term positive impact on South Australian employment growth and output, investment in housing and other infrastructure has a lasting legacy, a legacy of improved economic and social value. The longer term economic value needs to be as much (or more) of a focus of the stimulatory spending plans, because it is long term economic viability and growth which ensures that the State and the nation as a whole has the ability to finance the counter-cyclical fiscal expenditure in the long run.

# Introduction and background

This report identifies the employment and economic impacts of the Australian Government's stimulus package on South Australia with a particular focus on the public housing component of the package. In an earlier report, *Off the Waiting List –the affordable housing dream* in South Australia we focused attention on housing affordability and public housing need in South Australia. To recap, the key findings of this first report included:

- Since 1996, average house prices across the country have more than doubled in nominal terms and risen by around 80 per cent in real terms — over half of this in the last three years.
- Approximately 1.1 million households across the country are in housing stress.
- The number of public housing dwellings in Australia declined from 372,134 in 1996 to 341,378 in 2006.
- Spending on public housing in Australia has fallen by more than 11% over the past decade.
- Annual expenditure on the Commonwealth Rental Assistance (CRA) now surpasses that provided to the States under the Commonwealth State Housing Agreement (CSHA). In 2005-06 CSHA expenditure was \$1.3bn while CRA expenditure was \$2.1bn.
- In South Australia over the five year period from 2000 to 2004 the median price (unadjusted for inflation) in most Adelaide suburbs more than doubled with some increasing in median value by over 200%.
- It is estimated that approximately 90,000 extra people will need to be accommodated in South Australia by 2014, and a further 360,000 by 2050, creating further demand for land, housing, transport and services.
- In June 2007 a total of 176,321 Australian households were on waiting lists for public rental housing, 11,700 classified as being in 'greatest need.'
- Since the early 1990s public housing stock has declined by 14% and, under current policy directions and funding cuts, is projected to decline further from about 51,000 currently to less than 40,000 by 2020.

## Public housing investment: economic and social impacts

In South Australia, the Australian and State governments have committed to delivering 246 new social housing dwellings across the State at a cost of \$51.8 million.

The impact on economic activity from infrastructure investment on housing occurs in a number of ways:

- The impact of construction activity – in terms of creating jobs through the investment spending. The argument here is particularly strong if the case can be made that the activity does not displace private sector activity and/or is counter cyclical in nature;

- The impacts on real wages for sections of the workforce by keeping pressure down on rents – therefore improving business competitiveness and improving economic outcomes. This has been a significant historical argument for public housing in South Australia; and
- Social benefits and associated economic outcomes. Planned social housing produces benefits in the context of improved social outcomes, which produces benefits that can be considered in an economic context. Improved health, education and crime outcomes because of a solid public housing framework can reduce costs in those service areas, again leading to improvements in underlying competitiveness.

The report provides estimates of the impacts of these effects where defensible quantitative assessments can be made. This involves:

- Identifying and valuing the direct outcomes associated with the above effects;
- Identifying and valuing indirect outcomes (ie the first round impacts in terms of reduced social costs etc); and
- Modelling the induced or whole of economy effects through a whole of economy model.

Because of the externality impact of housing (the state or condition of an individual house impacts on the area around it), improved public housing has a direct impact on the value of the property itself, but also impacts on surrounding properties.

## Trends in housing construction activity and rental markets

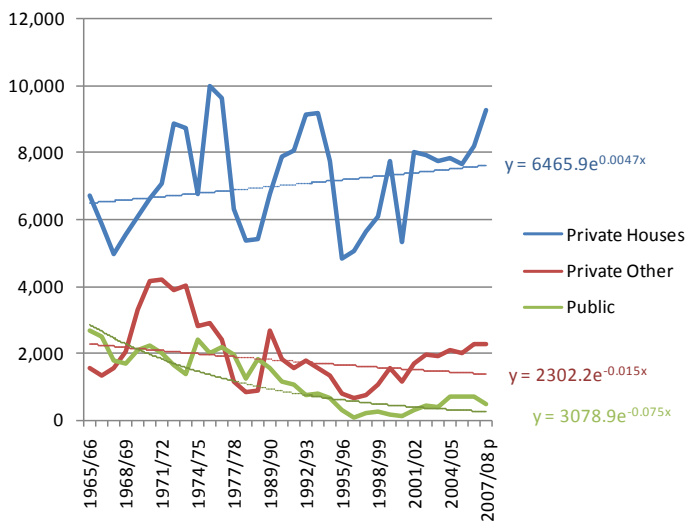
In order to be able to analyse the economic contribution that public housing makes to the economy, we need first to develop an understanding of the size and characteristics of the housing market as a whole. In South Australia, there is of the order of 8,000 private sector houses commenced each year, as well as 2,000 'private other' dwellings<sup>2</sup>, and 600 public sector dwellings. The total value of residential construction in 2006-07 was of the order of \$6,200 million which is about 5% of State GSP. The value of non-residential construction in 2006-07 was approximately \$3,500 million. The residential construction sector in 2006-07 employed around 12,500 persons in South Australia, while non-residential construction employed of the order of 6,100. In addition, there were also some 31,000 people employed in construction trade services in services to these sectors.

An assessment of the trends shown in Figure 1 in building activity indicates that over the last 40 years there has been a slow (average of 0.5% per annum) increase in the number of private houses, but declines in private other and a substantial decline in public housing.

---

<sup>2</sup> Attached dwelling constructed by the private sector, such as home units, apartments, town houses etc

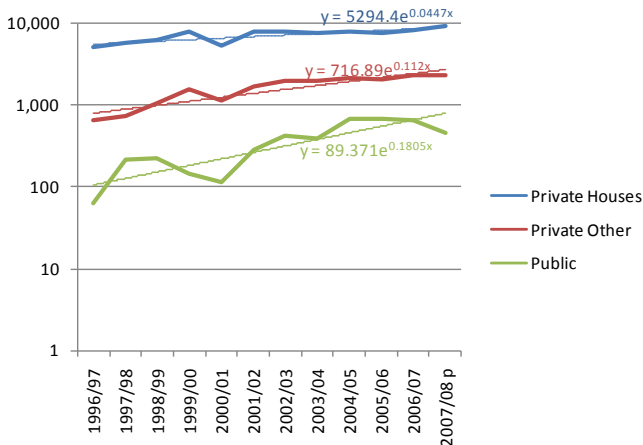
**Figure 1: Annual housing commencements in South Australia**



Source: Housing Industry Prospects Forum Data

Focussing on the last 10 years provides a somewhat different perspective. Private Housing commencements in the State continued to grow at around 0.45% per annum but Private Other has grown at a higher rate of 1.1% and Public Housing has grown at an even higher rate of 1.8% per annum (from the very low base of the mid 1990s).

**Figure 2: Annual housing commencements in South Australia, last decade**

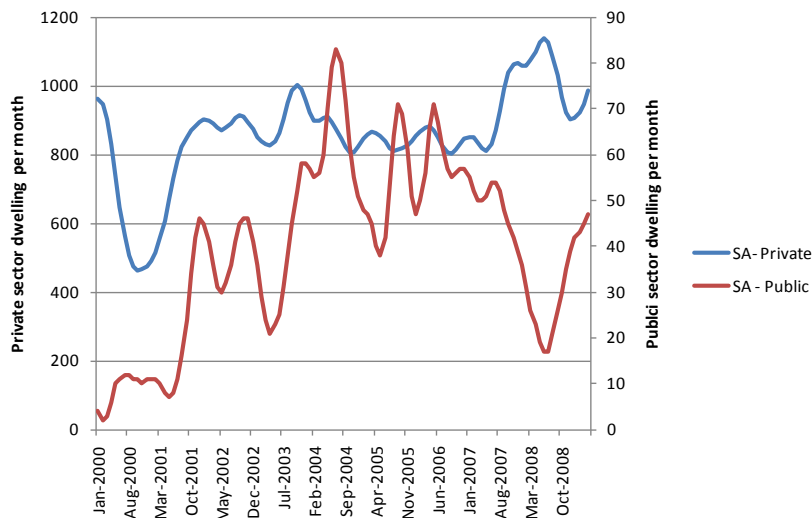


Source: Housing Industry Prospects Forum Data (log scale used as vertical axis, so that chart show illustrates rate of growth).

Figure 2 shows, however, that in the last few years, there is a notable decline in public housing activity.

Figure 3 shows housing approvals data from January 2000 to April 2009 for South Australia. It indicates a (slight) dip in private house commencements from mid 2008 in response to the economic crisis, but levels still remain well above the early years of the decade. In contrast, the level of public housing activity was quite strong over the middle of the period, but has dropped away somewhat in the last couple of years.

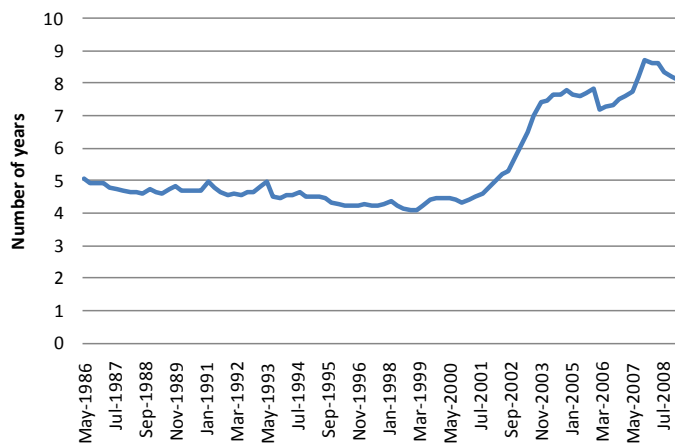
**Figure 3: Annual dwelling approvals in South Australia, from Jan 2000**



Source: ABS Catalogue 8731004, April 2009 – trend data

These trends should be viewed in the context of changes in housing affordability. Over the longer term, the median price of a house has averaged around 5 years' gross wages (declining slightly over time). This situation deteriorated dramatically by mid 2007 when it took around 9 years of gross wages to purchase a house. This means that it has become significantly more difficult for lower income households to enter the home ownership market.

**Figure 4: Housing affordability: number of years gross wages relative to median house price**



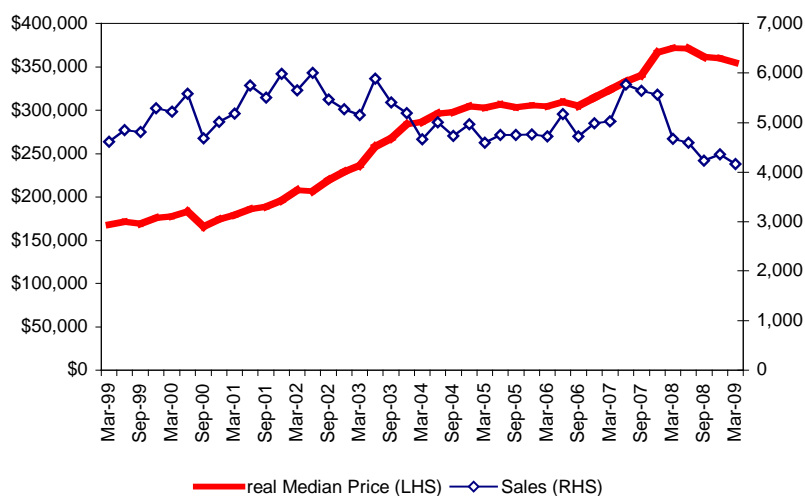
Source: derived from ABS Catalogues 6302.0011, 8731.004, 6416.0, Tables 1, 7 and 10

Some care needs to be taken, however, in interpreting this data because the quality of housing has also been changing significantly over this period and this improvement will tend to drive prices up, resulting in perceived reduction in affordability. Put another way, if the *quality* of housing had stayed constant the standard house would be more affordable than is currently the case.

Figure 5 focuses on the last five years, when housing price rises have been large – houses prices more than doubled (although there has been a slight downturn in last 12 months) despite a

downward trend in the volume of sales. Other factors remaining equal, this obviously decreases the ability of households to enter into home ownership.

**Figure 5: Established House Sales and Median Prices - ASD**



Source: Valuer-General

When considering the nature and extent of the benefits arising from investment in public housing, it is necessary to consider the economic impacts of the private rental market. This is because the private rental market is the closest substitute for public housing. This is especially the case because policy shifts in supporting public and private rental support has resulted in a significant shift towards increased private rental assistance. Governments in Australia provide a range of support and assistance for housing. The two main programs dedicated to specific housing assistance are the Commonwealth-State Housing Agreement (CSHA) and Commonwealth Rent Assistance (RA) –see Table 1.

**Table 1: Government support of public and private rental housing (\$ billion in 2006 dollars)**

	1993-94	2003-04	2005-06	Ave annual change
Rent Assistance	1.89	2.03	2.10	0.9%
CSHA	2.95	1.35	1.31	-6.6%

Source: Derived from information in ACOSS, Rent Assistance: Does it Deliver Affordability, Sept 03 and Australian Institute of Health and Welfare, Housing Assistance in Australia, 2008

Note: The table does not include support for home ownership, such as the first home owner grant.

The CSHA is an arrangement which aims to assist both renters and purchasers obtain appropriate accommodation. It is mainly concerned with the provision of public housing, but also provides funding for other types of tenure as well (community housing, crisis accommodation, Aboriginal rental housing, private rental support and home ownership support). The Commonwealth provides approximately two-thirds of the funding.

Rent Assistance is fully funded by the Commonwealth and provides rental assistance to low income households and individuals in the private rental market. Assistance is in the form of a non-taxable income supplement paid to people who receive income support payments or more than minimum family payment in recognition of housing costs in the private market. From the mid 1990s total outlays on RA have exceeded those provided on the CSHA, for example, in 1999–2000 an excess of \$1.5 billion was spent on the provision of RA.

From a policy perspective, rental assistance can be viewed as an alternative to the provision of public housing although we would expect some differences in outcomes between the two policy alternatives and these will be discussed further below. Rent assistance means that access to privately provided housing for households on a given income should be available at about the same cost as access to public housing (for an equivalent house).

Table 2 shows the distribution of households between tenure types. The size of the home owner or owner occupier segment has remained relatively constant, varying between 67%-68% of the total number of households across the 30 years. Therefore the rental market has also remained constant as a proportion, at around 26%-27% of households. The significant shift has been into public rental in the 1980s and then back to private rental in the 1990s and the last 10 years. There is a significant shift into private rental (perhaps from home ownership) in the 2006 Census.

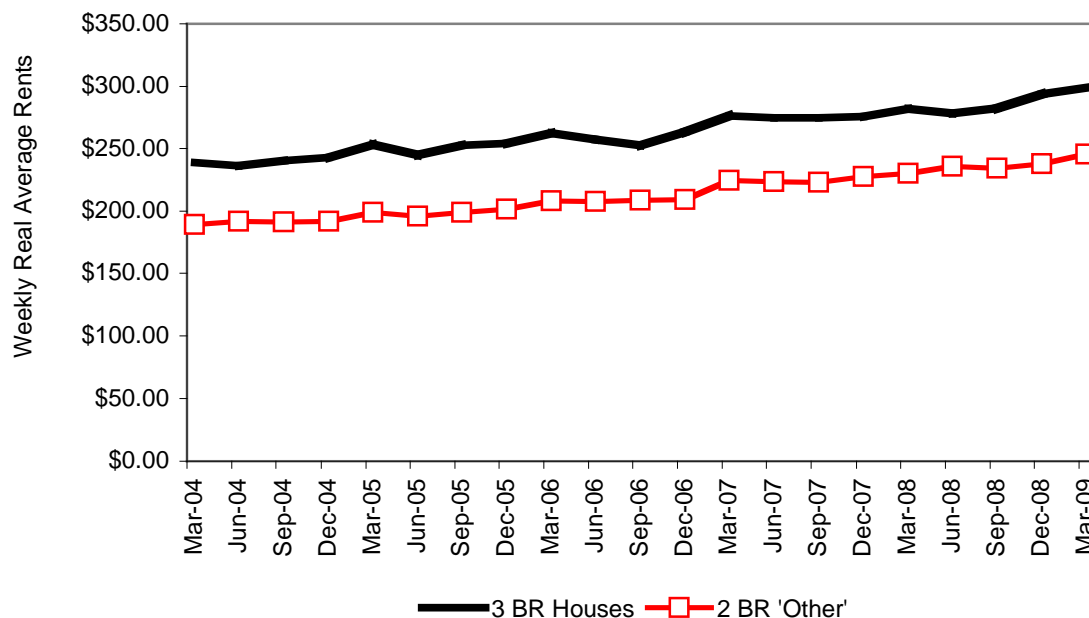
**Table 2: South Australian Households by type of tenure**

	Number of Households				Proportion of Total			
	Owner Occupiers	Private and Other Rent	State Housing Authority	Other and Not stated	Owner Occupiers	Private Rent	State Housing Authority	Other and Not Stated
1976	264176	66598	36224	23516	67.6%	17.1%	9.3%	6.0%
1981	299259	68615	41487	22780	69.3%	15.9%	9.6%	5.3%
1986	327472	74862	52299	18189	69.3%	15.8%	11.1%	3.8%
1991	372983	91871	52622	24866	68.8%	16.9%	9.7%	4.6%
1996	374276	92873	52622	23864	68.8%	17.1%	9.7%	4.4%
2001	402587	101003	44686	35766	68.9%	17.3%	7.7%	6.1%
2006	409510	115814	40475	44114	67.1%	19.0%	6.6%	7.2%

Source: ABS Census data

Given the shift from public to private the next question to consider is whether renters have had to, on average, pay more for this accommodation because of this shift. The increase in rents over the last five years has been much more modest than housing price increases with an increase of around 20% over five years (or about 4% a year, just slightly above the increase in inflation).

**Figure 6: Weekly real average rents**



Source: Office of Consumer and Business Affairs

If the supply of private rental accommodation has been effective in compensating for the decrease in public housing accommodation we should not assume automatically that this will continue to be the case into the future. In the current economic environment of a global recession there are a number of reasons to be concerned about the future supply of privately provided rental accommodation and therefore the need for public housing.

The first point for concern is that the financial returns for the private provision of rental accommodation have diminished because of the poor return in the value of rents relative to the price of housing. While this has historically been offset by returns from capital gains, in the current market the prospects of capital gains have been significantly reduced and, in fact, the prospect of capital loss is a substantial concern for many owners of private rental accommodation which will limit potential investment.

These factors are likely to reduce the interest of investors in rental housing, and/or may result in a significant increase in rents in the medium term as private housing investors attempt to improve returns.

Lastly the impact of the first home owners grant on the market must be considered. In the first instance it may attract some people into ownership who would have been in the mix for public ownership. Secondly it has (anecdotally) distorted prices in the lower price end of the market.

# Economic impacts of expenditure on public housing

## A simple view of the economic impacts of public housing: gross activity impacts

The Australian and State governments have committed to delivering 246 new social housing dwellings in South Australia at a cost of \$51.8 million as part of the economic stimulus package. We assume that this is in addition to the underlying level of 600 public houses or so a year that are approved/commenced in South Australia. Thus, the housing stimulus represents a 40% increase in the level of public housing activity over a normal year. In this section we seek to identify what the impact on economic activity and employment of this increased expenditure on public housing will be.

The stimulus effect will be maximised if this increase in activity were to occur in a short time frame, and therefore it is assumed that this activity will mostly occur in one year (2010).

There are two basic approaches to modelling the impact on economic activity resulting from a stimulus of this kind:

- Use of an input-output modelling (IO) framework. An input-output model is a whole of economy model which enables estimation of the final impact on economic activity that results from actual or hypothetical changes in final expenditure or demand (for example, an increase in investment expenditure). Input-output modelling is based on a matrix of the empirical relationships between the various sectors of the economy and this enables the effect of 'expenditure shocks' and associated 'multiplier effects' to be estimated and summed to arrive at a final estimate of the final impact of the initial change on economic activity and employment by industry. A key feature of this framework is that it assumes that the economy can expand without constraint. It will give an order of magnitude measure at the state and regional level.
- Use of a Computable General Equilibrium (CGE) model. This framework provides a more sophisticated method for assessing the impact of expenditure shocks and, in particular, enables the introduction of supply constraints on the capacity of the economy to expand in response to the expenditure shocks.

This paper uses an input output model to provide estimates of the impact that the expenditure shocks will have. It is argued that at the state level, because supply side constraints are less binding than at the national level (labour can migrate into and out of the state, capital is controlled in a national and international market) IO models will provide similar predictions as to long term implications for employment and GSP impacts as will CGE models, and therefore IO models are sufficient for gaining an impression of the level of activity resulting from given projects. Further it is noted that in the current economic situation the concept of Keynesian multipliers (and policy responses) are more valid than in times of relatively full employment even at the national level (ie the supply constraints are less binding and there is less crowding out).

The modelling in this study is undertaken using the input-output table that underlies the RISE model operated by the SA Department of Trade and Economic Development<sup>3</sup>. After presentation and consideration of these results CGE modelling could be undertaken if still considered necessary, but this is outside of the scope of this project. These issues are discussed in more detail in *Employment and public infrastructure: An estimation framework*, Victorian Department of Treasury and Finance Technical Paper, 11 May 2009 and the analysis in this paper is consistent with the discussion in that paper (although that paper focuses on direct impacts only).

Multipliers for South Australia derived from IO tables for 2006-07 are given in Table 3 (an updated version based on the report below). The definition of the multipliers is firstly the measure, as follows:

- **GSP or value added** – this shows the increase in value added in \$ million (returns to labour and capital) for a \$1 million increase in final demand in the sector
- **Household Income** – the increase in gross wages and incomes paid to employees
- **Employment** – the increase in the number of full time equivalent jobs created or supported by every \$1 million of final demand in the sector

The total multiplier is broken down to component parts as follows (described for GSP or value added multipliers):

- **Initial** – for every \$1 million of final demand on residential building there is \$0.2757 million worth of value added created in building companies
- **First Round** – for every \$1 million of final demand on residential building there is \$0.2326 million worth of value added created in suppliers to the building companies – this will include construction trade services, and also in products such as cement and timber, and business services, such as accounting
- **Industrial Support** – for every \$1 million of final demand on residential building there is \$0.1955 million worth of value added created in flow-ons through industry linkages; the construction trade services also buy inputs from other industry sector (so a timber supplier will buy from the forestry sector, a concrete supplier from the mining sector etc) and this flows through
- **Consumption Induced** – the labour employed in each of the rounds above will spend on consumption items, and therefore create or induce further employment in retail, in hospitality, in education etc, and for every \$1 million of final demand on residential building there is \$0.3900 million worth of value added created in the economy through this flow through effect.

These impacts add to mean that for every \$1 million in final demand spent on residential building there is a total of \$1.09 million added to value added (or Gross State Product) in South Australia.

---

<sup>3</sup> *Economic and Environmental Indicators for South Australia and its Regions, 2006/07*, Prepared for Department of Trade and Economic Development, EconSearch, 2009.

**Table 3: South Australian IO multipliers**

	Initial	First round	Industrial Support	Consumption induced	Total
<b>GSP or Value Added Multiplier</b>					
Residential building	0.2757	0.2326	0.1955	0.3900	1.0937
Other construction	0.2196	0.2577	0.2023	0.3428	1.0224
Construction Trade Services	0.4088	0.1902	0.1648	0.5157	1.2795
Economy Average	0.4842	0.1686	0.1158	0.3955	1.1641
<b>Household Income Multiplier</b>					
Residential building	0.1586	0.1758	0.1342	0.1951	0.6637
Other construction	0.0841	0.1906	0.1372	0.1715	0.5834
Construction Trade Services	0.3541	0.1495	0.1160	0.2580	0.8776
Economy Average	0.2913	0.1090	0.0749	0.1978	0.6730
<b>Employment Multiplier</b>					
Residential building	2.06	2.99	2.15	3.88	11.08
Other construction	1.94	3.18	2.20	3.41	10.74
Construction Trade Services	6.78	2.57	1.86	5.14	16.33
Economy Average	5.38	1.84	1.19	3.94	12.35

Source: Economic and Environmental Indicators for South Australia and its Regions, 2006/07, Prepared for Department of Trade and Economic Development, EconSearch, 2009

These multipliers enable us to make a judgement about the relative stimulatory effect of expenditure on housing compared with the symmetry effect of expenditure in other sectors. The multipliers for South Australia indicate that residential building is 'middle ranked' in terms of its symmetry effect on economic activity. The Initial impact is relatively low but this is offset to some extent by first round impacts (which would be mostly purchases from construction trade services) and results therefore in about average employment outcomes directly on housing supply, and subsequent flow on impacts. Note that this somewhat contradicts the Smyth and Bailey article discussed in the appendix.

Table 4 shows the impact of the additional expenditure of \$51.8 million on public housing in the year 2010.

**Table 4: Estimated impact of extra public housing investment**

	Initial	First round	Industrial Support	Consumption induced	Total
<b>GSP or Value Added Multiplier</b>					
GSP or Value Added Impact (\$ m)	14.28	12.05	10.12	20.20	56.66
Housing Income Impact (\$ m)	8.21	9.11	6.95	10.11	34.38
Employment Impact (FTE's or person years of employment)	107	155	112	201	574

Source: modelling for this study

Thus, the analysis indicates that the additional expenditure on public housing will generate around 107 FTEs of employment directly in building, plus 155 in trades plus other suppliers. The total impact on employment including induced or broader flow-on effects of 313 is 574 FTEs.

An additional expenditure of \$51.8 million on public housing will generate around \$14.3 million directly in building activity, plus \$12.1 million of activity in trades plus other suppliers. The total impact on employment including induced or broader flow-on effects of \$30.3 million is \$56.7 million

### **An extended view: net activity impacts**

The results above indicate the estimated impacts on employment and economic activity from the anticipated increase in new public housing investment. It is necessary, however, to address the question of whether this increase in activity would cause the crowding out of private sector activity resulting is simply in the transfer of activity from the private to the public sector resulting in little change overall.

In this context the question is who is on and how you manage the public housing application and priority list – that is whether the housing stimulus creates new households by allocating people from the list who are currently prevented from entering households, as opposed to transferring from other tenure forms.

The basic issue is that if the extra public housing results in people who are already accommodated moving from alternative housing (and specifically private rental) to public housing then the net increase in activity is less than the gross increase. As has already been noted, rental assistance is already available and provides income support for private tenants, which makes accommodation purchased in the private market more affordable. This could be called a 'transfer effect' - where the provision of public sector housing simply transfers tenants from private rental to public rental (this is also sometime called crowding out, in that as a consequence, government investment crowds out private sector investment

From the literature it is clear that, even where there is a significant 'transfer effect' - this does not imply there is no creation of value involved. This may be, for example, because tenants allocated to public housing may enjoy better quality housing and improved housing services and environmental amenity as a consequence of the shift from private to public housing, and this is discussed in more

detail in the later in the paper. The essential point is that the analysis must estimate net levels of benefit not gross.

However it is reasonable to expect that in the current environment, increasing unemployment (or risk thereof) is likely to increase levels of housing stress and result in people being forced into sub-optimal situations, where the number of households are reduced (lack of affordability means that high stress households will not form or remain in independent households but will live in multiple households, or live with family and friends). Therefore if the allocation of the additional dwelling are focussed on priority applicants (who are usually those experiencing the most housing stress), this probably means there are minimal transfer effects in the short run.

Further it could be argued that, relative to the overall level of housing starts (around 10,000 a year, and the waiting list (around 22,000), the new public houses built as a result of the stimulus package can be allocated in such a way as to minimise crowding out. This would involve allocating houses to those persons and households experiencing significant housing stress and/or recent unemployment or underemployment.

In short, the extent of transfer effect or crowding out in the current environment is seen as being a minimal risk in that:

- Private sector access to capital has become more limited in the current market, and investors have become more cautious
- The waiting list for public housing is close to 35% of the total housing stock, and 5 times the total public sector stock. While many people will be on the waiting list as an insurance mechanism, there will be those on the list who would be prevented from establishing a household without access to public housing, and therefore there is the potential to create new demand (certainly in the short run and maybe also in the long run) rather than crowd out existing demand.

### Other economic benefits of public housing

While the argument above is very much about short term job creation outcomes there are a range of other benefits that can be considered social, but also have economic implications. In many ways, and in the longer run, these benefits are actually likely to be more significant than those discussed already. These benefits include:

- Additional properties mean greater supply in the housing market which will improve affordability. In particular it will mean that private rents will be lower than they would otherwise be and will produce an improvement in real incomes. Private rental vacancy rates remain low, and as noted in the literature section there are various market impediments or failures in terms of the supply of lower value and lower rent housing – it is generally undersupplied. While there has not been a substantial surge in private rental rents overall, taking some pressure off rents in given (and under-supplied) market segments will produce some competitiveness benefits for the economy. Note that this issue is limited in significance a little because of rental assistance, but the existence of housing stress suggests there will be some influence.

- Given private rental assistance, possibly the biggest advantage of public sector tenancy over private sector is security of tenure and empowerment of tenant. In public sector housing the tenant is more empowered than in private (particularly given current vacancy levels) which give greater security. The economic benefits relate to stability of labour force for industry etc. A common concern in the rental markets (and again particularly the lower value and rental end) is that the tenant is “dependent” and that the trade is not fair and equal. Further private rental tends to be short term and gives limited security to the occupant. Public sector housing averts these issues (though there are counter issues that are of concern to the general taxpayer around management of stock etc).

As Olsen and Barton (1982) argue, investment in public housing can produce a value creation through urban renewal impacts. Housing has a significant externality characteristic– the quality of individual (or groups) of houses impacts on the value of neighbouring houses, of the suburb and even of the region. Therefore urban renewal can create value in adjacent housing. Studies such as those discussed in Appendix 1 outline the real benefits of reduced crime, improved health, all of which reduce costs to government and therefore increase economic competitiveness.

None of these are easily quantifiable but they still represent significant social and economic benefits arising from increased investment in public housing.

### The context of the broader infrastructure plan

As Table 5 shows, revenue grants from the Australian government make up the single largest source of revenue for the South Australian government. Indeed 2009-10 financial year grants from the national government increased to \$8,064 million, up from \$7,199 million the year before. This increase is largely due to the Australian government's explicit fiscal stimulus of the 2009-10 financial year which is designed to offset the negative economic impact of the global economic recession.

**Table 5: The South Australian government sources of revenue \$(million)**

	2008-09 Budget	2008-09 Estimated Result	2009-10 Budget	2010-11 Estimate	2011-12 Estimate	2012-13 Estimate
Taxation revenue	3 615.5	3 477.6	3 525.9	3 623.1	3 831.9	4 046.3
Grant revenue	6 905.7	7 199.2	8 064.1	7 746.8	7 594.7	7 672.1
Sales of goods and services	1 601.4	1 711.3	1 833.8	1 851.9	1 939.6	2 011.2
Interest income	199.8	120.0	143.5	205.9	261.3	320.5
Dividend and ITE <sup>(a)</sup> revenue	441.4	348.0	387.6	449.5	397.9	458.9
Other revenue	491.0	529.1	489.2	519.5	559.7	569.7
<b>Total revenue</b>	<b>13 254.8</b>	<b>13 385.2</b>	<b>14 444.2</b>	<b>14 396.6</b>	<b>14 585.1</b>	<b>15 078.7</b>
<b>% change on previous year</b>						
Nominal terms growth %		3.9	7.9	- 0.3	1.3	3.4
Real terms growth %		0.7	6.2	- 1.8	- 0.5	1.0

Note: Totals may not add due to rounding.

(a) Income tax equivalent (ITE).

Source: South Australian Government, Budget Paper 3, 2008–09, p3 .7

The 2009-10 South Australian budget papers state that:

*“In February the Commonwealth released the Nation Building – Economic Stimulus Plan with five-year funding to support jobs and stimulate economic growth. South Australia expects to receive \$1.8 billion that includes funding for education (\$1.3 billion), housing, (\$477 million) and transport (\$29.0 million)”*

(Budget Overview, Budget Paper 1, 2009-10)

Table 6 shows the net impact on South Australian government finances from financial arrangements with the Federal government.

This table provides estimates of additional South Australian government revenue from the Federal stimulus. The largest stimulus occurs in 2009, 2010 and 2011 with additional revenue of \$1.03 billion and \$0.59 billion respectively. Over the four years from 2008-09 to 2012-13 all of this additional revenue is spent on programs within the South Australian economy.

**Table 6: Net impact on South Australia from financial arrangements agreed by COAG in 2008-09**

	2008-09	2009-10	2010-11	2011-12	2012-13	Five year total
<b>Specific purpose payments</b>						
Additional revenue	50.2	58.9	51.3	42.7	40.9	243.9
Associated expenditure <sup>(a)</sup>	34.0	59.4	62.2	79.5	102.9	338.0
Net Impact	16.2	-0.5	-10.9	-36.8	-62.0	-94.1
<b>National Partnership payments<sup>(b)</sup></b>						
Additional revenue <sup>(c)</sup>	265.8	163.7	152.0	228.2	200.8	1 010.6
Associated expenditure <sup>(a)</sup>	100.1	252.7	242.2	313.7	273.3	1 182.1
Net Impact	165.7	-89.0	-90.2	-85.5	-72.5	-171.5
<b>Nation Building — Economic Stimulus Plan</b>						
Additional revenue	126.8	1 029.5	591.0	23.3	—	1 770.6
Associated expenditure <sup>(a)</sup>	121.1	1 035.2	591.0	23.3	—	1 770.6
Net Impact	5.7	-5.7	—	—	—	—
Impact on GST revenues from new financial arrangements <sup>(d)</sup>	—	-3.6	24.7	53.2	87.8	162.0
<b>Net impact</b>	<b>187.6</b>	<b>-98.8</b>	<b>-76.4</b>	<b>-69.1</b>	<b>-46.7</b>	<b>-103.5</b>

Note: Totals may not add due to rounding.

- (a) Includes all expenditure and state co-contributions necessary to achieve the stated objectives. These amounts will not add to expenditure in Chapter 2 as some expenditure, such as that associated with reward payments, is yet to be allocated to agencies and is being held within Administered Items for the Department of Treasury and Finance.
- (b) Includes new National Partnerships agreed in 2008-09.
- (c) Assumes that South Australia will satisfy all reward funding requirements and receive full payments.
- (d) This reflects the distribution impact on GST revenues from the new financial arrangements.

Source: South Australian Government, Budget Paper 3, 2008-09, p4.3

From these papers we see that the SA Government’s estimate of the stimulus package influence in South Australia in 2009-10 is \$1,035 million, about half that in 2010-11. It is assumed that this spending is on public housing (as above) and otherwise on other infrastructure. For the additional infrastructure spending non-residential construction multipliers are applied, producing an estimate of economic impact as per Table 7. On this basis it is estimated that the economic stimulus package will create some 11,000 jobs in South Australia in 2009-10 with about half that impact in 2010-11.

The 2009/10 impact represents in excess of 1.5% of underlying employment in South Australia. The estimated stimulus to GSP in 2009-10 is of the order of \$1.06 billion (or 1.55% of GSP) and household incomes make up over 60% of this. About 20% occurs directly on the projects, and 30% indirect suppliers. The balance occurs through flow on or extra impacts.

**Table 7: Net impact on economic activity in South Australia relating to the stimulus package 2009-10**

	Initial	First round	Industrial Support	Consumption induced	Total
<b>GSP or Value Added Multiplier</b>					
GSP or Value Added Impact (\$ m)	230.16	265.43	209.02	357.25	1061.86
Housing Income Impact (\$ m)	90.88	196.54	141.83	178.70	607.96
Employment Impact (\$ m)	2,013	3,281	2,279	3,558	1,1130

Source: modelling for this project

There are important caveats to this modelling that should be clearly specified:

- Firstly the modelling is relevant as long as significant underemployment of capital and labour, and the supply constraints are minimal. In normal economic circumstances such a large investment stimulus would undoubtedly lead to some supply pressures and estimating the impact on economic activity levels would need more advanced modelling.
- Secondly this modelling is about the short term impact of expenditure. A core issue is that the expenditure will need to be paid for in the future, and therefore unless the infrastructure spend is invested in productivity improving activity there will be a debt repayment that will reduce longer term economic outcomes. However productivity improving activity will increase real incomes in the longer term and therefore will provide the necessary outcomes to repay the debt incurred.

# Appendix 1: Literature Review

## The Economic Contribution of Public Housing

This appendix contains a summary of a number of articles from the literature on the economic contribution of public housing. Different studies focus on different aspects of economic contribution, which will be of relevance in this study.

### **Symth and Baily, *Addressing the Economic Downturn: The Case for Increased Investment in Social Housing*, June 2009**

Symth and Baily's recent paper addresses the same issue as being looked at in this paper, and produces a recommendation that the Government of Northern Ireland should immediately invest in social housing. It makes the argument based on three major observations:

- That social housing has strong multiplier effects in terms of employment and therefore has greater short-term impact on the Northern Ireland labour market than other construction investments. This is demonstrated to be due to a higher labour-intensity in house building activity, noting that housing projects produce a "local economic multiplier effect" – creating local employment opportunities and retaining investment in the local and regional economy. The "local economic multiplier effect" encompasses further economic activity (jobs, expenditure or income) associated with additional local income, local supplier purchases and longer term development effects.
- This is a good time to contemplate increased investment in social housing as the costs of building materials; land and labour have all fallen sharply over the past 12 months and are likely to remain soft.
- That social housing has strong non-monetary impacts on the economy and contributes more than some other types of capital investment programmes to the achievement of sustainable development in that:
  - In a period of recession, social housing is an increasingly significant factor in addressing important societal issues such as homelessness, social exclusion, fuel poverty and energy efficiency and it can be highly influential in the delivery of a Shared Future in Northern Ireland.
  - Investment in social housing can take some pressure off existing budgets for health, education, crime reduction and other areas.

**Spiller Gibbins Swan, *Public housing Estate Renewal in Australia*, Australian Housing Research Fund Project 212, November 2000**

This Australian study looks at a different aspect of the role of public housing – its role in urban renewal. The observation is that the nation's investment in public rental housing in the post-war period has created major social and economic benefits. However much of the stock is now at the end of its economic life and/or it does not meet current needs. Further it provides evidence that concentrations of entrenched social disadvantage have developed in some public housing estates. It therefore develops a cost benefit assessment of targeted public housing estate renewal. The main conclusion it draws is that most projects are highly successful where significant improvements in housing standards and neighbourhood amenity occur and where the public rental presence is considered to be at an appropriate level.

The major costs associated with urban renewal projects include:

- Opportunity Cost on Land and Improvements
- Capital Costs – Housing and Infrastructure
- Recurrent Costs – Housing and Infrastructure
- Tenant Compensation
- Tenant Relocation Costs (Benefits)
- Reduced Housing Opportunities

The major benefits include:

- Sale of Surplus Assets Up-front
- Sale of Residual Assets on Wind-up
- Better Living Environment for Public Rental Dwellings – (Higher standard dwellings - Better neighbourhood amenity - Reduced stigma)
- Better Living Environment for Other Dwellings in the Neighbourhood. – (Higher standard dwellings - Better neighbourhood amenity – Reduced stigma)
- Reduced Social Dysfunction Generally – (Possible society-wide benefits as reflected in social indicators).

The conclusion in the context of the current paper is that due to the improved quality in terms of living environment (both directly in public housing and also through the shadow effect on other dwellings in the neighbourhood) there are economic benefits that accrue. The conclusion is that due to the poor quality of stock in some areas, major improvements in amenity produce positive cost benefit outcomes.

**Olsen and Barton, *The Benefits and Costs of Public Housing in New York City*, 1982**

This older paper from the US purported to be a comprehensive study of benefits and costs of public housing in New York - the largest program of housing subsidies to low-income families in the United States for fifty years.

Its conclusion was that *“This study finds that the public housing program typically results in a large improvement in the housing of its participants and a significant increase in their consumption of other goods. The mean benefit of the program to these families is substantial relative to their mean income but small compared with the cost to taxpayers.”* (p299)

“The overwhelming majority of public housing tenants occupy better housing and spend less on other goods than they would choose if they were given cash grants equal to the difference between the market and subsidized rents of their public housing units.”

It finds therefore a net benefit from public housing, and a benefit over rental assistance.

**Clarke, with Fenton, Markkanen, Monk and Whitehead, *Understanding Demographic, Spatial and Economic Impacts On Future Affordable Housing Demand: Paper Four – Moving into Social Housing*, Cambridge Centre for Housing and Planning Research, January 2008**

This study from the UK finds that:

- Only small proportions of owner-occupiers want to live in social housing, but private renters are more split with around half of lower income groups saying that they would like to live in it.
- Private renters with children were especially likely to state that they would like to live in social housing, as are households that have previously lived in the social sector.
- Younger, poorer and less-educated people are more likely to have applied for social housing.
- Most households apply because their current housing is unsuitable. Poorer households are unlikely to have considered any other housing tenure, while working households are more conscious that social housing is the most affordable option.
- Households who apply for social housing often have very negative experiences in the private rented sector and despite a lack of real choice often feel that entering social housing is a very positive move.

The paper therefore identifies that the demand for public housing exists, primarily coming from lower income group who are otherwise likely to have to rely on the private rental market. The biggest weakness of private rental is unsuitability of housing (ie inflexibility in the market)

**Phibbs, Occasional Paper 4: *The Social and Economic Impacts of Unmet Housing Needs*, Housing Policy and Research, Queensland Department of Housing**

This Australian study notes that that unmet housing needs have a much broader impact than just housing itself and has negative implications for:

- health
- education
- crime
- employment prospects

- family and community relationships

Therefore the paper makes the point that implementing strategies to better meet housing needs (including investing in public housing) will produce a range of benefits. The case studies addressed in the paper found that positive changes in housing circumstances had a number of impacts on the individuals concerned. These included:

- An increase in disposable income through a reduction in rent
- This in turn led to outcomes such as improved diet and the ability to achieve a higher standard of living
- Improved health, medical care and a reduction in hospitalisation
- A reduction in stress and improved sleeping
- The ability to pursue hobbies because of larger accommodation
- A reduction in costs such as child care through the availability of support networks
- Improved educational performance of children arising from having a stable environment and space for children to do their homework
- Improvements in personal safety
- A reduction in the use of support agencies
- A reduction in public housing vacancy rates and tenant disputes
- Skills development potentially leading to employment
- A general increase in personal happiness and quality of life

This paper argues that changes in housing circumstances have a direct impact on costs to Government (eg. a reduction in hospitalisation) while others have a more indirect effect (eg. an increase in personal happiness may result in less usage of Government support agencies).

**ACOSS, *Social Inclusion and Economic Security: Recommendations for the Federal Budget, Budget Priority Statement 2009-10***

ACOSS has supported the Government's action in bringing forward infrastructure spending, and have noted the following major point with respect to a possible role for spend on public and community housing.

*"Given the housing rental crisis and major problems of access to public transport in many parts of metropolitan and regional Australia, priorities for immediate investment should include a major boost to the construction of public and community housing (there is a critical need, it would provide a quick boost to construction industry and it is employment intensive), as well as investment in public transport infrastructure." (p 11).*

**Feinstein, Lupton, Hammond, Mujtaba, Salter and Sorhaindo, *Research report and analysis: the public value of social housing - a longitudinal analysis of the relationship between housing and life chances*, Smith Institute, 2008**

This paper highlights that in the context of considering additional investment in public housing that it is important that the investment be balanced, and not just focused at the disadvantaged. The report makes the basic point that if public housing only has a social context (ie disadvantaged) and not more broadly based at economic objectives it tends to reinforce or permeate disadvantage

**The Australian Housing and Urban Research Institute (AHURI)**

AHURI is the major Australian research organisation focussing on housing and has produced a number of reports focussed on areas of relevance to this document, including

- Implications of housing affordability constraints for labour supply (e.g. Yates, J. Randolph, B. and Holloway, D. [2006] Housing affordability, occupation and location in Australian cities and regions [http://www.ahuri.edu.au/publications/download/60279\\_fr](http://www.ahuri.edu.au/publications/download/60279_fr)). This research focus makes the point that poor housing affordability outcomes have labour supply impact
- Funding and policy frameworks required to support investment in not-for-profit affordable housing organisations (e.g. Milligan, V. Phibbs, P. Fagan, K. and Gurran, N. [2004] A practical framework for expanding affordable housing services in Australia: learning from experience, [http://www.ahuri.edu.au/publications/download/60191\\_fr](http://www.ahuri.edu.au/publications/download/60191_fr)). These papers focus on the factors that are necessary to ensure adequate supply of affordable housing (specifically in community and public housing).
- Failure of supply at the low-rent end of the private rental market (e.g. Yates, J. Wulff, M. and Reynolds, M. [2004] Changes in the supply of and need for low rent dwellings in the private rental market [http://www.ahuri.edu.au/publications/download/60190\\_fr](http://www.ahuri.edu.au/publications/download/60190_fr)).

From papers such as these, the major findings include:

Housing affordability is an issue for individuals and households, as well as the Australian economy overall. The problems are summarised as:

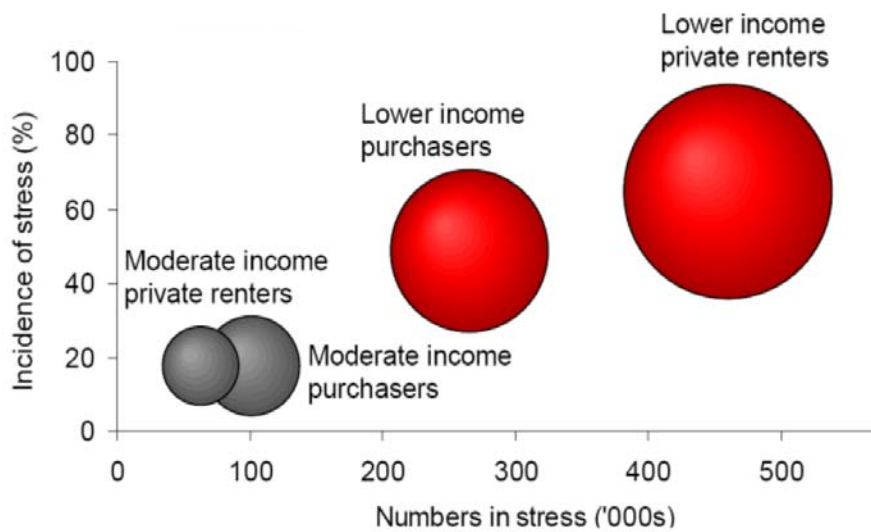
- Nature of the problem at individual/household level
  - increasing costs of access to home ownership
  - large numbers in mortgage stress
  - declining home ownership rates amongst young
  - large numbers in housing stress in private rental
  - significant homelessness
- Nature of the problem at economy wide level
  - spatial segregation
  - labour market inefficiencies
  - intra and intergenerational inequities

- o potential macroeconomic instability

Source: *National Research Venture 3*

The following chart, reproduced from the AHURI submission to the Senate’s inquiry into housing affordability suggests that some ½ a million households from lower income groups were in housing stress in 2001-02. This suggests that rental assistance is not sufficient to remove stress from this end of the market.

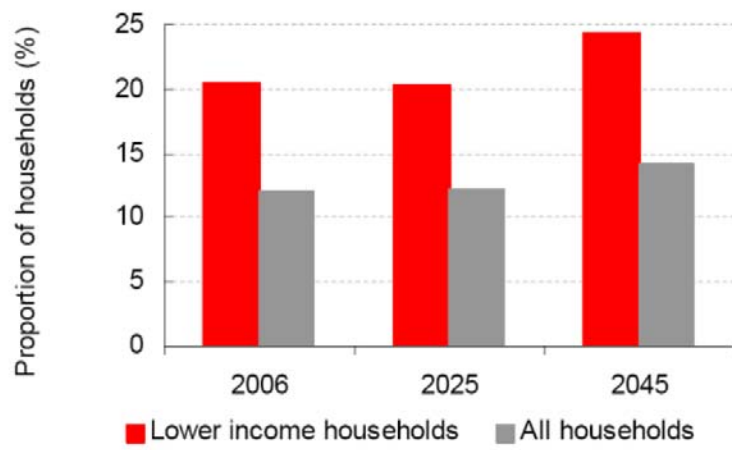
Figure 7: Incidence of and number in housing stress by income group and senior 2002-01



Source: *National Research Venture 3, Final Report*

Figure 8 shows that AHURI’s expectation is that will get worse – that by 2045 almost 25% of low income households will be living in housing stress. Housing obviously is a long term investment and action is therefore needed now to limit this forecast from actually becoming true

Figure 8: percentage of households high housing cost ratios, 2006, 2025 and 2045



Source: National Research Venture 3, Research Paper No. 11

# REFERENCES

- ACOSS, *Rent Assistance: Does it Deliver Affordability*, Sept 03
- ACOSS, *Social Inclusion and Economic Security: Recommendations for the Federal Budget*, Budget Priority Statement 2009-10
- Australian Institute of Health and Welfare, *Housing Assistance in Australia*, 2008
- Clarke, Fenton, Markkanen, Monk and Whitehead, *Understanding Demographic, Spatial and Economic Impacts On Future Affordable Housing Demand: Paper Four – Moving into Social Housing*, Cambridge Centre for Housing and Planning Research, January 2008
- EconSearch , *Economic and Environmental Indicators for South Australia and its Regions +*, Prepared for Department of Trade and Economic Development, 2009
- Milligan, V. Phibbs, P. Fagan, K. and Gurrán, N. [2004] *A practical framework for expanding affordable housing services in Australia: learning from experience*, AHURI, 2004
- Olsen and Barton, *The Benefits and Costs of Public Housing in New York City, 1982*, *Journal of Public Economics* 20 (1983) 299-332.
- Phibbs, *Occasional Paper 4: The Social and Economic Impacts of Unmet Housing Needs, Housing Policy and Research*, Queensland Department of Housing
- Quigley, J.M., and Steven Raphael, S., *Is Housing Unaffordable? Why Isn't It More Affordable?* *Journal of Economic Perspectives*—Volume 18, Number 1—Winter 2004—Pages 191–214
- South Australian Government, Budget Paper 3, 2008–09
- Spiller Gibbins Swan, *Public housing Estate Renewal in Australia*, Australian Housing Research Fund Project 212, November 2000
- Symth and Baily, *Addressing the Economic Downturn: The Case for Increased Investment in Social Housing*, June 2009
- Yates, J. Randolph, B. and Holloway, D., *Housing affordability, occupation and location in Australian cities and regions*, AHURI, 2006
- Yates, J. Wulff, M. and Reynolds, M. *Background Paper on Housing Affordability*, AHURI, 2004