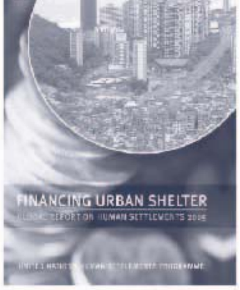

Embargoed until 12 Sept. 2005

GRHS/05/F11

AFFORDING SHELTER IN THE FACE OF INCOME INEQUALITIES

Despite the impressive economic growth of the past few years, the enduring problem of massive poverty in the developing countries remains the top priority problem facing the world today. With approximately 64% of the populations in Africa and South Asia living below the US$2 a day threshold for the period of 1990-2002, it's not surprising that basic human services and shelter seem to be unobtainable to a large segment of the population.

Inequality has become increasingly recognized not just as a problem to be addressed in its own right, but also because of its substantial impacts upon economic growth, poverty reduction and productive investment strategies for the development of human capital. Studies over the past decade have demonstrated the high correlation between inequality and poor performance in other aspects of development.

While some forms of inequality have been attributed to differences in the level of education between people, and yet others associated with higher returns to capital in sectors favoured by the global economy, there are also many other forms of inequality that can be attributed to the policies of national and local governments in urban areas. The incidence of poverty at the national level is highly correlated with low levels of education and poor health status, lack of access to basic infrastructure services, sanitation and electricity. This vicious circle of poverty is also intergenerational, with families caught in a poverty trap in which income-earning opportunities are frequently tied to educational attainment, location or access to credit.

Of course, the most direct and important factor contributing to urban poverty is the shortage of well-paid employment in cities. The challenge here is both the creation of jobs and the level of wages. The generation of employment depends generally upon saving and investment within the macro-economy and local economies, as well. While many argue that improving education in cities will be sufficient to help young people find jobs, this argument is not always true, especially in the short to medium term because there are growing levels of urban unemployment in cities despite increasing investments in education.

With growing global pressures towards profits in manufacturing and service industries, there has also been little incentive for medium- and large-scale enterprises to pay 'living wages' to those lucky people who do find jobs. If cheaper labour is available elsewhere, investors urge the managers of these enterprises to move to sites with lower labour costs. This pattern is found in both developing and developed countries where the so-called 'fast food jobs' pay notoriously low wages. With increasing supplies of labour in local markets, it's not surprising that wage rates are very low.

Unless urban areas can produce more income at the same rate that they absorb more people, per capita incomes will fall and urban poverty will deepen. Thus, employment and income are central to the financing of urban development. It's, therefore, vital that employment and economic opportunities are available for as many people as possible in the cities. Improved income allows people to better afford services and to achieve more choice in their housing.

The issue of savings is particularly important when considering how to finance urban infrastructure and housing. Both infrastructure and housing are expected to have a long life, at least 50 years in the case of infrastructure; but they require large upfront investments in the expectation that they will provide a long stream of benefits well into the future. Saving is the foundation of investment. Without some surplus, investment in these future benefits is impossible. Therefore, patterns of income generation are critical factors in determining whether households will be able to invest at all in their future.

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LEVELS OF HOME OWNERSHIP IN FOUR OECD COUNTRIES

Country	1990	2003	Change
Australia	72	70	–2
Canada	63	65.2	+2.2
Japan	61	62	+1
US	63.95	68.25	+4.3

Source: IMF, 2004, p73.

RESIDENTIAL DEBT AS A PERCENTAGE OF GDP

Argentina[i]	4.0	2002
Austria	26.4	2003
Belgium	28.5	2003
Bolivia[ii]	8.5	2004
Brazil[i]	2.0	2002
Chile[i]	12.0	2002
Colombia[i]	7.0	2002
Czech Republic	4.5	2003
Denmark	87.5	2003
Estonia	5.0	2001
Finland	35.6	2003
France	24.7	2003
Germany	54.3	2003
Greece	17.4	2003
Hong Kong[iv]	31.0	1998
Hungary	7.8	2003
Ireland	45.0	2003
Italy	13.3	2003
Latvia	8.3	2003
Luxembourg	33.4	2003
Mexico[i]	4.0	2002
Panama[ii]	24.4	2004
Peru[i]	2.0	2002
Poland	4.7	2003
Portugal	50.6	2003
Slovenia	3.0	2001
Slovakia	3.0	2001
South Korea[iii]	13.4	2001
Spain	42.1	2003
Sweden	50.0	2003
UK	70.4	2003
US	71.0	2003
Uruguay	7.0	2004

Notes: i Forero, 2004, p32.
ii Rojas, 2004; this is mortgage lending, not residential debt.
iii Mortgage debt to gross national product (GNP); Lee, 2003, p24.
iv Lamoreaux, 1998, p51.
Data for Austria and the Czech Republic includes non-residential mortgage loans and Portugal includes loans to individuals for housing purchase only.

Source: Yasui, 2002b, p18; European Mortgage Federation, 2004, p7.

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