

DISCUSSION
 AGENCY FOR INTERNATIONAL DEVELOPMENT
 BUREAU FOR AFRICA
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I will discuss this morning's three papers in a different order than presented. I believe this will set forth more clearly the relationship of each of the topics discussed by panel members to the preparation of a housing program for a developing country.

I have been indirectly involved in the International Housing Productivity Study from its inception. In effect what UCLA is trying to do is to "better the position of housing as a form of social overhead investment in the competition for development capital." There have been over 40 studies in the U.S. and abroad which have analyzed the relationship between improved housing and health and various social characteristics. But to my knowledge this is the first study which successfully relates improvements in housing to productivity.

Because of lack of time imposed on the speakers, Dr. Tjioe and Dr. Burns were unable to give you a complete explanation of the background and thinking that led A.I.D. into supporting this study. I believe it may be of value if I summarize some of the steps preceding the Hambaek research.

One of the problems of international development is to pinpoint those areas where dollar investments in the form of loans or grants will make the most impact toward economic development. A.I.D. over the years has made loans and grants, particularly in Latin America, amounting to many millions of dollars. Some of this money has gone into housing and urban development.

Up until now there has been an unfortunate lack of knowledge of the effect of investment in housing on economic development. The Hambaek study supports the hypothesis that investment in housing is a proper tool of economic development.

It is hoped that once UCLA has completed all of its studies in various parts of the world we will have a better picture of how housing affects productivity under different social and cultural conditions.

As the next step it would be interesting to see which, if any factors other than housing, would have an equal or larger impact on productivity. We may find that the same or greater increases in productivity could be obtained with a lower capital investment.

For instance, maybe clean water or air or electricity would have a similar effect on productivity at a lower cost. I for one would like us to try to pinpoint particular improvements in living conditions which would provide the largest increment in productivity with the smallest investment. This may turn out to be an improvement other than housing in certain cultures although undoubtedly housing will continue to be close to the top of the list.

Whenever programs are initiated to improve housing the question of housing for whom, how much, and at what price is immediately raised. Dr. Bloomberg's paper directs itself at this problem.

Housing market analysis, even where current and reliable statistical data are available is a tremendously difficult field because of the many variables which influence the analytical process and the unpredictability of human attitudes. Dr. Bloomberg is most sensitive to this problem. I would like to add an additional complicating factor to those referred to by Dr. Bloomberg which adds further to the difficulties of the practicing market analyst. This is the virtual absence in the developing countries of any attempts to estimate housing needs in terms of the ability of families to pay for housing. For example in a developing country with which I am familiar, government agencies and private builders continued to build high priced housing even though vacancy rates in some of the completed units amounted to 90%. They were surprised that the units stood vacant in a city confronted with a terrible housing shortage. In this instance they simply did not understand the economics of housing demand. Even the most rudimentary market analysis would have indicated a very limited demand for high priced units.

A housing market analyst stepping into this kind of situation is confronted, in addition to the usual complications of his profession, with the task of convincing local officials of the value of housing market analysis and to overcome the skepticism that valid estimates of absorptive capacity for housing can be made.

Sometimes this skepticism is founded on a suspicion of the accuracy of local statistics. I would add a word of caution,

already implied in Dr. Bloomberg's paper, that the analyst should always be aware of the fact that in some countries statistics become a political tool. Population statistics in particular are frequently juggled for political reasons.

In one particular case I recall that population count of a city had been inflated by a healthy percentage. Everybody knew that the population count was unrealistic but no one knew by how much.

I would also like to amend Dr. Bloomberg's statement that "space is an important consideration in housing demand estimates because of its direct effect upon quantities of labor and materials and thus the cost of dwellings." To this I would add the thought that cultural traditions may have an equal effect on housing costs.

Let me give you an example. In some cultures, tradition requires that the wife be out of sight of guests while she is preparing food. This tradition called for the relocation of the kitchen and addition of a wall in a housing project being built with U.S. private capital. The extra cost involved was considerable and to this extent affected the market.

The most serious problem in international housing market analysis, as Dr. Bloomberg points out, is to obtain reliable family income data and estimates of the proportion of income families are willing to allocate for housing. This is an area that requires a lot more study than it has received because a very small error can have a significant impact on the ultimate schedule of effective demand.

Dr. Bloomberg gives several examples in his paper of the sliding relationship of income to housing expenses to which I would like to add my experience. Usually expenditures for housing as a percent of income will decline as income increases. However, I found that in some Latin American countries the percent of income allocated to housing increased as family income increased, although not as rapidly. The trend reversed itself as income increased beyond the middle income level. The percent of income allocated to housing declined as may be expected as incomes increased into the upper income level.

Closely related to the estimates of ability and willingness of families to pay for housing is the ability to make a down payment on sales housing. This is an area of particular interest because of the large scale housing guaranty program administered by A.I.D. It is another area requiring more study.

Experience shows that the market for sales housing may be cut by as much as 50% because of the inability of families to save sufficient cash for a down payment. This is particularly true in countries with a substantial inflation.

Assuming that the market analyst has estimated with reasonable precision the demand for housing and is ready to recommend construction of a specified number of dwelling units at a given price the next question is how to finance these units.

Mr. Stanley Smigel's paper directs itself to this problem.

The principal problem of building housing in developing countries is lack of capital. This holds equally true for the private developer and the public agency. As Mr. Smigel points out the other components of housing are available. For instance land, while it may be high priced, it nonetheless will be available, to the builder. (I may point out that urban land costs in developing countries may comprise 50% or more of total development costs.)

Building materials are also usually available. In some countries certain materials such as glass and plumbing fixtures may have to be imported and may be expensive.

Labor is also available. It may be relatively unskilled and productivity may be low. While wages may not amount to more than one or two dollars a day the total cost will be relatively high because the builder might have to hire 10 workers in a developing country to do a job one or two men would do more efficiently in the U.S. The reason for the low productivity is lack of skills, lack of power tools, lack of organization, and lack of planning. For instance, and I've seen this actually happen, masons will erect a wall, the plasterers will come and finish the surface, to be followed by the plumbers who tear great holes into the newly completed wall to place water and sewer pipes. The masons come back and patch up the scars followed by the plasterers. As soon as everything is back in order, in come the electricians tearing down the plaster, knocking holes into walls, again to be followed by masons and plasterers, etc. I remember estimating that destruction costs probably amounted to close to 10 or 15 percent of construction costs in one construction job I inspected.

But these are problems that can be overcome. However, the critical lack of capital for housing is a problem that will remain with the developing countries for a long time.

A few comments appear in order on the link index system which Mr. Smigel discussed at some length. My impression from what Stan has said is that the system when properly applied is extremely complex. In the African area, to my knowledge no country has so far adopted the system. One reason may well be that the African countries for the most part have not experienced the tremendous inflation of some of the Latin American countries. Another reason may be that it takes a certain amount of sophistication and administrative "know how" to properly manage a link index system. The needed skills may still be lacking in many parts of Africa. And I for one would like to see a lot more study of the system before recommending adoption of the link index system by African nations.

Mr. Smigel in his paper has touched upon the reasons why housing receives such a small share of the limited available capital resources -- both domestic and international. Without going into this problem at any great length I do believe the following comments are in order to bring this morning's session into sharper focus.

The relatively limited investment in housing in the developing countries may be attributed to what I consider two misconceptions: that housing investment only serves a social purpose with no or little economic significance and (2) that the people of the developing countries are unable to accumulate savings

and that housing therefore must be financed by the government.

Today's discussion pointed up the fact that housing is an integral part of economic development, not only in the industrialized countries, but also in the developing countries. Certainly the experience of AID in assisting savings and loan associations in the developing countries fully supports the conclusion that the people in developing countries have the capacity to save.

A frequent argument heard in the developing countries is that agricultural and industrial development must be placed ahead of improvements in standard of living and expansion of consumer goods. This conclusion is based on the need to develop foreign exchange producing industries and income producing investments ahead of gratifying the consumer. However, this argument overlooks the fact that housing is required in developing countries to assure continuance of economic development.

In the United States we are fully aware of the vast contribution the home construction industries make toward full employment and economic development. There is to my knowledge no economic evidence which would support the conclusion that the home construction industries do not make a similar substantial contribution to the economies of the developing countries.