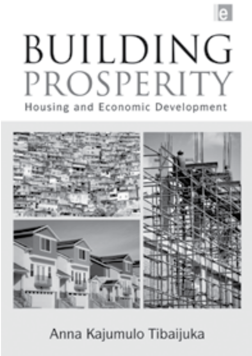

BUILDING PROSPERITY

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HOUSING AND ECONOMIC DEVELOPMENT

CASE STUDY

HOUSING IN SINGAPORE

Unlike much of the developing nations, housing policy in Singapore has formed a basic part of the country's development schemes since independence.

With an annual individual income (per capita) in excess of USD 29,000 and real gross domestic product (G.D.P.) growth rate of 6.6 per cent in 2006, Singapore is a high-income country today. However, as a newly-independent island state in 1959, it faced many economic and urban hurdles, including a severe housing shortage that some commentators at the time described as one of the world's worst. Some 250,000 to 300,000 squatters lived in deplorable shanty housing resulting from rapid population growth and policy neglect. However, from the very beginning the State recognized that an effective housing policy was needed to solve the problem. So, it set up action agencies and statutory boards, all equipped with broad legal powers and limited loan resources to solve the housing crisis. One of the most powerful statutory bodies created was the Housing and Development Board.

In the early 1960s, the government undertook urban renewal efforts to clear slums, sending their residents to the suburbs. It revitalized the city centre, and improved the overall living environment. Extensive public housing programmes were part of the State's urban renewal effort and operated as part of an economic development package supported with extensive State money. Spending averaged between 7.2 per cent and 8.9 per cent of G.D.P. in the 1970s, and 15 per cent in the 1980s and 1990s. High government expenditure was complemented by a number of policy reforms. Key institutional changes added to high government spending to support the public housing programme. Notable among these developments were a vigorous land policy and a supportive financial system.

This involvement of the public sector in building homes was possible because of a tough land acquisition law in 1966. Compulsory land acquisition at below market rates enabled the government to gain about 80 per cent of the total land mass today, compared to some 40 per cent in 1960. This public dominance in the land market has discouraged land speculation and allowed the development of comprehensive public housing programmes and industrial estates.

Another distinct mechanism was the introduction in 1968 of the Central Provident Fund to fuel housing finance. The system is a fully-funded, pay-as-you-go social security scheme that requires mandatory payments by employers and employees of a percentage of the employees' monthly contractual wage toward the individual's account in the fund. The contribution rate to the fund, as a proportion of gross salary, now stands at 20 per cent. The fund's savings are usually invested in safe government securities and, under the scheme, members can withdraw up to about 80 per cent as a down payment for housing.

Lessons from the Singaporean Housing and Development Board

- The Board operates as an independent statutory board with extensive powers
- The Board's roles are wide-ranging, as opposed to exclusive provision of physical of housing units: powers include development of urban infrastructure and the provision of housing finance
- The Board's programmes have operated as a package of an overall economic development programme

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Singapore's severe housing problems have thus been effectively resolved through an integrated public housing programme: by the 1990s, close to 90 per cent of the population had access to a Housing and Development Board home. This can be partly attributed to implementation of the 'Home Ownership for the People Scheme', introduced in 1964, aimed at the lower-middle-income groups. As a result, deliberate efforts have been made to sell most state-owned flats built since the 1970s. In part, the high house-ownership rate can also be attributed to the institutionalization of Central Provident Fund. The scheme has allowed for effective mobilization of funds and the creation of a direct link between the housing system and broader financial markets.

ECONOMIC SUCCESS OF POLICY

The success of this housing policy is measurable in terms of economic growth. In the 1960s and 1970s, housing's contribution to G.D.P. averaged almost 10 per cent, rising to over 15 per cent in the 1980s and 1990s. When coupled with substantial contributions to capital formation, the housing share accounts for between 20 per cent and 30 per cent of all annual contributions to G.D.P. In addition, mass housing construction has regulated labour supply and created many new jobs, notably for women, whose participation rate increased form 29 per cent to 44 per cent between 1970 and 1980.

As a small city-state with a low population growth, a high per capita income, and a persistent rapid economic growth rate, the Singapore model may not be easily copied by other developing countries. However, it offers others many general lessons which include:

- the government's strong commitment to the housing sector and the implementation of effective policies to deal with other key variables, such as availability of land and finance
- the integration of housing into an overall economic development programme and the creation of a powerful agency to implement government policies.