

## **Positive development in challenged housing areas saves society billions.**

By Frans Clemmesen, chief economist, Federation of Social Housing in Denmark

### **Summary**

*During the last 5 years there have been very positive developments among youth in the most challenged social housing areas, i.e. the 33 social housing areas on the Danish government's list of particularly challenged social housing areas.*

*According to figures from the Danish Ministry of Justice, youth crime (young people aged 10-17) has been nearly halved and many criminal "careers" have been replaced by enrolment in school.*

*At the same time, new figures from The Economic Council of Labour Movement show that the share of young people aged 16-25 who have not taken or begun an education beyond compulsory schooling has decreased over the past five years from 38 to 28 pct. This means that nearly 1,000 more young people in the 33 challenged housing areas have begun or completed an education beyond compulsory schooling in 2013 compared to 2008.*

*This development is positive for the young people themselves. Furthermore, it will save the Danish state billions in social costs and public spending. The latest figures from the "SKANDIA-model" show that society saves DKK 15 million per young person who moves from a "career" on the periphery of society to establishing permanent labour market ties.*

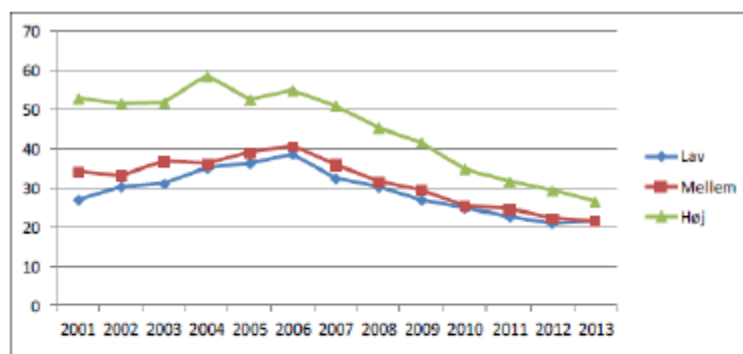
*Assuming this change for one-third of the nearly 1,000 extra young people who began an education in the challenged housing areas, society will save DKK 4.5 billion over each person's lifetime. "Public costs" as a term for social housing and the activities carried out by Danish social housing organisation could thus not be more wrong – the public spending on social housing is a public investment in future welfare.*

### **Introduction**

A key purpose of the comprehensive physical and social housing plans in Denmark's most challenged social housing areas is to reduce the impact of social inheritance, whereby children of (the many) parents living on public benefits themselves end up on public benefits. Physical renovation plans can contribute to friendlier and more secure neighbourhoods that attract more resourceful families to the housing area. This results in a broader social mix of tenants living in the housing area itself – but it also positively affects the mix in the local day care institutions and schools, which in turn benefits the most socially challenged children. Similarly, many of the social housing initiatives are targeted to the most socially challenged families and their children. Examples of these are neighbourhood mothers who assist families with young children, homework cafes from grade 1 through upper secondary school, introduction to local associations, clubs, pocket money jobs for 12 to 13-year-olds, spare time jobs in the private sector for older students, mentoring programmes and economic counselling that helps prevent evictions. The housing organisations carry out these and many other initiatives in close cooperation with the municipalities, volunteer organisations, local businesses, police, sports clubs, etc. They provide children and young people with a sensible alternative as well as a much needed structure in their daily lives. This creates security in the housing area while improving the children's and young people's chance of education. A new analysis by BL – the Federation of Social Housing in Denmark, conducted in cooperation with the Economic Council of the Labour Movement, indicates that the positive results of these initiatives are starting to show.

### **Fewer young offenders and more enrolled in education**

The figure below shows that child and youth crime in large urban areas has dropped by nearly half since 2006 and is quickly approaching the crime rate in more sparsely populated rural area.



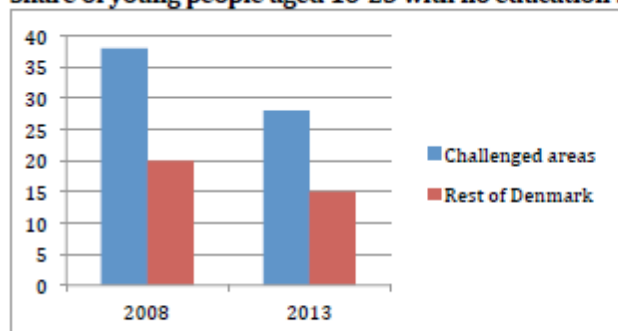
Source: "Development in child and youth crime". The Danish Ministry of Justice research office, March 2014.

As the most challenged social housing areas are located in and around large cities, there are strong indications that the social housing initiatives – in cooperation with the police, schools and social workers - have succeeded in breaking the chain from potentially criminal big brothers to their little brothers..

The positive development among young people is also evident in their tendency to enrol for education, which is an essential condition for escaping negative social inheritance. The positive developments in the social housing area also include the most challenged group, who are the young people in the most challenged housing areas (the before mentioned 33 social housing areas that are on the Governments' list).

The graph below shows the share of 16- to 25-year-olds who currently have NOT begun education beyond the level of compulsory schooling. The figures are shown both for the young people who live in the most challenged areas and for the rest of young people in Denmark.

#### Share of young people aged 16-25 with no education beyond compulsory schooling



Source: The Economic Council of the Labour Movement

As shown, there has been a significant improvement since 2008 in the educational situation of young people aged 16-25 in the 33 most challenged housing areas. Thus, the proportion of young people with no education beyond compulsory schooling not currently enrolled in

education (youth education programme or higher education programme) decreased from 38 pct. in 2008 to 28 pct. in 2013. This is a significant drop in just five years.

The development in education for tenants in the most challenged housing areas is particularly noteworthy because these areas have a high over-representation of young people with a non-Danish ethnic background. While the 33 most challenged housing areas have twice as many 16-25 year olds with a non-Danish ethnic background (6,100), outside of these areas there are 11 times as many young ethnic Danes as young Danes with a non-Danish ethnic background.

**Table 1. Youth aged 16-25, by ethnic background**

	Danish ethnic background	Non-Danish ethnic background
33 most challenged areas	3,100	6,100
Other housing	605,300	56,500

Source: The Economic Council of the Labour Movement.

The significant improvement in education in the most challenged housing areas over the past five years reflect not only the very positive developments among young Danes with a non-Danish ethnic background, but also the results of the significant drop in youth crime over this same period of time. What is evident is also the fact that social housing organisation in Denmark have a unique ability and platform to bring local resources together, which in return ensures direct targeting of effort and thus impact.

#### **Economic benefits of increased education**

According to new calculations using the SKANDIA model (see Table 2), there is long-term societal benefit of DKK 15 mill. for every young person that moves from a life on the periphery of society to a more normal life.

**Table 2. Socio-economic impact of marginalised citizens (DKKm)**

	Marginalised	Normal population (same number)	Difference
Wages	3.3	15.2	-11.9
Placements	-1.0	0.0	1.0
Hospitalisation	-0.9	-0.4	0.5
Medical consultations	-1.5	-0.3	1.2
Crime	-0.2	-0.1	0.1
<b>Total, per marginalised citizen</b>	<b>-0.3</b>	<b>14.4</b>	<b>14.7</b>

Source: "Udenforskabets pris" ("The price of marginalisation"). Skandia, September 2014.

The SKANDIA model, developed by Skandia in collaboration with CEBR (the Centre for Economic and Business Research at Copenhagen Business School), calculates all relevant income and expenditures that are the consequence of a young person ending up as an integrated part of the labour market and society, or a life on the periphery of society, i.e. a life marked by long-term unemployment, substance abuse or serious psychiatric disorders. The DKK 15 mill. per person, corresponding to DKK 72 billion per birth cohort, is calculated as shown in table 2. The main cost associated with marginalised citizens is that wages and thus the tax base are significantly lower than for the "normal population", as marginalised citizens typically end up on the periphery or completely outside of the labour market.

Public finances are also significantly burdened by these marginalised citizens. As shown in table 3, each cohort that ends up marginalised costs the public sector more than DKK 50 billion during a lifetime. This figure comprises DKK 16 billion in lost tax revenues, DKK 22 billion in increased public benefit payments and DKK 14 billion in increased expenses relating to health, criminality, etc.

**Table 3. Impact on public finances of each cohort of marginalised citizens (DKK billions)**

	Marginalised	Normal population (same number)	Difference
Tax revenue	13.5	29.4	-15.9
Public benefits	-33.5	-11.5	-22.0
Placements	-5.0	0.0	-5.0
Hospitalisation	-4.5	-2.2	-2.3
Medical consultations	-7.2	-1.2	-6.0
Crime	-1.1	-0.6	-0.5
<b>Total</b>	<b>-37.8</b>	<b>13.9</b>	<b>-51.7</b>

Source: "Udenforskabets pris" ("The price of marginalisation"). Skandia, September 2014.

The "recruitment" of people who end up marginalised is primarily from the group of young people without an education. There is no doubt that young people residing in the 33 challenged housing areas without education largely belong to the group of young people at risk of ending up marginalised.

New figures from the Economic Council of the Labour Movement show that nearly half of all poor children in Denmark live in social housing areas. This represents a significant increase compared to 10 years earlier where "only" one-fourth of Denmark's poor children lived in social housing.

**Table 4. Proportion of poor children, by housing type**

	2002	2012
Social housing	25.7 pct.	44.0 pct.
Other housing	74.3 pct.	56.0 pct.

Source: The Economic Council of the Labour Movement

The decline of people without education in the most challenged housing areas between 2008 and 2013 has been 10 pct. of the 9,200 young people between 16 and 25 years that lives in the most challenged housing area. That means that 920 more young people have either completed or are enrolled in an educational programme beyond compulsory schooling in 2013 compared to 2008.

Assuming that one-third of these persons move from a life of marginalisation to a life of permanent employment, the socio-economic benefit of the positive educational developments in the 33 most challenged housing areas totals DKK 4.5 billion. Thus, investments in the challenged housing areas can prove to be an exceptionally good investment for society as a whole.

**Table 5. Benefits of the developments in the G areas, by success rate (DKK billions)**

Reduction in marginalisation per young person in education	Benefits to society	Benefits to public finances
100 pct.	13.5	9.5
50 pct.	6.8	4.8
<b>33 pct.</b>	<b>4.5</b>	<b>3.1</b>
25 pct.	3.4	2.4
10 pct.	1.4	1.0

Source: The SKANDIA model and own calculations