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_car/pbr_car07_index.cfm
Autumn pre-Budget report & spending
March Budget statement for income
Links to ‘Public Service Agreements’
  • http://www.hm-treasury.gov.uk/media/9D/pbr_car07_psa20.pdf
Public expenditure (UK)

2006/07

<table>
<thead>
<tr>
<th>Category</th>
<th>Amount</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total</td>
<td>£525bn</td>
<td>100%</td>
</tr>
<tr>
<td>Social security</td>
<td>£177bn</td>
<td>34%</td>
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<tr>
<td>Health</td>
<td>£95bn</td>
<td>18%</td>
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<td>Education</td>
<td>£74bn</td>
<td>14%</td>
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<tr>
<td>General &amp; debt</td>
<td>£48bn</td>
<td>9.1%</td>
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<tr>
<td>Defence</td>
<td>£32bn</td>
<td>6.1%</td>
</tr>
<tr>
<td>Housing &amp; community</td>
<td>11.3bn</td>
<td>2.2%</td>
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</tbody>
</table>

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