NACCA

The Role of Housing in an Economy

National Aboriginal Capital Corporation Association

Policy Paper

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I. Introduction & Background

1.1 Background

The conception of a house as a home, a place of comfort and security, has taken root in many areas of Canada and the US, especially as increasing proportions of the population have come to own their houses. This view of shelter reinforces the idea that many other qualities derive from the place where one lays their hat; more than a roof over one's head, the home has come to symbolize family, stability, wealth. As the largest single investment for most families, and the driver of demand in enormous sectors of the economy, housing has also played a huge role in the economies of these nations.

It is not so in Indian country. With 60% of households enjoying temporary and insecure tenure, many homes built of substandard quality and in need of repair, and an average number of occupants over double that of the Canadian norm, on-reserve housing has not delivered the comforts enjoyed in many other communities across the country. Neither has it been able to play the same role in Aboriginal economies.

Complex factors are behind this disheartening circumstance, and the unique situation on reserves makes comparison with successful housing systems difficult. Poverty and unemployment on reserves aside, cultural beliefs and the inalienability of Aboriginal land combined with an overarching federal guardian policy have served only to limit the provision of homes on reserve to those provided through programs devised by the federal governing institutions.

1.1.1 The Policy History

Responsibility for on-reserve housing for Aboriginals has had an uncertain legal and moral status in Canada. Many Aboriginal groups and individuals hold the view that Aboriginal housing is a federal responsibility, as it is a fundamental social right[1] and/or a right derived from specific land treaties[2] or an important component of the government's duty to work towards the economic self-reliance of Aboriginal people[3]. There is also the argument that on-reserve housing provision is required in order to prevent a mass exodus from reserves and the ensuing erosion of tribal language and culture, and is thus both a human right under section 15 and an Aboriginal constitutional right[4]. Also, the right of band members to reside within their reserve community would likely coincide with the right to political access recognized in the *Corbiere*[5] decision.

[1] *Report of the Royal Commission on Aboriginal Peoples* 1996, Section 2.2: Right to Housing. http://www.ainc-inac.gc.ca/ch/rcap/sg/sgmm_e.html.
[2] Federation of Saskatchewan Indian Nations, referenced in Brewer, Carolann, "Housing as a Community Investment: Legal Considerations relating to the Provision of Mortgages for Reserve Housing by Aboriginal Financial Institutions," for the National Aboriginal Capital Corporation Association, (NACCA, 2004).
[3] *Supra* note 1
[4] *Supra* note 2
[5] *Corbiere v. Canada (Minister of Indian and Northern Affairs),* [1999] 2 S.C.R 203 (S.C.C.)

On the other hand, the federal government does not recognize an Aboriginal right to universal entitlement to government-financed housing. Though hundreds of millions are spent each year on housing programs for the country's poor, including on reserves, this money is not intended on its own to produce a universal system of adequate housing on Aboriginal land.

A system of capital subsidies distributed through the Department of Indian and Northern Affairs (now Indian and Northern Affairs Canada (INAC)) and the Canadian Mortgage and Housing Corporation has been in place for most of the past few decades. The budget for new housing construction through INAC was set at $136 million per annum in 1983, supplemented later by an additional $43 million per annum related to Bill C-31, broken down into per unit capital subsidies ranging from $19,000 to $46,000, depending upon the region. The average construction subsidy is $30,000, with grants of $6,000 available for repairs and rehabilitation. Clearly, significant contributions were required from the recipient community, especially as the real value of the capital fell over time.

CMHC under the assisted home ownership program provide loans or loan subsidies to First Nation administrations for the same aims. The On-Reserve Non-Profit Housing Program focuses on rental housing, covering the difference between operating costs and revenues received from tenants. The Residential Rehabilitation Assistance Program On-Reserve provides loans for housing maintenance and repair, with the amounts determined, again, by region, with the highest maximum at $24,000. On the subject of loans, most First Nations require a guarantee from the Minister of Indian Affairs, and are either obtained directly from the CMHC or through an approved lending institution. Ministerial Loan Guarantees can now be authorized for up to a total of $1.7 billion annually.

In sum, including housing-related components of social assistance[6], over $1.5 billion was spent by INAC and CMHC in the decade 1982 – 1993, producing 49,000 houses and repairing 60,000. However, there was still an estimated shortfall of 20,000 units in 1996, with an additional 10,000 reported that their houses were in major need of repairs. Moreover, many band councils were experiencing debt problems resulting from their own contributions to the housing programs, and such schemes often resulted in lower quality housing.

In 1996, the federal government introduced a new on-reserve housing policy, injecting an additional $200 million to First Nations housing over five years and developing a new program to allow the monies to reach the communities. With the stated aim of encouraging community-based housing programs, building expertise and capacity on reserves, promoting shared responsibility for housing from the occupant, and accessing more private capital, INAC distributes funding to First Nations proposals based on these criteria. Additionally, a new Innovative Housing Fund offers $2 million annually in grants to innovative techniques in construction, financing, or housing design and energy sources, and a Housing Training Fund provides $500,000 per annum in construction training initiatives.

The new policy has seen some limited success, with a voluntary take-up rate of 61.5% of First Nations, an increase in housing by 13%, and 11,000 houses repaired or

[6] Which includes heating and utilities supply costs, and a 'shelter' component for rent in loan-financed housing.

rehabilitated in 1996 – 2000. However, this program expired in 2001, and has not been replaced; something new, based upon the lessons of this previous policy, is required.

Over the years, programs and initiatives have been developed or piloted in specific areas, such that a number of regimes of housing loans or homeownership exist. The First Nations Land Management Act (FNLMA) addressed the issue of First Nation's authority to deal with their own land matters; however, a very small percentage of First Nations have implemented the amendment to the Indian Act to make it applicable on their territory. However, prior to this amendment, revolving loan funds within First Nations in place in Southern Ontario and Quebec have proven wildly successful. In addition, financial institutions through the Caisse Populaire in Quebec have served to provide on reserve mortgages with virtually no default. Therefore, housing loan programs have proven to be not only possible but successful for several First Nations; if they were made less cumbersome and more widely applicable, they could flourish on many First Nations lands.

In summary, over the decades billions of dollars from both federal government housing funds and First Nations budgets have been spent on the ultimate creation of approximately 90,000 housing units which have been estimated to last, on average, half as long as houses built elsewhere in Canada[7]. The Assembly of First Nations estimates the housing shortfall to be in the range of between 80-90,000 units. The comparison to other social housing programs is not favorable. Moreover, the end-result of this effort does not include an infrastructure that will sustain the ongoing construction and maintenance of the current system, even with all of its inadequacies – self-sustaining Aboriginal housing institutions and businesses capable of taking over all housing program functions simply do not exist with precious few exceptions. Bands experienced tremendous financial difficulties trying to finance the grant programs of the 80s and 90s. The success of the 1996 policy shows the merits of moving away from a system of government-administered loans and grants; however, the current vacuum needs to be filled with an innovative approach accepting the successes and failures of the past.

1.1.2 The Economic Impact

The results are more dismal when one assesses the wider economic impact and opportunity cost of the funding towards First Nations housing. Given the potential of the billions of dollars entering a community through housing programs, the negligible or residual impact of these programs on the local economies is astonishing. Aboriginal economies did not grow in size to reflect the incoming billions; the amount of capital for future use held on reserves was not increased. The Aboriginal housing construction sector does not occupy a disproportionate share of these economies, nor does it serve as an effective driver for the economy. These facts indicate that these billions were leaked from these economies with impressive efficiency, and served, at best, a transitory role in Aboriginal economies.

[7] This estimate is based on evaluation research by Ekos Limited and is reported in DIAND, *Laying the Foundations* (cited in note 13), p. 6. (Department of Indian Affairs and Northern Development [DIAND], *Laying the Foundations of a New On-Reserve Housing Program, Discussion Paper* (Ottawa: Supply and Services, 1990), pp. 1-2.)

It is clear from this that housing policy has been viewed through a social lens, in accordance with imperatives of social justice, rather than as part of Aboriginal economic development policy. In truth, housing and households play an important role in every economy, and fuller recognition of the economic role that different housing systems play and the inclusion of economic outcomes in the consideration of policy options would lead to an improved, more realistic policy debate. Integration of housing into the wider Aboriginal economic development agenda, with measurement of success determined by the overall economic benefit as well as numbers of houses constructed and maintained, would lead to a more effective policy framework and a more efficient allocation of funding and resources. An assessment and comprehensive understanding of the economic impact of differing housing systems is required to develop such a holistic policy, in order to maximize the economic return on a housing policy.

1.2 Purpose

Within the current policy vacuum, and given the urgency of the housing issue, all innovative policy alternatives for Aboriginal housing should be discussed, deliberated, and assessed with an eye towards its economic as well as its social and political outcomes. In this paper, we will pay particular attention to housing loan schemes, in which the occupant or landlord of housing infrastructure is expected to contribute to its cost with the ultimate aim of ownership, based on its enormous potential to benefit Aboriginal economies. Such schemes can vary from vast individual ownership of a community's housing, with an active primary and secondary real estate market driving house values, or large scale public ownership based on bank financing and recuperation of costs from tenant rental fees. The common feature is occupant contribution and use of financing instruments. We will also highlight the economic benefits of overall improvements to the quantity and quality of Aboriginal housing, while asserting that more economic benefits accrue the more the market is employed in housing policy.

This paper will also provide a starting-point for a discussion of the economics of on-reserve housing, dissecting the channels through which housing impacts the economy in order to illustrate the context in which housing decisions should be made. The paper is organized by economic impact in order to facilitate such further discussion, beginning with direct effects, and extending to more indirect or secondary outcomes of improved housing systems.

To establish the grounding on which this discussion will take place, a description of the economic ideas employed in this paper will precede our discussion. Hopefully, this endeavor will also dispel the notion that homeownership as a system of housing is a cultural or ideological threat, so that it can later be shown as an economic boon, and an opportunity of furthering Aboriginal self-sufficiency.

1.3 The economic framework: basic lexicon of an economy

Basic economic principles

The economy is the way in which a society organizes its resources and labour to provide for the needs of its people. Our current system is one of fiat that facilitates the exchange of goods by assigning them a value in terms of a commonly-accepted currency, doing the same for the services of labour. The 'market' in this sense basically refers to the way in which the amounts and prices of goods are determined by how much people are willing to pay and accept payment for their products. This determination of value through mutually acceptable exchanges, without the intervention of a third party or complex system of oversight and allocation is what makes the market efficient in both time and production; only goods that are sufficiently valued by consumers will be produced, and will be produced to only the amount that can be sold i.e. is in demand. Similarly, only labour that is valued will be provided, and there are incentives, namely earning income, to encourage the development of skills required for the production of goods that are in demand.

In this system, everyone is both a producer or labourer and a consumer at the same time, and one person's expenditure is another's income. This relationship, with the transferability of currency, enables an economy to be self-sustaining – the flow of money, once set in motion, continues around the economy. This process is easily illustrated by following a simple transaction – for example, the purchase of a tractor. This purchase from a local tractor business covers both the cost of the production of the tractor, and the cost of storage and maintenance locally. A portion of this expenditure therefore forms a component of the income of the employees of the tractor business, the portion being bigger the more local labour went into the production and storage of the product. A portion of this income, in turn, is used as the employees' own expenditure on other goods within the economy, continuing the flow of money throughout the economy. In this way, if currency enters the local economy from outside, its impact goes far beyond its initial transaction, as it spurs increased expenditures all along its flow.

The flow of money through the economy therefore has a 'multiplier effect,' which leads to the growth and expansion of an economy well beyond its initial endowment. However, the multiplier effect flows both ways – when currency leaves the local economy, for example to pay for the construction of a tractor assembled outside of the local economy, it decreases the amount spent and earned in the source economy, to the gain of the recipient economy. As long as the flow of money or goods between different areas roughly balances out, this process simply increases the variety of goods flowing in both economies; however, when the flow is one-sided, the 'leakage' of money from the economy can prevent its growth and development.

This is the basic premise of a capitalist economy, to which other features, such as financial institutions, stock markets, research and development agencies, regulators, to name a few, are added during stages of development to enhance the flows of capital through the economy and to increase its size over time. Although the 'invisible hand' of the market, which Adam Smith discussed in his seminal paper on capitalist economies, does deliver a relative efficient allocation of goods and resources in many cases, none of the early economists anticipated the market to work perfectly in every case, or to deliver necessarily 'fair' solutions to the distribution pattern. For this reason, it is possible and often necessary for governing institutions to intervene in the economy to determine the goals of the society and to set the economy on the path to achieve them.

Market forces in and of themselves are excellent tools to boost productivity and enable growth and expansion beyond the initial endowment of resources; however, government redistribution measures, incentives to socially-desirable industries, or protection of developing sectors may be necessary in order to ensure that outcomes of the market are in fact fair. The objectives and aims of government are in no way compromised by an effectively functioning market, and the market is not a threat to the identity or priorities of a local economy.

Housing Markets

Markets work the same way for housing as other goods in the economy, determining value based on supply and demand. It is both a good, being consumed by the consumer, as well as an investment, based on its resale value. Therefore, the existence and strength of the secondary (resale) market plays an important part in determining the value of housing and its growth over time. Resale is not necessary – handing down homes throughout generations is common on-reserve as well as off of it – but viewing housing as an investment that can be cashed in has economic implications, which we will see in the next section.

Housing systems typically draw on financial or lending systems to raise the requisite capital for large-scale expenditures. The basic logic behind such systems is the pooling of capital from multiple sources, and the extension of loans from this pool with some form of payment for the service of borrowing. When there is competition for loans, preference will go to projects with the highest payment, ensuring the choice of the most viable and valuable projects.

The advantages of loans compared to a grant scheme of housing finance is its productivity: lending systems have the potential to generate greater supply, because the pool is replenished and reused by its various borrowers over time, in many cases itself expanding through the pursuit of profit. Moreover, where homeownership lending is only one part of a lending program – where financial services for other purposes are offered – increases to the capital pool from homeownership contributions and profits also benefit other community investments.

The practice of most developed economies around the world, Canada included, empirically support this logic: housing is almost universally provided through the market, on a homeowner-to-homeowner basis, supported by a functional financial system and supplemented where necessary by social housing programs. In Canada, the shortfall in affordable housing in urban centres will undoubtedly be dealt with through construction subsidies and rent-assistance or favourable mortgage terms for low-income families, or other measures to lower the cost burden and create incentives for the creation of low-income housing within a market context.

In developing economies, the World Bank's development arm promotes market-based solutions wherever possible. Struyk & Turner's (1986) study of the Philippines and South Korea showed that increased access to financing dramatically increases the odds that the occupant lives in acceptable housing. Policies of the rest of the world's economies implicitly demonstrate trust that the market can deliver a desirable housing system, with only occasional intervention to ensure a beneficial solution.

The assumption of a housing system delivering improved housing is not crucial to the discussion in this paper, as the two alternatives will be examined separately[8]. However, this paper will show that even if a market-based system does not lead to the creation of

[8] The discussion of the optimal system to deliver the maximum number and quality of houses is a separate issue and, unfortunately, beyond the scope of this paper.

more houses, the long-term economic benefits of such a system will affect the Aboriginal economy positively in other ways as well.

Reserve v non-reserve economies

Reserve economies differ in important ways from non-reserve economies, and from each other. Not the least of these differences between reserves is size and geography, a number of which are remote, isolated and sparsely populated. Governance structures on reserves also often differ significantly, and norms of interaction and interpersonal relationships are based on very different customs, history and principles.

Though some reserve economies are more developed than others, in general it is appropriate to say that they are underdeveloped, and do not reach their economic potential. This potential itself varies. For remote, isolated communities, the economies of scale required to develop a fully-functional small business sector meeting all of the needs of its small population often do not exist, given its consumer base and expense of production inputs. For larger reserves located closer to urban centres, self-sufficiency may be more of a realistic possibility, but inadequate access to capital may prevent the full exploitation of business-development potential. As just two examples of the varied challenges that reserves face, it is clear that flexibility and adaptability must be a key feature of initiatives to take effect across reserves. It also must be acknowledged that only some reserves can support a viable housing loan system, where a market system is anticipated.

The economic potential of many communities is simply not known. Insufficient data exists to measure Aboriginal economies, or, where it does, it has not been used in a theoretically-sound model to provide conclusive forecasts of the future potential, in terms of prosperity, of the economy in question. This has encumbered economic development policies, which would benefit greatly from substantive quantification of the prevailing economic conditions on reserves. In this way, the forecasting models of housing loan programs on individual reserves, undertaken prior to the implementation of any such program to ensure its viability in varying communities, will contribute to the overall level of knowledge about such economies.

Though these economies are unmeasured or modeled, and vary so greatly in endowments, conditions and level of development, to say nothing of size, market-based initiatives, though varying in impact, will serve to unleash economic potential and promote economic growth, as it has in other developing economies. It is difficult to predict where competitive advantages occur, or what opportunities individual entrepreneurs will seize once the possibility is raised. These opportunities would appear, however; already, demand for capital by innovative Aboriginal entrepreneurs is not being met by conventional lending institutions, and innovations such as high-risk lending Aboriginal Financial Institutions (AFIs) have only served to increase demand for capital. Once the tools are in place, economic development can happen organically, as it has in many developing countries around the world, and different communities can reach their own potential in their own time.

Once again, flexibility is the appeal of market economic forces. Rather than override cultural practices and norms on reserves, economic forces can help to achieve prosperity within a cultural context. The scope for cultural norms and practice is huge;

they still determine the nature of interpersonal interactions, in business as well as private life, and, in a well-governed community, set the priorities of the community, which can be delivered with the help of economic reforms. This is in addition to tapping economic potential where it is not yet acknowledged to exist.

II. Economic impact of housing

Housing impacts the economy at almost all levels, and through almost every aggregate variable in the economy, as outlined below. Some of the economic effects of housing overlap in their impact of more than one variable; in order to facilitate discussion, they are discussed separately below. Particular attention is paid to the benefits of a housing loan system.

Such a scheme also has system-wide effects, which can be categorized as general equilibrium benefits, affecting other factors in the economy as well as the housing sector. In a housing loan system, the construction and allocation of housing is determined by demand by future owners, who will be financially accountable for any mistakes, and supply, given the limited pool of capital and the economic viability of the initiative. The introduction of these interests requires that housing initiatives be considered in a context of all other projects requiring financing, and prioritized accordingly. In such a system, it is more likely that all the economic priorities of a community are advanced in accordance with their importance. It also makes the choice of projects more efficient, as accountability leads to the self-selection of good projects.

Another general outcome of a loan system that gives people a stake in their living accommodation is

2.1 Aggregate demand and consumption

Aggregate demand is the total value in an economy – it tallies total consumption, investment, savings and net trade, and is a good indication of the economy's size. The biggest component of aggregate demand is consumption, and housing makes up a big part of consumption[9] – in this way, the buying and selling of houses accounts for a significant portion of the total value in an economy.

While this may not seem to have many implications for individuals within the economy, further exploration reveals that this additional value is not restricted to the housing sector. In other words, once this value is present in the economy, through the purchase of a house, it can flow within it, contributing to other sectors and contributing to the overall consumption and investment capacity in the community. The key here is the multiplier process – the currency spent on a house, culminating in the private ownership of the housing unit, flows through the economy by providing a basis of wealth and

[9] Treatment of housing as consumption is not universal amongst economists; traditionally, and in national income accounting, it is viewed as an investment, which ignores the non-economic, personal motivations of home-buying. Coons & Glaze (2002) have made a strong case for having it considered as a consumer good. Regardless, house prices form the main part of personal wealth, and fuel consumption (which, as mentioned above, is closely correlated to house prices). Its value in the economy is undisputable, regardless of its technical accounting designation.

security for the homeowner, who can spend more income and invest more in the economy.

In order to quantify the magnitude of only part of this impact, in Europe, the correlation between house prices and expenditure in the economy is half – the increase in the value of one's home will lead to an increase in consumption by half of the value of the price increase, making housing one of the most direct and effective drivers of aggregate demand in the economy. As house values generally increase over time[10], through investment and the demands of a rising population, there is increased potential for investment in local business, or the consumption of goods, and the overall growth and health of the economy.

A potentially more powerful driver of housing value is the possibility of self-driven renovation or improvement over time. Home improvement is one of the only ways in which an individual can exert full control over building their asset value through not necessarily financial means: time and effort can result in wealth creation. In the event of unemployment, or simple interest or demand, individuals can grow their house value. Unfortunately, this is generally only the case when there is a possibility for resale, though homeownership also increases incentives for home improvement out of a personal pride or standard of living motivation, as well as an intergenerational one, as we will see in Section III, on the indirect benefits of homeownership.

2.2 Growth of complementary industries

A number of sectors of the economy stand to benefit greatly from increased housing provision. The most obvious beneficiaries would be the construction and home renovation/repair industries, though several others benefit substantially as well, including durable goods firms, who sell 'durable' goods with a relatively long life-span such as appliances or furniture, removal companies, home furnishing businesses, and, eventually, real estate agents, surveyors, notaries, and bankers.

Regardless of how it is financed, increasing the supply and quality of on-reserve housing boosts these industries whose products and services complement the housing sector, and has multiplier effects throughout the economy. The increase in income for, say, construction firms, leads either to increased income for firm employees, including the owner, or is transferred into firm investment, to bring increased returns in the future. Regardless of the time period in which it takes place, increased income increases spending, which if spent in the local economy, provides the income for other reserve residents in a rippling effect. This effect is particularly large for the construction sector, as it is relatively labour-intensive, spending a bigger portion of its revenue on employee wages as opposed to machinery or production materials.

To varying degrees, the same logic can be applied to other housing-related businesses. For example, if the poor quality of Aboriginal housing were addressed through comprehensive funding for repairs, the growth of a home repair/renovation industry

[10] Many studies have demonstrated this result, given a significant time horizon and neighborhood sample, though a significant number have also disputed it; it is safe to say, despite this disagreement, that low-income neighborhoods do generally experience an appreciation in the value of homes over time. Intuitively, this result should also apply on reserves experiencing a housing shortage, and even moderate economic growth.

would potentially boost the local economy through increased employment and income. In most cases, the construction and purchase of new houses also increases the demand for and consumption of household durable goods, such as washing machines, ovens and other appliances, as well as furniture and household décor. To the extent that these goods are available through local businesses, if only through the employment of local shipping and delivery services, this increased demand will also increase economic transactions and value in the local economy. Given that, in general, people spend the vast majority of their income, especially at lower levels of prosperity, the multiplier effect would increase the value of the economy significantly and boost demand for other goods and services.

For these reasons, it may make sense in the short term to protect local industry, given the significant start-up costs and learning curve such industries would face, in order to give a boost to the local economy and to build the human capital for the future success of local industries. Protection can occur through regulation – the requirement of local housing to use local contractors, for example, or for firms working in the area to employ a certain proportion of individuals in the community to generate expertise – or through subsidization of 'infant' industries, either financially or in kind. It makes intuitive sense to try to enhance the multiplier effect in the local economy; however, it must be remembered that protectionism is a double-edged sword. Though possibly necessary initially, it has a strong tendency to distort the incentives and the competitiveness of recipient firms and industries, making them vulnerable once free competition is introduced, or dependent on protection forever. Equally, measures to ensure Aboriginal employment and training must be monitored carefully to ensure genuine capacity transfer.

In regards to the increased market for housing repair and durable goods, though they will exist regardless of how new housing is financed, a strong argument can be made that the impact will be greater in a loan system, given the flexibility in loan amounts. This is largely due to the increased flexibility of funding in a loan system – whereas a grant scheme essentially caps or determines expenditure at the level of funding, a borrower in a loan system has more input into the cost and the level of financing for the house. In this way, a loan in excess of the amount required by the borrower for the construction of a house may be granted, if financially viable, to fund some of the initial housing purchases. Moreover, the possibility of re-mortgaging or mortgage equity withdrawal (MEW) mechanisms would permit renovations and more expensive repairs in the future – in the UK, during the housing boom in the 1980s and 90s, equity withdrawal beyond the cost of a house reached 7% of household income, a fourth of which was used to finance home improvement projects and durable goods consumption[11], and a third of which was used to finance additional property purchases, benefiting complementary sectors further.

All of these effects are difficult to quantify, and would vary depending on how developed the reserve economy in question already is. However, Ferguson & Haider (2002) estimate that the construction industry in developing economies contributes around 15% of gross domestic product, and accounts for a disproportionate share of jobs for unskilled and semi-skilled workers. They also find that this sector is able to jump-start

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[11] Housing and the Macroeconomy, Flash Briefings 2004, UK.
http://www.tutor2u.net/economics/flashdecks/housing/housing_and_macroeconomy/housing_and_macroeconomy.swf

economies in recession and developing economies, being a main driver giving other sectors time to develop, and is critical for economic growth.

2.3 Capital formation for business financing

Re-mortgaging or mortgage equity withdrawal mechanisms are only a couple of the ways in which a housing loan system has potential to create capital in an economy, and even these mechanisms have worth far beyond increasing consumption of goods related to housing.

The inalienability of Aboriginal land has been a significant factor in the difficulties Aboriginal entrepreneurs have in accessing small business financing. Without the option of using land as collateral on loans, Aboriginal businesses often fall short of security requirements for conventional bank loans or are only able to access a small portion of what they need[12]. The issue of land inalienability has been either creatively circumvented or in essence legally solved in several locations, and, in the case of housing, is commonly dealt with by involving the First Nations band council in the loan process, and relying on the council to repossess the land and recoup the value of the loan in event of foreclosure. This process has proven quite effective where it is in place, though without an on-reserve loan system any interest payments and defaults constitute leakage from the local economy.

A housing loan system culminating in ownership of reserve homes by individual entities will provide the means by which private capital can be formed and accumulated by individuals within the economy. The value of a home, agreed upon by buyer and seller in terms of price, is acquired and held by the buyer in accordance with the terms of the mortgage. This value can be, as suggested above, 'cashed-in' through re-mortgaging and MEW mechanisms, and therefore provides a powerful source of equity once acquired. Moreover, most economic studies in recent years have indicated that home values, though they fluctuate in the short-term, are generally solid long-term investments, in terms of return to the individual[13]. This indicates that the amount of capital within an economy with a housing market generally rises over time.

Once this capital exists, it has investment potential to benefit many aspects of the economy. Homeowners have the collateral to secure business loans, or the credit to become private investors in the business sector. Local businesses thus have the potential to secure alternative means of financing within their community, including forms of angel financing and family support, which are important sources of start-up capital for Canadian small businesses but have typically not been available to the same extent on reserves. Moreover, on-reserve banks accumulate their capital base through mortgage lending, and have more capacity for their own investment functions in the community.

Black et al (1996) confirms that house values are important for providing collateral for start-ups of new businesses in the UK. We believe that this impact would be even stronger in an under-developed economy with fewer financing alternatives and a smaller initial capital base. In addition to providing capital to those currently struggling to access

[12] Many sources arrive at this conclusion, one of the most accessible of which is Caldwell, David & Pamela Hunt, "Aboriginal Businesses: Characteristics and Strategies for Growth," Aboriginal Business Canada, Industry Canada Occasional Paper 20 (1998).
[13] *Supra* 10.

it, which more than 56% of Aboriginals report doing[14], reducing the rationing of credit that takes place on many reserves may unleash a greater demand for such financial services, and a higher rate of business generation and growth than initially anticipated.

2.4 The savings rate

Related to the idea of increased capital and investment is the concept of homeownership as 'forced savings.' The gradual and long-term nature of housing loan systems provides a manageable mechanism for the accumulation of wealth, which, once a house is paid off or sold, forms a sizeable amount of savings in the hands of the homeowner. Low-income populations in general are hard-pressed to save[15], making this effect even more valuable for them. In fact, for most people with income at or below average, the value of a home forms the biggest component of wealth and savings.

Savings is future consumption, an essential part of an economy. It is also equivalent, in the long term, to investment. The proportion of income which is not spent in the current time period will be spent in a later one, enabling investment and driving aggregate demand in the future. Because the value of houses and the housing market generally grows over time[16], so too does savings, pushing up future aggregate demand. Moreover, Engelhart[17] shows that the level of savings in a household does not fall, even if the value of a house decreases over time; it will increase when capital gains on house value falls, and will stay even in the case of unexpected capital gains.

Moreover, the demographics of reserve economies render the savings effect even more significant. It is generally assumed that individuals start saving early in their lives, and accumulate savings until retirement, when they begin to run down their savings at a more rapid pace than that at which they accumulated it. This 'life-cycle hypothesis'[18] would dictate that the savings of the Aboriginal population should be great, due to the relative youth of the population, and would drive demand significantly when it is eventually spent. Moreover, homeownership promotes earlier saving[19], in order to make a larger down payment possible, theoretically increasing the amount of savings on reserves even more, and permanently affect the life-cycle.

2.5 The rate of growth

Many of the factors mentioned in previous sections contribute to the growth of Aboriginal economies: capital formation boosts small business growth, for example, and savings will increase aggregate demand and hence GDP in the future. However, housing systems also impact the underlying growth *rate* of the economy; that is, the percentage

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[14] A key finding of Caldwell & Hunt (1998)
[15] Retsinas & Belsky (2002)
[16] Belsky & Duda (2002) show that house prices demonstrated an appreciating trend, especially for low- and moderate-income households.
[17] In Deitz & Haurin (2003).
[18] Franco Modigliani and Richard Brumberg, developed in 1954 in the seminal work "Utility Analysis and the Consumption Function: An interpretation of cross section data" (appears in Kurihara, editor, *Post Keynesian Economics*). The basic proposition is that people 'smooth' their income over their lifetime, saving in youth and dissaving in old age, in order to have a consistent intertemporal consumption pattern over their lifetime. Similar to Milton Friedman's Permanent Income Hypothesis for consumption patterns.
[19] Dietz & Haurin (2003)

by which the economy grows year after year, which has a greater, longer-lasting impact on the economy.

The underlying growth rate is the measurement of how much an economy can consistently expand by each year. In developed economies, the growth rate is generally quite low, around 2-4% in a healthy economy, as it is determined largely by the rate at which technological innovations that improve efficiency and productivity appear in the economy. This 'technical rate of progress' itself is determined by how quickly and effectively a society produces innovative thinkers and entrepreneurs that develop such new technology.

However, when economies are developing, there is much more potential to expand, and the growth rate is generally quite a bit higher. However, the importance of production factors such as labour and technology, which affect the technical rate of progress, should not be underestimated in the development stage, as they shape how much the economy will be able to expand by in the future. The level of education and skills of the population are important in providing businesses with a good, innovating labour force and the economy with new inventors and entrepreneurs, who will also provide fertile ground for further development of inventions and innovations[20].

Skills training and technological advancement affect the rate of progress in three distinct ways: it increases the number of innovative and progressively productive employees, it makes them more likely to develop innovative solutions with the relevant technology at their disposal, and it sets in train further innovation in the future. All of these innovations are what make the economy grow: cost-savings make the economy be able to produce more.

A housing loan system will contribute to this process through its provision of increased capital within the economy. It appears to be a cost-effective investment: due to lags in Aboriginal communities, much progress in technology could be gained from simple technology adoption from the Canadian economy and skills transfer programs at established institutions. With increased access to capital, firms will be able to undertake such technology and human resource development and training for their current and future employees. These processes will lead to increased future investment in the identification and development of production innovations and technology that will increase future output. Regular access to capital will make these processes ongoing, continually boosting economic productivity.

2.6 Employment

On-reserve employment is boosted in a number of ways through increased housing, some of which have already been mentioned. The development of the construction and renovation/repair industries through increased housing, for example, would likely involve the recruitment of more workers – proof of this can be found in Canada over the years 2000 – 2004, when the sector grew by 200,000 employees, or 20%, driven by a housing boom. More generally, the expanded size of the economy, generated by the impact of a housing loan system on consumption, investment, and business creation, will result in a

[20] It is a key feature of endogenous growth models that inventors and their inventions beget more of the same, by providing preliminary research or development of certain projects, and by establishing the viability of the inventor/innovator profession. This effect is called 'standing on the shoulders of giants.'

higher level of employment. This employment in turn reinforces increased consumption and economic activity.

Moreover, an important element of wealth creation that is not measured in national income accounts due to difficulties of measurement, is the work the unemployed can put into their houses to increase its future value, as mentioned in the introduction to this section. The possibility of increasing the value of one's home and thus one's personal assets is an important insurance option of sorts in the event of unemployment, and should not be underestimated.

The findings of recent studies on household choices indicate that there may be an impact of homeownership on employment decisions independent of the effects outlined above. There is a correlation between homeownership and employment, with homeowners less likely to be unemployed, and the impact of homeownership on dual-income decisions is even stronger: Dietz and Haurin (2003) show that 25% more of spouses in owner-occupied households work than in non-owned houses. It is likely that the causality of this statistic is reversed – only those with secure employment will be able to purchase a house – but may be significant nonetheless, highlighting how homeownership, at the very least, encourages job retention or rapid turnover in securing new employment, as well as encouraging other members of the household to become active economically as well.

2.7 Conclusion

Increasing the provision of on-reserve housing, regardless of how it is delivered, has effects that can be felt through several economic channels. The economy expands, increases activity, and involves more people; a multiplier effect coursing through enhances the depth and breadth of economic expansion.

However, all else equal, a housing loan system holds out considerably more economic benefits than increasing the housing stock. By introducing investment, sustainable growth and future consumption effects, as well as enhancing the impact on complementary industries and employment, a loan system would contribute far more substantially to the independent economic health and growth potential in a community. By creating some of the key foundations of a functional economy, a loan system could set in motion the processes and flows of a developing economy with less need of external intervention and support, and a far greater level of prosperity and standard of living.

III. Indirect economic impact of housing

There is a great deal of literature and attention paid to other consequences of housing systems, such as those of a social, psychological or health nature. Although this paper is limited to the economic role of housing, some of these effects do impact upon the local economies, albeit in an indirect way. Following is a brief but comprehensive overview of the outcomes with most significant economic impact.

3.1 Productivity

Housing conditions have strong physical and psychological impacts upon its residents. Poor housing conditions, including overcrowding, inadequate heating and unhygienic water infrastructure, can and do lead to ill health; moral and social considerations aside, the economic aspect of this consequence is increased sick leave and lack of productivity at work. Insecure tenure provides another powerful distraction from employment, undermining general mental well-being. An adequate quantity of houses, meeting building standards, would help to reduce these distractions upon a worker.

A housing loan system may provide even stronger benefits. Firstly, it may deliver the improvement in housing that is needed on reserves, contributing to the adequacy of the housing stock in the eyes of the occupant: Lam (1985) shows that homeowners are substantially more satisfied with their homes than renters. Moreover, homeownership is commonly treated as a control variable in medical studies, using logic reinforced by MacIntyre's 1998 study in Scotland in which 1,500 respondents demonstrated the relative better health of homeowners as opposed to non-owners. The relative security of tenure afforded by ownership has led to a 'ontological security' hypothesis by Saunders (1990), who asserts homeowners enjoy a stronger general sense of well-being. Finnas[21] showed that divorce rates in Finland were 50% lower for owner-occupants.

All of these factors decrease distractions in owner-occupied houses, and make such inhabitants more productive in the workplace. Overall, a system culminating in homeownership could have greater productivity than one culminating in simply more houses.

3.2 Growth

The physical and psychological elements of adequate housing have the potential to increase the long-term growth rate of the economy, through improving the technical rate of progress discussed in Section 2.5. To recap, this rate basically measures the speed at which a society produces innovative thinkers and entrepreneurs who continually increase the productive capacity of an economy. Educational attainment is generally regarded as an important factor determining this rate.

The strong effect of housing conditions upon children is the key influence here. Numerous studies show that children growing up in secure households attain higher levels of education, and have fewer behavioural problems than when housing is transitional. Parental ownership of their housing unit dramatically increases a child's likelihood of graduating from high school (Aaronson 2000), an outcome that is even more significant for low-income families, and Green & White (1997) assert that it reduces the chances of teen pregnancy. Haurin, Parcel & Haurin (2000) conclude, in a well-controlled study, that homeownership has significant impact upon a child's cognitive abilities and emotional support.

Meen (2002) claims that the increased productive capacity and educational advancement that parental homeownership creates is sufficient to affect the rate of technical progress, thus increasing the rate of growth. Even if the skills acquisition and educational advancement of the next generation does not lead to improvements in the

[21] In Dietz & Haurin (2003)

way that the economy grows, at the very least it provides a more diverse and educated labour force in the future.

3.3 Future wealth

The inheritance of housing transfers wealth to future generations, assisting in the financing of other investments and freeing up money that may have been spent on accommodation in youth. More indirect is the impact of the higher education benefits discussed above: educational attainment has other, more widely-reported, positive consequences upon the future of children and the economy – namely, increased earnings potential in the job market.

Building on previously-cited studies, Thomas Boehm and Alan Schlottmann (1999) constructed a model to measure what effect parental homeownership has on a child's future wealth, and were able to show not only that children in owner-occupied houses earned more, but accumulated wealth quickly as well. They were able to accumulate wealth more quickly by purchasing houses at an earlier age, given their higher income, and thus enjoyed the benefits of a longer period of time in which their houses could appreciate in price. On the whole, they could accumulate more wealth in a lifetime.

In addition to the personal benefit of having more income, this accumulation of wealth does have wider economic effects – namely, through increased consumption and savings. Although this is an indirect outcome of homeownership, it does reinforce our discussion in Section 2.1 of how homeownership will increase the value in an economy, and our overall theme that economic activity will increase in an economy with a housing market.

3.5 Norms and skills development

Another less tangible, yet tremendously important side-effect of a housing loan scheme is its impact upon the processes and mindsets in the community.

In such a system, each mortgage-holder goes into significant debt for both present and future benefits. Each household in this system in a sense adopts some of the aspects of being an entrepreneur, negotiating the terms of the loan agreement, assessing value of land and construction services, and being held accountable for repayments. The knowledge and skills these activities develop are transferable to other business and consumer roles, such as running a small business and purchasing durable goods.

Moreover, the relationships developed with the lending institution loan officers offer more scope for skills development, especially if the homeowner takes an active role in the construction or renovation of the housing unit. The advice and support the loan officer can provide is invaluable, and provides an opportunity to gain insight into all that the lending institution has to offer and how the banking/lending sector works. This knowledge promotes more extensive future investment and use of the services of the banks, increasing the pool of resources at the lending institution and the credit available to other individuals. Further, the relationship with the lending institution itself is beneficial, for future business loan applications or business support services. As Aboriginals are over twice as likely to be self-employed, this effect is not negligible.

A housing loan system devolves responsibility for adequate housing to the key beneficiaries, and gives authority for decision-making to those who are most impacted by housing decisions. This constitutes a transfer of autonomy to Aboriginal individuals and families over their economic actions. In addition, a housing market would create a system of value recognition for land and houses through the pricing mechanism, overcoming the current situation in which reserve land has no value – viewed as being, in a sense, worthless. The development of both of these factors – autonomy and worth – amounts to a greater appreciation of self-worth and empowerment on the part of Aboriginal individuals. Though these benefits are largely unquantifiable and psychological, they are important preconditions for Aboriginal individuals and communities to view themselves as active economic agents, and to realize their full economic potential.

3.5 Creation of investment climate

Employee housing considerations weigh heavily in a business' decision to relocate or expand – affordability, adequate conditions, municipal services, pleasant neighborhoods and space all play a role in this decision. This factor proves to be a challenge for larger cities with an overextended infrastructure, and prompts many successful businesses to look elsewhere to grow. The arrival of new, generally large firms can boost employment in the local economy, and has distinct consumption effects through its injection of a new pool of consumers to the area.

A good housing system on reserves near urban centres can attract businesses through their relative affordability and, once improved, their quality. Moreover, skilled workers are also concerned with housing standards, and will be attracted by a good housing system, a force that may draw off-reserve Aboriginals with a higher rate of post-secondary education back to the reserve, or encourage them to stay. A strong labour pool will attract and retain businesses – this effect can be observed by the actions of the high-tech industry in the UK, who followed skilled labour pools in their relocation throughout the country.

High-quality economic environments tend to be self-reinforcing, and have 'spillover' effects into nearby areas – pushing up consumption, the growth of complementary industries, and educational standards within the community as a whole. In addition to business attraction and expansion, skilled worker environments also enjoy a higher rate of business start-ups, further expanding reserve economies.

The 'stability' aspect of homeownership systems in particular offers additional appeal and incentives for on-reserve housing to attract new firms. Homeowners have an incentive maintain and improve their homes, in order to improve its economic value, as well as increase their own feelings of pride. This incentive has been shown to result in well-groomed home owning communities (Rohe, Zandt and McCarthy 2002). DiPasquale and Glaeser (1999) have shown conclusively that homeowners are more involved, socially and politically, in their community, through volunteer and charity organizations as well as political activism and advocacy for the good of their residential area. This activism spills over into involvement on education boards and associations, culminating in better school environments; studies have also shown that home owning communities, in general, create a child-rearing environment resulting in fewer behavioural issues. On the whole, this environment may hold a greater appeal for companies concerned for the well-being of the workers and their families.

IV. A New Approach

By affecting almost every major variable in an economy, improving the provision of on-reserve housing has the potential to transform Aboriginal economies via channels and effects not currently considered in housing policy development. A market-based housing system in particular, resulting in homeownership, introduces the capacity to invest, consume, and produce on a higher level, and forms the cornerstone of household economic activity in most developed economies. Developing housing policy in a self-contained bubble is not only wasteful of the budget of billions to this end, but also may have dire economic consequences in terms of diverting money away from useful economic programs. Unintended consequences in terms of hindering the progress of other economic development initiatives by perpetuating an underdeveloped financial system will result in the continuation of a culture of subsidy and reliance and an aversion to economic entrepreneurialism.

However, it must be noted that inserting a housing loan system on its own, and especially in replacement of other economic development initiatives, will not result in immediate and transformative change. Housing is clearly one piece of the economic development puzzle, but its successful creation and maintenance is also highly dependent upon a variety of other economic factors. One such factor is access to capital, beyond that required for housing loans: if the pool of available capital is excessively limited, the competition for financing will not lead to a neat general equilibrium organization of community economic priorities; rather, important initiatives will be neglected or distorted, the cost of capital and therefore loan risk will increase, and the system will fail. Another factor is a basic level of wealth in the economy: there must be a certain degree of capacity for loan take-up in the community to set any scheme in motion. Large scale income inequality can lead to a dual economy in the housing as well as other markets, exacerbating economic and social fragmentation. A credible and trusted financial institution is another clear prerequisite.

Despite the promise held out by housing loan schemes, they can only be pursued in conjunction with a broader development policy where economic preconditions do not exist, and build a strong case for increased attention to financial market development and wealth creation initiatives. When economic preconditions exist, the benefits of a housing loan system are clear. By admission of the US policy, "Housing policy has formed a significant cornerstone of the nation's "poverty agenda" as well as represented a separate policy initiative.[22]" An adequate housing policy could have a significant effect on alleviating some of the economic hardship in Aboriginal communities, and should be considered in the context of its economic as well as its social benefits.

[22] Quoted in Boehm & Schlottmann (1999).

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