

# Prosperity begins at home:

Housing Policies for Faster, Fairer Economic Growth

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## **About the author**

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# I. Housing Scotland Better, Strengthening the Economy

## *Housing and Economic Stories*

This project has twin aims. The primary concern is to fashion proposals for a better governance of Scotland's housing system. The second aim supports the first: It creates an economic narrative for housing policymakers and lobbies that connects both economic drivers to housing outcomes and their recursive consequences for the economy and the wellbeing of all of Scotland's cities, towns, and villages.

Over the last decade the Scottish Government has evolved multiple competing, and often disconnected, policy narratives (MacLennan, 2024) with emphases variously placed on green, blue, inclusive, sustainable, community-wealth oriented, growth to enhance more evenly distributed 'wellbeing', with productive and innovative labels as, almost, footnotes.

In the academy and public policy debate different, disconnected models for change may signal a creative, thinking policy community. Governments, however, responsible for strategy, mission formation, and delivery of progress are unlikely to be effective if their 'economic story' is not coherently 'joined up' and consistently told across all Ministries. Multiple 'Adjectival' growth frameworks confuse rather than create.

The narrative framework developed through this project, is not intended to add to that smorgasbord of 'economic' narratives but instead to allow more effective understanding of how better housing outcomes can contribute to, and in part be defined by, the core goals of economic policy. In broad terms, those can be summarised as pursuing economic and financial stability, attaining societal goals for the fairer distribution of incomes and wealth, and ensuring rising productivity to best foster national growth and wellbeing<sup>1</sup>.

The design and delivery of Scottish housing policies has been long dominated by concerns for social justice and has in this millennium embraced stronger environmental concerns but has been resolutely weak in economic content.

Economic cases for framing and resourcing housing policies have been made for decades (MacLennan, 1994) and in different places (MacLennan, et al 2021)). In this project an economic perspective is adopted not to support lobbying for particular policy instruments, or more public spending or regulatory tweaks to support the existing Scottish 'business as usual'(BAU) models of governing and delivering housing policies. That will not resolve, nor even stem, the spreading

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<sup>1</sup> The Conversations with the Scottish housing sector undertaken in the project were regularly peppered with comments that the Scottish Government's diverse 'growth' narratives, such as 'inclusive growth', 'community wealth' and 'net zero' had consistently failed to recognise the contribution, especially of the non-profit sector, of housing outcomes to these other 'growth stories'.

and deepening housing difficulties now afflicting almost two thirds of Scots. Instead, it is part of a changed thinking framework that will permanently raise the effectiveness of housing system management in Scotland.

### ***Changing Housing Outcomes, Disrupting Governance***

Moving from perspective to substance, changing Scottish housing outcomes requires, first, the recognition that Scottish housing budgets and regulatory frameworks have, for decades, been inadequate palliatives failing to stem the negative housing consequences of both wider policy actions and broader socio-economic shifts.

Second, it is unlikely that with BAU approaches, the Scottish and UK Governments will be able to fund ‘palliative’ actions that will dent totals of outstanding needs and other difficulties. There has to be a rethinking of what housing is and does, as a large and complex system, for Scottish wellbeing.

And third, recognising housing as a key integrative system in the lives of households and the places they live in, housing policy has to become how we understand and govern the whole housing system to support the major aims of households and missions of government. It patently does not do so now. Change will not be easy, but it is essential.

### ***The Approach of the Project***

This project framing paper reviews in the next section, Part II, the entrenched housing difficulties, their systemic nature, the difficult fiscal contexts for their resolution, and the consequent imperatives for housing governance ‘Disruption’. To begin building an economically informed case for reforming housing system governance, Part III explores and defines what ‘housing’ is. Following that discussion, it is important, in Part IV, to recognise what ‘housing’ does for the society and environment but, particularly the economy.

Parts II and III, taken together, make the case for why it is imperative to think of housing as infrastructure and to construct policy governance that recognises the systemic, relational, nature of housing and its critical significance in national wellbeing. This paper will be supplemented by short, policy notes on changing roles for the non-profit sector, on future homeownership, and remaking housing supply chains, to form the basis of the final report that will focus on the housing governance changes that the next Scottish Parliament and Government should address.

That report will also have regard to insights arising from the well-established debates about private rental futures, the strong cases that are being made for increased preventative approaches to reducing homelessness, and the difficult supply chains in housing development and construction. It will also recognise arguments for the reform of the taxation of housing, and land, though such changes will be unlikely to feature in the policy manifestos for the next

Scottish Parliament. By 2030 Scottish, and British, politics may have to take the housing taxation story seriously.

When politics persistently fails to deliver better housing outcomes, discontent with available, affordable housing choices may change the political choices of left behind places and forward looking younger households. The good but inadequately resourced housing measures in the Programme for Government announced last week are likely to mean that housing issues will be a leading issue in the Scottish Parliament elections of 2026.

Reshaping the Scottish housing system to deliver faster, fairer, and greener growth is, given the depths of the crises, a long and difficult journey. It is time to start

## **II. Making Housing-Economy Links**

### ***A Difficult Decade: Growth Challenges and Fiscal Difficulties***

The 2020's have leaden echoes of a century ago. These include a deep and spreading crisis in Scotland's housing, awaiting resolution with the bold vision and style, if not the substance, of a new Wheatley Act. Defence spending to match unresolved security tensions will claim an increased share of slow growing public spending resources for the rest of this decade. The on-off retreat of the United States behind ad hoc tariff walls and its apparent willingness to undermine the 'rules of the game' for global trade, aid and investment flows, has reduced global certainties and incomes and imposed new costs on other economies. The everlasting gains from trade and mutual interests in security will induce shifts in political and economic behaviours that reduce some of these awful fractures and challenges but not immediately. The scars of economic illiteracy will last into the next decade too.

The remainder of the 2020's will be difficult for economic, fiscal and monetary policy making. The UK and Scottish governments, finally recovering from the Global Financial Crisis, are now paying for the costs and debts incurred in dealing with the Covid pandemic and the damaging Truss-Kwarteng anomaly in macroeconomic policy management. Simultaneously they face increasingly difficult outcomes in multiple, important areas of public policy.

'Wicked system' effects from problems recognised in the past but displaced from policy action by short term priorities, until finances or politics presented better opportunities for change, are increasingly evident.

Often these 'wicked system' problems have occurred because governments, whilst embracing new goals and missions, have aspired to maintain past performances in health, policing, education, and social housing, but without being prepared to face the tax consequences of

doing so. Moving from fast virtue-signalling to difficult virtue realisation requires, often, major new fiscal resources. Other difficulties have accumulated as short political horizons de-emphasise preventative actions to forestall the longer term ‘wicked’ consequences and higher costs of meeting merit goals. This includes, for instance, policy (in)actions to diminish carbon emissions or the failure to build the infrastructures, including housing, required to support metropolitan and rural growth.

### ***Scotland is Not Alone, Nor Exceptional***

Patterns of higher long term costs and lost real growth opportunities can be seen in different forms and to different extents in other countries, as can spreading housing system difficulties (OECD, 2021: Licchetta et al, 2025). They vary across the regions of the UK. In Scotland there is, in the press and public debates and attitude surveys, a litany of reported difficulties regarding public service and investment inadequacies. These include delays in the NHS, falling performance and rising violence within schools, major uncertainties in the financing of higher and further education, costly and difficult to access public transport, seemingly unending major road investments, ferries that don’t ferry, and creative industries redirected to lobbying for public resources. These all make for unwelcome experiences for many Scots and even more unwelcome headlines for politicians. Under-performance in traditionally strong areas of public policy in Scotland, including health, education, and housing progress, raise difficult questions.

Although Scots are divided on major constitutional issues many would support the ‘big missions’ embraced by Scottish Parliaments in this millennium. Inclusive growth, raising ‘well being’ and not just per capita incomes, and seeking ‘net zero’ sooner rather than later, are all broadly supported by Scots. But progress on these main ‘missions’ appears to be, at best, stalled. Most inequalities in Scotland are rising, not falling. Policy design for how to move towards net zero, let alone delivering, has been opaque and slow. Productivity in Scotland barely makes the UK average.

Since the Smith Commission (2014), Scottish economic context and Scottish Government choices have more impact on Scottish budgets than in the past. The Scottish Fiscal Commission (2024), emphasising the slow growth of the Scottish economy along with an ageing population, make it noticeably clear that, even with an end to armed conflict and trade wars, Scottish budgets will have little growth potential at least to 2030. This is a historically difficult time for framing and delivering policy solutions for deteriorating core public policy outcomes.

### ***Housing Crises: More than Emergencies?***

Many of the problematic economic, growth and fiscal difficulties noted above both drive and are recursively shaped by housing outcomes. It has been the fashion to talk about the ‘Housing Emergency’ and 12 of Scotland’s 32 local authorities have, since June 2023, declared ‘Housing Emergencies’.

With six out of ten Scots concerned about their housing, there is indeed a major housing system difficulty, even a crisis. For those who find no place to live, in the streets or crowded hostels, the emergency is real, as it is for women forced to stay with abusive partners, or children living in short term homes with disrupted friendships and schooling. However, the 'Emergency' label has limitations. It has the implications that difficulties have arisen suddenly in an unanticipated way, and that heralding the emergency will induce more rapid resource support from others and usher in the onset of crisis resolution. However, fiscal constraints aside, this is unlikely. Local authorities emphasise the emergency as arising from the fiscal squeeze imposed on them by the Scottish (and UK) governments. National governments, the development industries, and much of the financial sector, however, lay much of the 'blame' for the affordability crisis, the Emergency, at the doors of municipal planning departments.

More public money (the Municipal view) and faster, smarter planning systems (the Treasury view), with similar dichotomous perspectives driving housing policy debates in many countries, may both be part of solving current difficulties. Neither alone are sufficient, nor speedy, solutions to the housing crises now faced in Scotland. The difficulties are not just about needs but also demands. And they are not solely about supply, but how demands emerge and are managed too.

### ***The Connected Crises of a Troublesome Trinity***

The 'Housing System Crisis' that Scotland faces, with public concern at a half century high, is not simple nor has it emerged suddenly. The evolution of the different strands of the current crisis has been apparent in Scotland, and the rest of the Anglosphere, for all of this millennium, and longer. The current crisis is a connected 'troublesome trinity'. Levels of Homelessness, with some remission in the noughties and during the Covid pandemic when intense policy efforts were deployed (policy spending works!) have been rising as social housing options and social security support levels have been squeezed since the mid-1990's. Payment burdens and shortages in both social and private rental sectors have increased throughout the 21<sup>st</sup> century. Home ownership rates for the under40's have been falling for a quarter century. A recent report for Homes for Scotland (Homes for Scotland, 2024), though reporting a wider range of difficulties than conventional estimates of Scottish housing need, usefully highlights the variety and scale of the difficulties reported.

These are not sudden emergencies induced by one or two simple causes. They are connected crises. They reflect the now systemically interacting consequences of almost three decades of the sustained inadequacies of housing expenditure and regulation policies to offset the housing consequences of not just social and economic change but the wider policy settings of governments. Fiscal policies, monetary policies, prudential regulation, infrastructure spending, immigration policy, environmental actions and even higher education policy have played key demand and supply side roles in exacerbating present housing difficulties. Oh, and municipal planning and housing efforts have been problematic in some places too.

### ***What is Housing Policy?***

An important step in addressing current difficulties is to recognise that the housing policy of a government is much more than the spending programmes, enabling tools and regulatory powers of the Housing Ministry. This observation applies to all orders of government (including devolved administrations and municipalities). Housing Policy is the purposive whole of government actions that an administration takes across all the policy silos and with all the policy levers for which it is responsible. This obvious observation is often ignored in UK and Scottish housing policy action (MacLennan and Gibb, 2025). An obvious example is the ways in which the market rental sector in the UK has grown over the last three decades. It has been primarily propelled not by purposive policy decisions to grow an effectively managed and financed market rental sector but as ad hoc response to failing policy outcomes in homeowner and social rental sectors. Another, in the Scottish Government Housing Vision to 2040 is the absence of any discussion of how monetary and fiscal policies might shape the development of the market sectors, which now house three out of four Scots.

The evident crises in other areas of Scottish public policy, allied to the likely bleak fiscal future, means that expanding housing rights (that may well be desirable but will primarily add to unmet socially defined housing needs) and much augmented public spending on housing will not be the routes to better future housing outcomes in the 2020's. Nor will the combination of increased regulation of rental housing markets, and the deregulation of planning processes to facilitate more flexible supply drive the housing output levels so desperately needed.

Scotland has to find better ways to manage the whole housing system, and not just bits of it. And it has to do so with the clear purpose of delivering better economic and environmental outcomes as well as meeting the merit good needs for social justice and social inclusion. Scottish policymakers need to think not just about housing need, homeownership rates and affordability for all, but also need to think practically about what housing is, how the housing system functions, and how housing outcomes plays into the major missions of government and the National Performance Framework.

Housing is a core system in how Scotland operates as an economy (the quality and location of homes drive major components of greenhouse gas emissions, and housing outcomes more than most both reflect socio-economic inequalities and then further reinforce them in significant ways). Yet, in Scottish Government thinking 'housing' has become a modest budget managed by a Minister without Cabinet rank. As noted above, 'housing' seems, at least to the housing sector, to have played marginal roles in policies such as inclusive growth, community wealth and wider economic policy thinking within the Scottish Government and is mostly missing in Regional Economic Partnerships. Scottish policy has little sense that housing is essential economic, social, and environmental infrastructure. In consequence, Scotland appears to have a governance of housing that looks back to its roots before the 1980's rather than



forward to 2040. Politics primarily sees and debates housing problems as ‘merit good’ issues requiring expenditure and regulation solutions rather than managing the whole housing system to foster major missions.

Scotland will not take housing forward by sticking with current policy framings, by finding a ‘single indicator’ to feed into the National Performance Framework nor seeking a single definition of ‘affordability’. The Scottish Government should work urgently on articulating and evidencing the ‘wiring diagrams’ connecting policy levers to policy outcomes and reveal how they believe housing actions and outcomes contribute to every single sector of the NPF.

### ***Creating the Housing-Growth Narrative***

And within Scottish economic policy thinking the effects of housing on economic and financial stability (the conventional wisdom) need to be augmented by new thinking on how housing is driving housing wealth, wealth driving the housing system, and, of course, how housing outcomes drive growth and productivity.

The UK Treasury and the OBR (MacLennan and Gibb, 2025) now recognise housing may have growth effects and they are seldom mentioned in Scottish economic thinking. This is not primarily about productivity in the construction sector, which does need to rise. It is, rather, how housing system outcomes impact the productivity of different kinds of capital such as human, physical, business, financial, social and place capital.

This is not just an issue for disadvantaged areas low in human capital, nor indeed unleashing housing supply constraints in pressured, prospering suburbs and towns (as CBI Scotland have recently argued). It is becoming blindingly obvious that an inability to think about the limits of housing market information and the inadequacy of housing planning for thin rural housing markets has needlessly denuded rural localities of younger and skilled workers. That market failure has remained unrecognised in housing policy and planning since Scottish Homes/Communities Scotland were abolished two decades ago.

In developing narratives and actions for the future governments have to think about how the housing system functions, how they develop an effective governance to manage that system to best shape better *outcomes* for major missions. In the housing sector, lobbies and providers have to emphasise the major palliative effects, in the sense of meeting agreed merit needs of the adequate and affordable housing they produce, and how preventative investments today shape better needs and market outcomes tomorrow, but also how what they do has significant effects for the productivity of people and places. Palliative, Preventative and Productive investments need to be their focus.

### ***Beyond Housing Business as Usual***

Successive governments invariably make multiple changes to housing provision. Many of these changes are fine-tuning, with the main frameworks for forming strategies and main policy instruments for delivery marginally altered and with some wide agreement about how the policy and delivery systems should run. An era of municipal led new provision and strict controls on private landlords prevailed from the end of post-war restrictions in the early 1950's until the end of the 1970'. For the next 3 decades, home-ownership growth and the purposive replacement of municipal provision and ownership by not-for-profit providers were the constant, dominant themes of Scottish housing policy. From 1980 to 2010 the Scottish housing system changed more than in any other part of the UK, from dominant municipal to a majority market system (the pros and cons of these shifts are not discussed in this paper). The important question is what coherent framework for policy existed after 2010, both at UK and Scottish levels.

Housing policy at both the UK and Scottish levels has lost any coherence. As noted earlier, politics assumes that the main tenure sector largely functions and delivers outcomes much as it did 30 years ago. In a subsequent policy note the significant changes in the system, and how it moved from a steady savings to speculation system are discussed. In Scotland, the non-profit sector has arguably been much lauded but relatively underestimated, and underfunded, in its capacities to tackle emerging system difficulties. Municipalities are offered some new roles but diminished resources. The private rental sector has filled the gaps in Scottish provision left by sluggish provision in the main sectors but now faces unclear control proposals that are already diminishing new investment.

This approach does not 'add-up' and it does not offer a coherent system of governance for exiting the housing crisis that is, in mid-2025, still deepening. With an inadequacy of public resources to halt deterioration in housing outcomes, let alone remedy them, major, not marginal, change in how Scotland understands and manages the housing system is required. It is time for policy Disruption.

### ***Disruption***

This project identifies and explores four key areas for a new approach to Scottish housing policy.

## **1. Governance.**

Scottish housing policy and provider 'business models' no longer work effectively. The Scottish government cannot afford to 'buy' their way out of the housing crisis created over recent decades, nor will badly designed regulatory changes help. Scotland needs to find new ways of delivering better housing outcomes. In the Parliament there is not just a deepening fiscal squeeze but a crisis in understanding key housing outcomes, and their causes and consequences, in the Scottish housing system.

A rapid consolidation and strengthening of currently scattered and inadequate evidence to inform policy choices is required and the key governance changes require a whole of government approach to framing housing policy at the Scottish level. Then the development of coherent policy coordination mechanisms upwards to the UK level (that seem to have disappeared post devolution) and downwards to a coherent system governance scale, say at the scale of regional economic partnerships or combined authorities, is urgently required. The ways, and channels, by which Victoria Quay both informs and is informed by more local providers will be an important part of such changes.

## **2. Housing Supply**

The one area of housing policy thinking that has moved forward, in some regards, is the recognition that housing output needs to substantially increase, not just to meet the backlog of needs and demands, but to be permanently more responsive to forestall price increases when demand expands. *Prosper* will shortly launch a report on Housing Supply for a Growing Economy that will undoubtedly inform Scottish debate.

The Chancellor of the Exchequer (MacLennan and Gibb, 2025) in her maiden speech emphasised the need for disruption in local government approaches to granting planning permissions and there is much emphasis on faster, more flexible planning to create more effective supply systems. The UK government have proposed legislation that reshapes linkages in land-planning-infrastructure- housing delivery systems that may prompt Scottish rethinking too. Auditing of supply chains has been a significant missing element in national, Scottish, and local housing system analysis.

The policy focus on 'planning as the problem' emerges from stripped down economic models that assume away most of the real characteristics of developing and building housing. Better, faster supply chains require improved both permission processes and strategic spatial planning (de-emphasised in Scotland since 2015) but also fostering new technologies, removing materials and skills shortages, supportive financial conditions, and ensuring the alignment of housing and infrastructure provision. There needs to be a recognition that these chains embody not only planning system failures but also local elements of market monopolies and associated market failures. The housing provision, not just planning, system has to change.

### **3. Non-Profit Providers**

Scotland has a relatively large share of housing provided by the non-profit sector. That largely reflects past policy efforts to renew rundown tenements, the renewal of council housing estates, meeting special housing needs and, especially from 1997-2008, community ownership policies that encouraged transfer of housing stock from municipal to non-profit ownership. At both UK and Scottish policy levels, the recent policy environment for non-profits has been somewhat unclear. New income sources and roles have developed relatively slowly, government decisions have placed new claims on the assets of providers and limited their potential to leverage new investment. The lopsided structure of the sector, and the potential for nonprofits to work as local housing and development agencies have not been at the forefront of policy thinking.

Whilst recognising, and respecting, the great strengths of the community based sector, and ensuring the model thrives where it needs to, there needs to be a disruption in the way that Scottish policymakers think about non-provision by larger, diverse non-profits. Scotland may have to think more about non-profits as ways of effectively dealing with growth as well left behind places. That focus needs to be rural as well as urban with a radical rethinking of non-profit providers in rural, and small town Scotland. They could be restructured and refocussed to be cross-sectoral agents for change. Too many rural communities, with real growth prospects in providing clean energy and ecosystem services, are being left to fend for themselves as policy and planning ignores market information failures and uncertainties.

### **4. Demand Management.**

Housing market outcomes-prices and outputs-are driven by the interaction of demand and supply systems. Multiple markets are now the dominant housing provision system for Scotland. Yet, neither Scotland, nor regional economic partnership areas, nor municipalities have housing market strategies. That could be changed relatively quickly if Parliament understood housing markets and their consequences.

As noted above, the recent dominant policy rhetoric has been that supply side shortages with adverse affordability consequences underpin the crises. The consequences of this over-simplification are apparent in some of the currently most acute problem areas. For almost a decade market rental levels in Scotland, like most of the UK, rose well ahead of average and lower decile incomes.

The policy diagnosis was 'supply side' inflexibility. Realistically, housing supply is an inherently slow system even when operated flexibly and efficiently. Demand is, however, a fast response system. High rates of immigration after 2015, greatly expanded overseas student numbers, younger households rationed out of ownership by stress tests and then higher post-covid interest rates, all boosted demands for, particularly, rental housing in, most often, major city housing markets. With sluggish supply, downmarket displacement of less affluent renters was

an obvious consequence and, at the end of the day (literally), that meant more homeless on the streets. The Scottish policy reaction has, until now, exacerbated this 'troublesome trinity'. The demand for housing, not least the asset demands, need to a more central place in Scottish housing governance. And when 'demand' is considered two critically ignored issues need to be addressed. Where will future demands for housing (and infrastructure) be (and supply focussed) and what tax arrangements should exist for housing?

The final report explores these 'disruptions' with an emphasis on what might be feasible to implement in the next Parliament to provide a credible foundations for a 2040 Housing Vision. The remainder of this paper, to facilitate the 'disruption' discussion, examines what housing **IS** and **DOES**.

### III. What housing is

#### *Defining Housing*

Discussions of housing policy typically use aggregate notions of what housing is. Social policies focus on totals of some measure of 'Housing need' or 'Affordable Housing Requirement'. Scottish economic commentators use single number measures such as aggregate housing starts, completions, and shares of residential investment in GDP. For policy debates housing is often represented as a single, aggregate bundle of capital. More nuanced, but still aggregative attributes of housing such as regional location, dwelling age, room size and dwelling type and tenure are recorded at sub-national scales and, typically, in census data. These broad categories of housing are then often associated with similarly broad measured categories of households (the elderly, first-time buyers, single parents).

These measures are in reality crude, imprecise categorisations of 'housing' and they reveal little about what housing means for households, and how, and why they choose and use housing attributes. In consequence it is difficult to link these major policy shaping variables to the plethora of significant outcomes that will arise from raising housing starts or meeting more housing needs. They impose a bureaucratically determined view of what aspects of housing are important, for households and for policymaking. At the scale of Scotland, and certainly the administrative units within it, policy needs to know more about what housing is built and where, say relative to employment, and for whom. If these patterns are not known, then little can be deduced about the growth and supply side effects for the economy (or indeed inclusion and net zero effects) in the longer run. Housing policy, in consequence, has an outdated focus on broad categories of housing outputs rather than the major outcomes it influences. Governing housing systems more effectively has to start from understanding and defining what housing means. MacLennan and Miao (2015) outline a definition of housing that emphasizes the aspects/attributes of housing that influence household activities and that should enter into



measured descriptions of what housing stock exists or is being produced in order to understand outcomes created.

A second consideration is that stressing commodity complexity identifies key aspects of housing that make housing what it is. First, it means that housing always has to be thought of as shaped by multiple (silo) policy actions but also influences outputs and outcomes across a wide range of policy sectors. Recognising this 'relational' nature of housing has key implications for how housing is governed.

Thirdly, constructing housing is an inherently slow and complex supply system so that housing market strategy always has to balance demands with feasible supply outcomes. In the UK, and Scotland, and Australia and Canada, recent changes of government have promised greatly augmented housing output totals that surpass achievements of the last half century and there is some scepticism as to whether underlying provision systems can be sufficiently disrupted to achieve these laudable aims. Good governance and policy thinking need to start from understanding how real housing systems actually function. Too often Scottish housing policy debate ensues between housing lobbies with no real economic knowledge and bureaucracies with no real sense of housing systems actually function.

### ***Housing: Noun and Verb***

Housing is both a noun (an object) and a verb (an activity) and it impacts major missions as both. Outlining what it is as an object helps understand why it also matters as an activity. The definition presented below is used to help make a more effective link to the economic outcomes of housing choices. MacLennan and Miao (2015) emphasise that Housing is a *complex commodity that has multiple important attributes* (size, type, location).

The variety of housing within a market invariably means that standardisation of housing values is required (Malpezzi, 2003); some attributes are necessities (a roof over one's head) and others are luxuries (a jacuzzi under one's roof) and the demand for necessity attributes are typically price inelastic (consumption cannot be reduced even when prices rise sharply); consumers typically spend a large proportion of their incomes on housing (an average of 20-25pc of incomes in OECD countries) with often double that burden for poorer households (consuming necessity attributes).

- Is usually (excepting tents and mobile homes) *spatially fixed in place, and embedded in land*, and shapes access to the geographically spread activities that all members of a household pursue. This has an immediate implication. *Infrastructure is capital embedded in land and place. In consequence, there is logic in regarding housing as infrastructure*, not only because it is spatially fixed and embedded in land but because it is used with other infrastructures and services that shape wellbeing for people and

create effective places (as argued in MacLennan and Long, 2024). ***Housing policy outcomes are more effectively recognised when housing is regarded as household infrastructure.***

- Is the *focal spatial point of the geographically diverse daily/weekly time-space activity patterns* (Hagerstand, 1962) of multiple household members, so that the location of homes, and not just relative to workplaces, matters.
- Is fixed in place, and that means *choice of home inevitably implies choice of neighbourhood*. Dwelling characteristics are only a subset of the attributes of a home that are valuable to households. Building homes is always also building places.
- Is fixed in place because it *is comprised of multiple capital structures* of walls and ceilings and roofs and functional systems that provide heating, cooling, water supply and waste disposal; building that complex capital structure usually involves not just planning, designing and financing processes but multi-phased sequences of onsite production requiring multiple-trade skills and material assemblies. *Housing supply is an inherently slow system.*
- Is, in consequence of its durable nature, *a capital asset that households may trade and incur capital gains and losses*. Households have asset as well as consumption demands for housing; these demands may not always match.
- Is *a major source of multiple effects on not just the resident/owner but on immediate neighbours* (the visual effects of the built environment) or more widely dispersed populations (such as the effect of smog and acid rain effects far from dwellings using coal for heating). Housing is a major source of positive and negative spillovers, or what economists label externalities.

Variety, Location, Fixity, Complexity in Construction, Durability, Asset Choices, and Externalities are key features of housing that challenge the lump of 'need' or 'capital' and 'well-functioning market' notions used in housing policy. And it also highlights, as governments begin to talk of 'mission based' approaches to strategy, the absence of strong evidence on how the diverse attributes embedded in housing shape the housing outputs that play into major economic and environmental as well as social outcomes. Before turning to considering these wider effects in the Section IV it is important to also highlight the activity (verb) effects of housing.

Housing and economic policymakers have recognised some of the effects of housing activities, not least cases to boost housing production as a counter-cyclical (stabilisation) policy action. The long housing supply chains identified above involve investment, employment and income, and export effects for the economy with multiplier effects of housing investment typically estimated with values of 2 to 3. Housing also has to be sold, maintained, renovated, and improved, financed, leveraged, let, and sold. Although housing construction may typically involve 5-7% of employment, in fast growth localities and looking at the wider set of housing

activities, a fast growing metropolitan economy may involve 15-20% of the metropolitan economy (and this will differ markedly between, say Edinburgh and Dundee). House price changes may also, through pro-cyclical equity withdrawal, increase the amplitude of business cycles. These issues are discussed further below.

#### **IV. What Housing Does: An Economic Emphasis**

Housing, as explained above, is not only a 'complex good', with many attributes that affect different aspects of household comfort and wellbeing, but it is 'relational', in the sense that multiple influences interact with housing attributes to create good and bad housing 'service' outcomes for a household. In turn these housing outcomes for the household interact with other goods, services, and infrastructures to drive wider outcomes. A house of a given size and type will have different impacts on carbon emissions if it is well insulated and fitted with solar panels. The same house, made available and affordable to a less affluent household but in a mixed neighbourhood, may generate different social capital and mobility than if it comprised part of an all affluent suburb. And the same structure will have different implications for the growth of savings, incomes, and wealth of the occupant if it is owned rather than rented and if it is sited accessibly to areas rich in employment opportunities as opposed to being located distant from workplaces.

The David Hume Institute study does not discount these environmental and social aspects of housing outcomes. They are valued and 'merited' per se and are often unrecognised influences on the growth of human and social capitals. The early advocates for major housing actions in Scottish cities and towns after the 1860's were the Chief Medical Officers. They explicitly recognised not only the direct health effects of slum housing but that poor housing conditions eroded the capabilities of people to work, earn, and survive and fight effectively for their country! They made a direct link to health, housing, human capital, and economic outcomes. That linkage between housing outcomes, household capabilities and economic thriving is somewhat lost in the modern, justice-based argument for meeting merit good needs, though much evidence highlights housing-health outcomes. So 'invisibly' and more obviously housing, the noun, can impact economic performance.

In the siloed spending rounds of allocating public spending to different services and infrastructures, there has been a long view in finance/Treasury Ministries that housing has limited impacts on the economy, and indeed interventions will often not be needed as the housing market is 'a well-functioning system'. Both beliefs are misplaced and may now be changing. The limited impacts argument was never credible. Housing is the largest component of household spending. Housing is now both a critical asset for the majority of Scottish households and mortgages comprise the major debt of the majority of Scots.

## ***Stability***

Leaving aside all the complex effects of housing outcomes on household micro-behaviours then just the sheer scale of the housing sector in the economy should have merited the attention of policymakers. Mostly it has not, but a traditional interest has been, as noted earlier, in using housing investment to 'stabilise', through multiplier effects, aggregate demand in the economy. For instance, in periods of potential downturn in the 1990's Scottish Homes, with approval from the Scottish Office would devote a larger share of its budget to GRO-grants supporting market investments, at roughly a 25pc grant rate, and away from non-profit rehabilitation schemes with grant rates of 60-75pc, hence boosting 'output' from a given budget total. There is nothing innovative in these ideas, they merely need to be applied, and they relate to the macro-stability aspects of economic policy. They are long recognised, though the actual values of multipliers are likely to be quite limited in growing and inflationary economies.

## ***Income and Wealth***

A second core concern of economic policy is the distribution of income and wealth. In this aspect of debate, government has often lagged behind the key housing lobby groups and the focus has been on incomes rather than wealth. Higher housing costs reduce residual incomes (the incomes that households have available for consumption and savings after paying housing costs). Housing shortages have substantially exacerbated inequalities and have had, despite the social security system, the severest effects on low income renters. Interest rate strategies to contain inflation also substantially impact younger homeowners with larger mortgages (with limited mortgage rate fixes). These patterns are known but their effects on consumption and savings, and spending in local and metropolitan economies, that far outstrip the effects of 'community wealth building' initiatives, have received scant attention in Scottish policy research and debate. Even more important, since the 1960's housing wealth has grown steadily in scale in Scotland and, until recently, the growth of homeownership diminished overall wealth inequalities. Research on Scottish housing wealth patterns until 2018 by the Resolution Foundation (2019) describes and explains that pattern clearly and Soatia et al. (2019) examined the implications for economic and social and old age care. Yet changes in housing wealth patterns and their social and economic effects attract little attention in housing policymaking. This is a fundamental omission.

The presumption in housing policy is that growth in incomes and household numbers are what drives the housing market demands. It is becoming increasingly clear that wealth, predominantly already accrued housing wealth is driving the housing market, not least by transfers from parents and grandparents to young first time buyers. Rising inequality within the ownership sector is emerging and the children of renting parents and with multiple siblings have diminished prospects of easy entry into home ownership. At present, around two thirds of housing wealth in the UK is owned by retired households. Over the next 20 years that wealth

will flow into inheritances, unless it is absorbed by rising old age care costs, with significant impacts on the housing sector and the distribution of (mostly unearned) that wealth will reinforce inequalities. This represents a major opportunity for politics, that will have to be addressed at a UK level, to choose to treat the uses of accumulated wealth in very different ways from at present.

How a nation chooses to reward effort, entrepreneurship and innovation lies at the heart of creating a competitive and prospering economy. Ensuring more effective management of the housing market, working on both supply and demand sides of the system to minimise real house price changes, will contribute to a better balanced allocation of national savings and capital to the productive economy (producing tradable goods and services). Basing a national wealth growth on scarcity induced inflation in the price of existing assets, in this case bricks and mortar, creates and rewards a rentier economy rather than an economy based on effort, innovation and entrepreneurship. Where shortages prevail in a rentier economy, wealth growth means that those who own the scarce resource are the gainers and that those who do not are the losers. There is much protest in Edinburgh social life at the moment on the 'scalping' behaviour of touts selling tickets for Oasis concerts. But there is little recognition that successive cohorts of over 50's households have been giving the under 30's a housing 'haircut' for the last half century (after the Barber boom of 1972). Someday, to rebalance the Scottish housing system and economy, the role of housing wealth, and how it might be used and taxed, will need to be reassessed unless real house price inflation withers away.

This project flags these key issues. There is not yet real momentum in the Scottish, or UK, political economy to address the accumulation, uses and consequences of housing wealth. But home-ownership rates in Scotland are now falling for every age decile under fifty and more electoral wards and Parliamentary constituencies are moving towards electorates with a majority of renters rather than owner occupiers. Allied to the discontent of the 'left behind', sorted by the housing system into particular localities, the failure to address the roots of the 'troublesome trinity' will only exacerbate the current crises in the Scottish housing system. Housing wealth, and how it is accumulated, used, and is changing is a major and not minor concern for Scottish economic policy today and the decade ahead.

The next Parliament should seek to understand what housing wealth does. Scottish economic policy debate and research is almost entirely focussed on labour markets, with endless studies of skills and innovation behaviours. One can sit through a year of economic policy discussion in a city-region like Glasgow and see no signs of a coherent infrastructure strategy and search hard, without reward, for any informed debate or evidence on how the housing system ( a key integrative system for the economy) is impacting short or long term economic growth. Or, in Edinburgh's case, assessment of how accumulated housing shortages are diminishing growth and increasing inequality. Scottish politics, at all levels, needs, like King Edwards's army, to go home and think again.



Whilst the economic consequences of housing wealth effects seem to be, at best, unrecognised, or, at worst, ignored there now seems to be the beginnings of a shift in policy thinking that heralds an end of the conventional wisdom that housing is 'only a merit good'. In contrast to transport infrastructure, the conventional wisdom has been that housing investment has no major implications for productivity and growth.

In 2015, Danny Alexander MP, then the Chief Secretary for the UK Treasury, gave the Shelter Annual Lecture in Edinburgh and demonstrated impressive knowledge of housing policy. In the question period I asked if the housing investment expenditure cases made in spending reviews included the longer term benefits of better housing on health, education, and other outcomes as well as a range of other productivity effects. He agreed that there was evidence that housing impacted such outcomes but also intimated they were not 'measured' and reported by officials and consequently not included. Housing spending was, he noted, decided as a redistribution issue, confirming my personal experience of working in governments in Scotland, Australia, and Canada as a senior economic adviser.

Rachel Reeves has set growth effects from housing investment, accelerated by faster planning decisions, as central to raising the performance of the UK economy. As noted above caveats about faster planning driving augmented housing output need to be noted (MacLennan and Gibb, 2025). In addition, faster growth and productivity for the long term does not arise through simply building more homes (indeed given that the productivity of the construction industry lies below national industrial averages this could, in the short term, reduce productivity in the immediate years ahead).

Until now the Treasury has not articulated the long term productivity mechanisms arising from housing investment. They are difficult to identify (and so was the Higgs-Boson particle) and past (now widely discarded) econometric approaches to disaggregating the growth effects of national infrastructure investments cannot be appropriately applied to macroeconomic data. MacLennan and Long (2024) identify a number of causality chains running from housing attribute outcomes (including prices) to different kinds of capital (human, business, social) that impact growth. They report research micro-studies that demonstrate some significant effects but in their global literature review identified only one piece of rigorous economic research for Scotland, sponsored not by the Government but by Shelter. Boyle et al (2024) highlight how rising homelessness (that increasingly includes people in or recently in employment) reduces labour productivity.

There is a strong likelihood that the distorting effects on effective labour market matching mechanisms that pushing younger owner occupiers to the edge of metropolitan labour markets, with consequent, significant reductions in productivity, estimated by MacLennan et al (2021) for Sydney arise in the labour markets around Edinburgh and, possibly, Glasgow. And maybe all these skills, budgets and studies in Scotland are, in part, required because the evidence from elsewhere in the world applies here too. Namely, that poor quality, overcrowded, temporary housing in poverty dominated neighbourhoods, that housing

diminishes human capital formation, and its use, from when children are born until they are transitioning to work or further education in their teens.

There is not one coherent, credible quantitative study of how better housing improves human capital formation in Scotland. Disappointingly the much vaunted ESRC funded Productivity Institute, although having sponsored impressive research on the construction sector, has shown no interest in the question of how housing attributes subsequently impact productivity. Nor has the Scottish government. The 2018 review of infrastructure in the economy does note that housing is part of their wider definition of infrastructure, and they do review literature on growth effects of infrastructure but none of which looks at housing effects.

We all want Scotland to flourish.

For most Scots that involves growth in the economic and material capabilities to pursue individual and collective wellbeing (albeit to different extents and through different routes). But in most policy framings of the route to prosperity and wellbeing there is little attention to what role the large housing system with its complex outcomes plays. Economic policy thinking in Scotland appropriately considers skills and innovation processes and outcomes, makes less than impressive efforts to explore the economics of infrastructure missions and fails to see housing as a sector of economic interest. This seems somewhat odd given the dominant role it plays in how we spend and save and the reality that house price changes now frequently shift the distribution of wealth, across and within generations, more than the application of our skills and innovations. It is time for Scotland to seriously review what housing does for the economy

### ***Last Words, For Now.***

The title of this paper highlighted the discussion about housing that we need to have in Scotland. Merit good provision by an altruistic nation now supports low income housing traditionally supplied by paternalism and charity. Altruism like charity may begin at home. However, there is a case to consider that many aspects of productivity, like charity, also begin at home. The quality and comfort of home, its accessibility to where we work, learn and play, and how it absorbs our incomes, and shapes our asset choices all appear to influence economic productivity and growth. The work of the project is trying to draw together how a better understood and governed Scottish housing system could facilitate better housing outcomes that will shape fairer and faster growth for Scotland.

Individuals and organisations with evidence that they would like to contribute to this review should send it to: [duncan.maclennan@glasgow.ac.uk](mailto:duncan.maclennan@glasgow.ac.uk)

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