

## The hollow promise of construction-led jobs and growth

Written by The Conversation

---

[Any downturn in the construction industry](#) could trigger job losses to a range of sectors that support the building industry, such as planning, project management, real estate and property services. This threat reveals the risk of relying on building and construction to sustain the economy.

Since before the global financial crisis, urban [economies across the world have relied increasingly](#) on the construction of housing, especially high rise urban apartments, to maintain economic activity.

Construction has boomed in Australia, especially in Melbourne and Sydney. Migration from overseas and interstate, as well as international student numbers, have so far maintained sufficient demand for city apartments and suburban houses to [keep the building boom going](#).

[Nationally the number of jobs](#) in construction has increased from 927,000 in May 2007 to 1,110,400 in May 2017, an increase of 183,400 jobs. Even now, the federal government expects that construction employment will [increase by 10.9% in the five years to 2022](#).

But this view is at odds with new data. A [recent report by advisory firm BIS Oxford](#) predicts that new dwellings construction will fall by 31%, from 230,000 to 160,000 dwellings in Australia, in the next three years. This prediction foreshadows a dramatic decline in construction employment.

## The other jobs construction creates

Construction activity creates employment across the economy. There are jobs in industries that provide input building materials – such as local quarries and forests, sawmills, concrete products manufacturers, steel makers and glass, plastic and metal products manufacturers. There are also jobs created for people working in import firms bringing in materials that might not be made locally, as well as for people who work to store materials and transport them from ports and factories to building sites. Construction generates jobs for people involved in the design and planning of buildings, also those involved in the financing and contracting of construction projects.

## The hollow promise of construction-led jobs and growth

Written by The Conversation

---

Once the buildings exist, construction creates more jobs in marketing the properties, building inspections, buyers agents, mortgage brokers, real estate agents and the like. After the sale, more jobs are sustained in interior designer, selling furnishings and fittings and appliances, and providing internet connections and utilities.

The wages earned and taxes paid by these workers then create jobs in other services industries. This includes everything from dentists and personal trainers to bank tellers and public servants. New populations create new demand for supermarkets and schools and hospitals that employ more people.

## The secondary circuit of capital

Following the ideas of French urban theorist Henri Lefebvre, [geographer David Harvey](#) famously explained a process called the “second circuit of capital” where building replaces manufacturing as the driver of growth. This secondary circuit soaks up the excess capital sloshing around the world that can’t be invested profitably in the primary circuit of (manufacturing) production. Buildings are built for the purpose of generating [profits for developers and investors](#)

In places like Melbourne, the secondary circuit has created so many jobs in construction and related industries, that these have become the key drivers of growth. All these jobs are at risk when construction activity stalls.

[David Harvey’s crucial insight](#) was that once economies rely on construction to drive employment, then the entire economy becomes like a giant Ponzi scheme. The only way that employment in a host city can be maintained is to keep building more buildings.

Harvey argues the principle purpose of building is to generate profit, which means that the building will stop if there are insufficient numbers of buyers, or insufficient buyers willing to pay a price that will generate profit.

If the developers can elect to build elsewhere, in places where returns are higher, the local construction-led system can collapse like a house of cards. The resulting crisis would not be

## The hollow promise of construction-led jobs and growth

Written by The Conversation

---

confined to the construction sector but would resonate through all the activities contributing to building or benefiting from the taxes and charges generated by building.

That pretty much means everybody. Once the cards fall over, not only do employment opportunities decline, but so do property values, as prices [adjust to the new reality](#) .

[Some economists recommend](#) creating new infrastructure projects to provide work, to keep the construction sector and material suppliers in business. But they rarely consider the second order effects as the downturn in construction filters through the economy. Most economists would argue that dealing with these secondary effects is best left to market forces.

This means that as the downturn filters through the economy, jobs will be lost quietly across a range of sectors. The sectors most obviously vulnerable in the event of a downturn in residential building activity will be those that rely on discretionary building-related spending – such as furniture and effects retailing, wholesaling and manufacturing. The impacts on affected households will be no less devastating than for direct building jobs.

*Sally Weller has in the past received funding from the Australian Research Council, Victoria and Commonwealth governments.*

**Read more** <http://theconversation.com/the-hollow-promise-of-construction-led-jobs-and-growth-82317>