EVERYBODY'S HOME

Housing solutions for all Australians

ADDRESS BY PROF JULIAN DISNEY AO AT THE LAUNCH OF THE "EVERYBODYS HOME" CAMPAIGN

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INTRODUCTION

Lack of affordable housing strikes at the heart of our lives, our communities and Australia's future prosperity. It impoverishes people, erodes families, destroys jobs, weakens the economy and aggravates inequality.

The last 20 years or so has seen a housing boom for many people, especially those who were already relatively wealthy. But these windfall gains have come at a heavy price for many less fortunate Australians and for future generations.

The victims include the many hundreds of thousands of households in unaffordable housing. Many of them are surviving only by incurring unmanageable levels of debt, working excessive hours or cutting other costs at the expense of their health and opportunities in life.

There are also the "hidden victims", perhaps at least as many hundreds of thousands, who have only found affordable housing by living long distances from the urban centres in which most work opportunities and community services are located, or have not been able to find any home at all.

HOW DID WE GET HERE?

Why are our housing costs so high and why have they increased so much in recent decades? Let's begin with economic policy.

Increasing globalisation required greater responsiveness to international competition. But our governments have been too influenced by dogmatic obsessions with cutting taxation, government expenditure and government debt. By comparison with other developed countries Australia is already low in each of these respects.

Instead, there should have been much greater concern and action about problems that are more serious than in many developed countries, such as exceptionally high housing costs and household debt, low institutional investment in rental housing, and poor public transport infrastructure.

Financial deregulation has been beneficial in some ways – for example, it strengthened competition to cut mortgage interest rates. But eventually, too easy access to mortgage loans inflated house prices (especially through negative gearing) and led many people into dangerous levels of debt. The problem has been drastically aggravated in recent years by exceptionally and unsustainably low interest rates.

Tax policy has also damaged housing affordability. A generally desirable tax on capital gains was introduced in the 1980s but owner-occupied housing was fully exempted. This inducement to pay more for housing reinforced a pre-existing full exemption from land tax and abolition of estate duties, and an exemption from the new means test on age pensions. An attempt to forestall excessive negative gearing was abandoned for thoroughly unsound reasons.

A decade later, the general rate of capital gains tax was halved, helping to trigger a frenzy of negatively geared property investment. House prices soared as investors chasing distorted tax breaks outbid people just wanting to buy a home. The situation was aggravated by counter-productive grants to first homebuyers.

Instead of improving access to home ownership, these tax changes delivered large benefits to people who were already owners (especially the most wealthy) while helping to inflate prices far beyond the reach of many would-be owners. The perverse but predictable outcome has been a substantial decline in home ownership.

Major changes in our workforce and labour market are also very relevant. They include the much greater involvement of women in paid work, a much higher proportion of jobs being part-time or casual, and much more frequent movement between jobs (whether voluntary or otherwise).

These changes brought benefits for many people. But they also fuelled competitive bidding-up of house prices, especially close to strong work opportunities and good quality child care. Proximity to work and transport hubs is especially prized when both parents are working away from home. Major increases in the proportion of part-time or casual jobs, often outside normal working hours, has had a similar impact. So has the shift towards high-paid jobs being in or near the CBD.

Housing outcomes have suffered greatly from government failure to invest wisely and adequately in long-term infrastructure. Public housing has fallen by almost one-third relative to total population, without commensurate support for growth in other forms of housing for lower-income households.

Australia's relatively unusual patterns of urban development are also important in this context. Our most populous cities cover much larger areas than most overseas cities with similar population. Inadequate infrastructure investment in rapid and affordable transport options has gravely disadvantaged the rapidly growing number of people who can only find affordable housing by living far from work and services.

By comparison with many other developed countries, a very low proportion of our population lives in medium-sized cities (that is, with half-a-million to a million people). Housing costs are especially vulnerable to upward pressures if there are few attractive alternatives to the large cities. Yet government investment in regional city development, especially for transport and communications, has been grossly inadequate and often ill-directed.

Immigration numbers and local planning systems are obviously very relevant in this context. Perhaps we can discuss them in question time.

WHY DOES IT MATTER?

Kate will no doubt summarise many of the most direct and personal reasons why housing costs matter, including severe financial hardship for the most vulnerable people. So I will focus on some systemic and indirect impacts which are often not adequately recognised.

Inflated housing costs divert too much of our national savings and investment away from strengthening genuine economic development, especially away from industries that can provide long-term jobs and improve our trade balance with the rest of the world. Other areas of economy activity are too often held hostage by prioritising high house prices to bolster perceptions of economic strength and growth.

The explosion of negative gearing has helped drive Australia's overall household debt to the top of the world ladder (20% higher than our entire GDP). As well as increasing very many households' own vulnerability, this level of indebtedness (about double what it was 20 years ago and double the OECD average) has made Australia dangerously vulnerable to global economic downturns or a loss of interest by international investors.

High housing and travel costs also damage our economy by increasing the pressures for wage rises, thereby threatening our productivity and international competitiveness. Our biggest cities have become both larger in area and more congested with traffic than is economically (or socially) efficient. Essential services in inner urban areas find it harder to attract and retain workers like police, nurses and teachers who cannot afford to live nearby.

A major advantage of being able to buy a home has traditionally been the degree of financial security it can provide in retirement. Mortgage-free homeowners are much more likely than renters to be able to survive reasonably well on a pension or other limited income in their later years. They will also tend to be less at risk of having to move house prematurely.

But house price inflation has hugely reduced the number of young people who can look forward to this kind of retirement security. If they do manage to buy a house, they will be much less likely than earlier generations to be able to pay off their mortgage before retirement. Long-term rental may provide a desirable flexibility for some people, but for many others it means perpetual insecurity and vulnerability.

Inflated housing costs have greatly increased the need for both parents in a household to work lengthy hours away from home. This commonly causes damaging

stress in their relationships with each other and with their children. For sole parents, the stress can be even worse and the impacts on their children even greater.

Concern is also growing about adverse health impacts of high housing costs and poor urban development. They include greater risks of obesity or other medical problems from sitting in a car, bus or train for very long periods each day. Similar risks arise when families with young children can only afford housing in small high-rise apartments or in houses which have no backyards or adequate recreational areas nearby.

Once of the worst impacts of inflated housing costs is growth in inherited inequality. It is increasingly difficult and often impossible for younger generations to buy a home without very substantial assistance from their parents or other relatives.

The geographic dimension of inequality is also becoming worse. Deeper and sharper divides are developing between the wealthier and poorer areas of major cities.

Neighbourhoods are less likely to be as economically diverse and as a result their schools and community activities can become less effective at promoting interaction, understanding and transitions across sectors of society.

These forms of growing inequality are already causing hardship to many lower-income Australians and will affect a much larger number in future. In turn, they are weakening the relative degree of social cohesion and tolerance which has been a hallmark of the Australian community and is becoming even more important as our racial and cultural diversity increases.

WHAT SHOULD BE DONE?

Kate will be speaking about the package of reform being called for by the Everybody's Home campaign. So I shall just briefly mention three key directions for reform that I think are especially important.

The most important improvement that can be achieved relatively early is boosting the supply of affordable and accessible rental housing for lower-income people, especially those who would otherwise be homeless. This is a special focus of the Everybody's Home campaign. Major government support is needed to regenerate efficient public housing, greatly expand non-profit housing, and incentivise large-scale investment in affordable housing by financial institutions such as superannuation funds.

The second key direction is tax reform to reduce house price inflation and household debt – not by drastic action but by moderate changes with long-term effect. The best options are reducing the 50% tax discount for capital gains, the excessive tax deductibility for negative-gearing, and/or the exemptions from land tax and capital gains enjoyed by high-end home-owners. Whichever option is adopted should include removing stamp duty on modestly priced housing.

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The third key direction for action is a sustained boost in infrastructure investment to improve public transport and strengthen regional development. A key aim should be to take some of the pressure of our major cities by helping regional cities or urban clusters to achieve the economic and social diversity of a medium-sized city. For several decades at least, our national tax and infrastructure policies have been distorting development towards the opposite outcome.

Governments need to take the lead with urgent and sustained action to improve housing affordability. Failure to do so will aggravate personal hardship and family stress. It will weaken the economic and social strength of local communities and the nation as a whole. It will severely damage our economic development and competitiveness. And it will leave a deplorable legacy to future generations.