

SA 422 Housing Economics and Finance
2008/2009

Finance Lectures
2: Public spending and housing

Why limit public spending?

Govt spending to:

- ensure minimum income
- ensure minimum consumption
- public vs. private goods

Services are popular, taxes are not

Deficits & 'crowding out'

Economic impact of higher taxation:

- fewer hours worked as less it is productive?
- more hours worked to regain net income?

Control of Budget deficit important:

- impact on money supply => inflationary
- inter-generational transfer
- first demand on savings, rise in interest rates, harder for private sector to borrow

Fiscal policy

Direct expenditure (e.g. roads) and transfers (e.g. social security)

- difficult to control transfers

Public sector debt

- Budget deficit = tax – expenditure
- relation to business cycle
- rises in recession, falls in expansion

Fiscal policy (II)

19th Century – surpluses

20th Century – war financing, response to Depression, post WWII Welfare State

Public share of economy:

- 30 – 40% to mid 1960s
- 40 – 50% to late 1980s
- now approx 40%

Fiscal management (UK)

3-year 'Spending Reviews' for strategic plans

- http://www.hm-treasury.gov.uk/pbr_csr/pbr_csr07_index.cfm

Autumn pre-Budget report & spending

March Budget statement for income

Links to 'Public Service Agreements'

- http://www.hm-treasury.gov.uk/media/9/D/pbr_csr07_psa20.pdf

Public expenditure (UK)

2006/07

Total	£525bn	100%
Social security	£177bn	34%
Health	£95bn	18%
Education	£74bn	14%
General & debt	£48bn	9.1%
Defence	£32bn	6.1%
Housing & community	11.3bn	2.2%

Housing expenditure

- Relatively small in relation to Health, Education, Defence
- Long-term switch from supply to demand side
- Both through subsidy payments and tax foregone

Public finance principles

- Separate State (enabler) and provider
- Resource accounting
- Competition for resources
- Choice to end-users
- Limiting the PSBR
 - PSBR definitions
- Public-private funding
- Risk management
