

# LAND AND HOUSING PRICES AND LAND-USE PLANNING AND HOUSING SYSTEMS IN AUSTRALIA AND ELSEWHERE AND THE IMPACT OF GLOBALISATION, THE INTERNET, TRENDS IN NATURAL INCREASE, HOUSEHOLDS AND IMMIGRATION

SUBMISSION TO THE PRODUCTIVITY COMMISSION'S INQUIRY ON FIRST HOME OWNERSHIP

By

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## OVERVIEW

SPA is interested in housing affordability because population growth and ecology are affected by variations in land-use planning and housing systems.

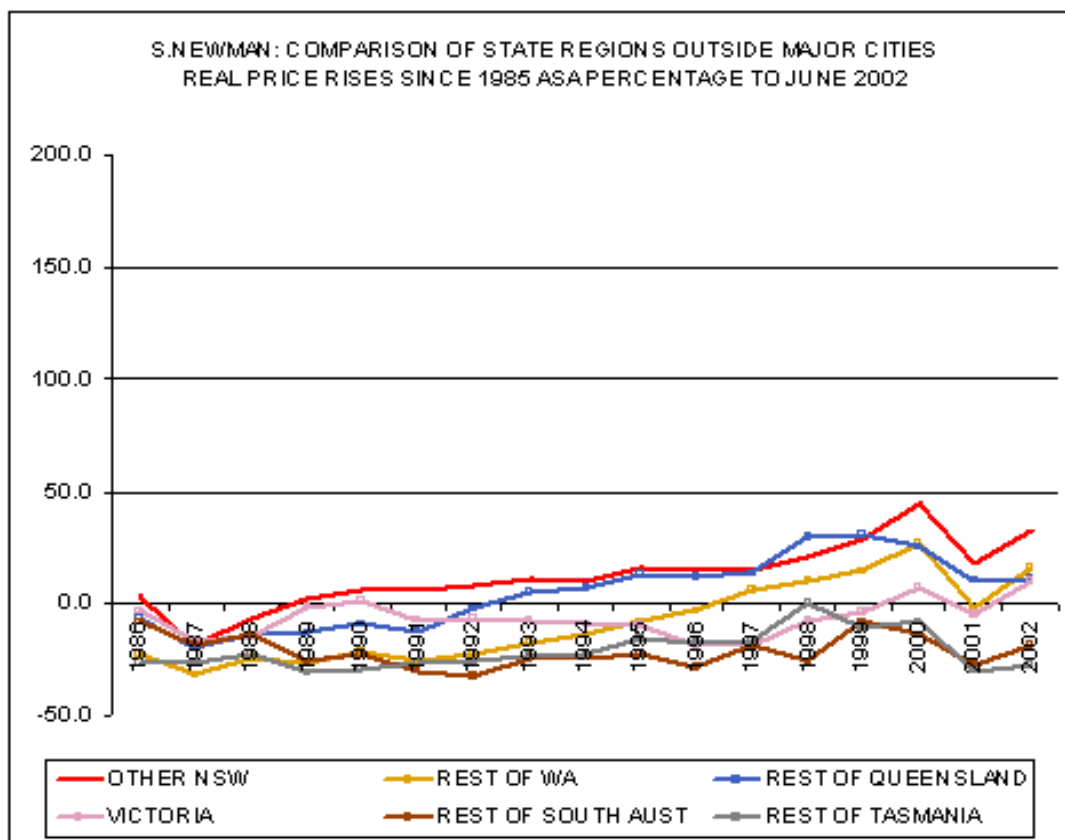
The oil shock of 1973 was a major turning point where the demographic policies and trends of Continental EEC states diverged from those of Australia and other English speaking settler States, notably on immigration.

In Australia a strong, organised growth lobby has over-ridden desires for population stabilisation and possibly decline.<sup>1</sup> A major force for growth lies in the speculative property development and housing industries. The specific qualities of the Australian land development planning and housing system facilitate land speculation. Speculative opportunity and profits have been increased by population growth and, with decreasing fertility rates, the industries concerned rely increasingly on high immigration rates. In France and similar west European countries with different systems, to the contrary, the land development planning and housing industries have no similar dependency on immigration and, since the oil shock, have adapted to a declining population growth rate.

Speculative benefits from population growth/immigration are illustrated by demonstrating a relationship between ratcheting property price inflation in high overseas immigration cities in Australia and the near absence of this inflation in low growth areas.

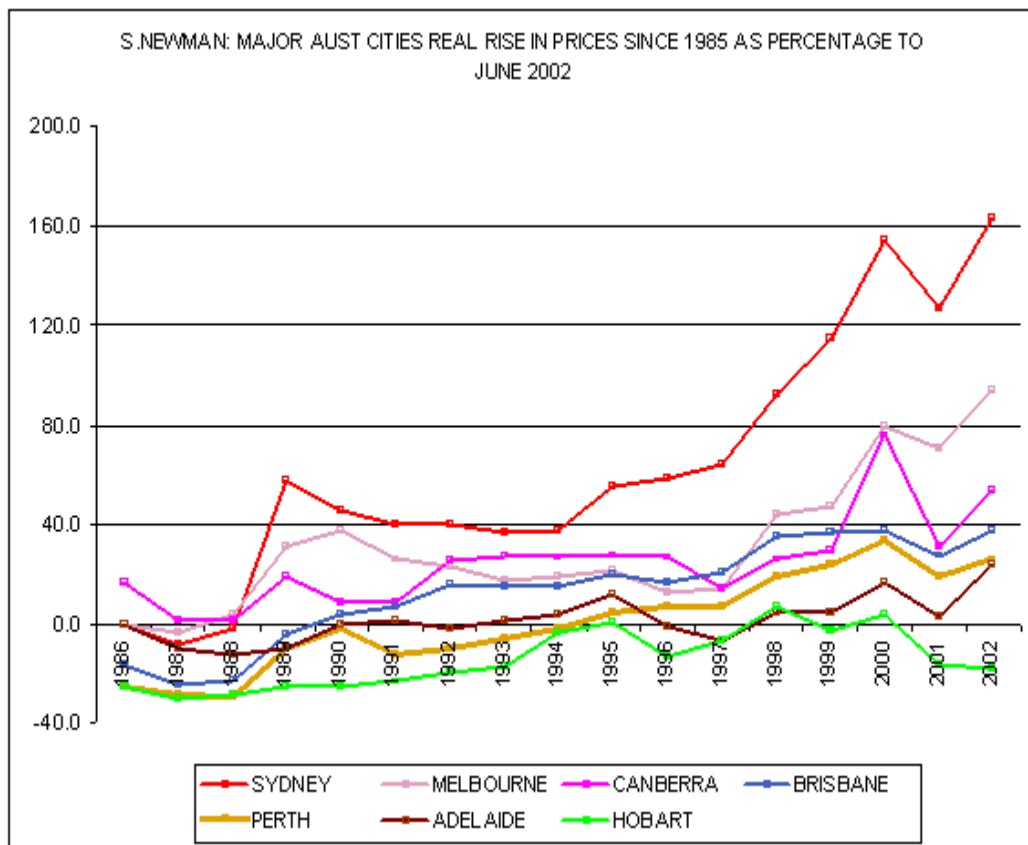
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<sup>1</sup> See S. Newman, *The Growth Lobby and its Absence*, 2000, [www.alphalink.com.au/~smnaesp/populationspeculation.htm](http://www.alphalink.com.au/~smnaesp/populationspeculation.htm), Chapter Seven.



**Fig.1. Australia: Real Price Increases in State Regions outside Major Cities 1986-2002.**

Source: HIA/CBA figures. In these areas there is little in-migration, but this has recently been changing.



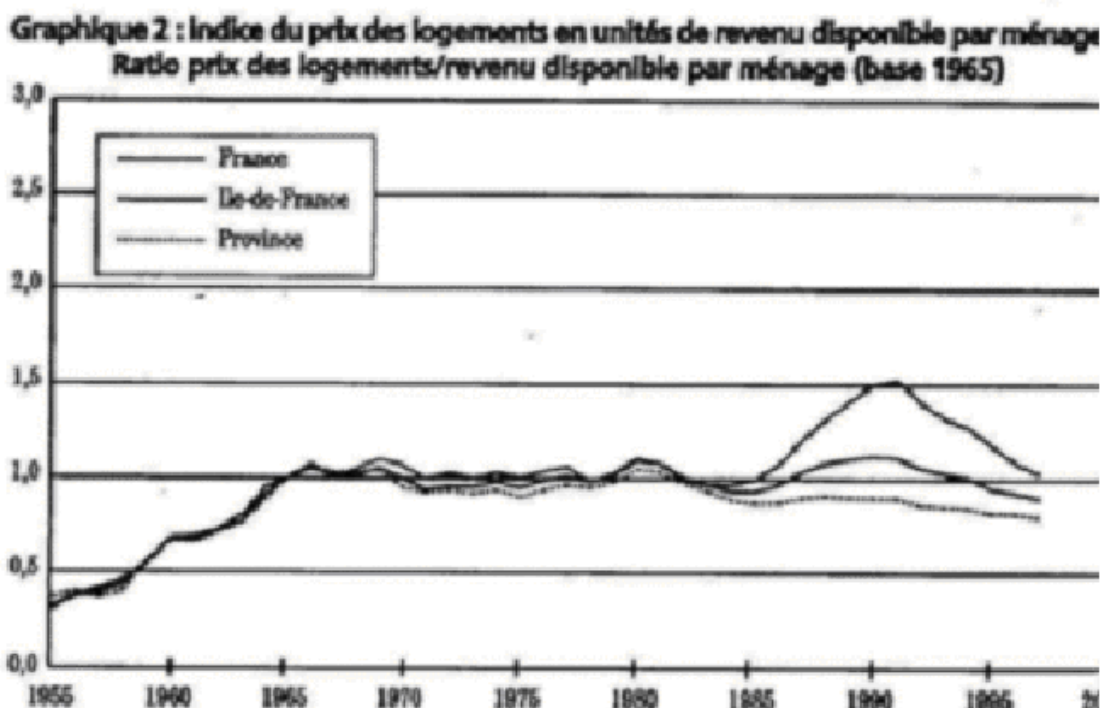
**Fig 2. Australia: Real rise in prices as a percentage in the major cities, 1986-2002.**

Source: HIA/CBA figures. In general the greatest inflation occurs in the cities with the highest population growth or turnover. In Australia this coincides with high overseas migration.

France is the main country of comparison. In contrast this ratcheting effect was absent in France and French cities after 1965 or so.<sup>2</sup> Population growth and immigration have had little influence on the property market since then and the property development industries have had no effect on them. Since World War Two, France had no property bubble until it was affected by the international one from 1987 to 1996. Prices came down to normal at the end of this bubble.

<sup>2</sup> This was a time of acute post war housing shortage, which, as the graph shows, resolved. This is mentioned further on in this submission.





**Fig. 3. France: Index of price of dwelling in ratio to disposable Income, using 1965 francs, 1956-2000. Source: *Marché immobilier des notaires***

This graph was photocopied in black and white so the colour distinctions have disappeared. The top line, indicating higher prices, is always for Paris. The second line is for other French urban centres, and the lowest line, "Province" is for Other Areas, including non-urban.

The graph shows the ratio of disposable income to domestic property prices per square meter from 1979 to the year 2000. The steep climb between 1955 and 1965 was due to post-war scarcity of housing and to a one off immigration intake of nearly one million in 1962. Affordability was highest in 1981. Between 1987 and 1996, however, France, mainly Paris, was affected by the same period of global property speculation that affected Australia. This was the first time France had undergone such a phenomenon. In contrast to Australia, however, the prices returned to the level preceding the speculation bubble<sup>3</sup> and real-estate agency employees reduced from 25,000 persons in 1990 to 12,000 in 1996.<sup>4</sup>

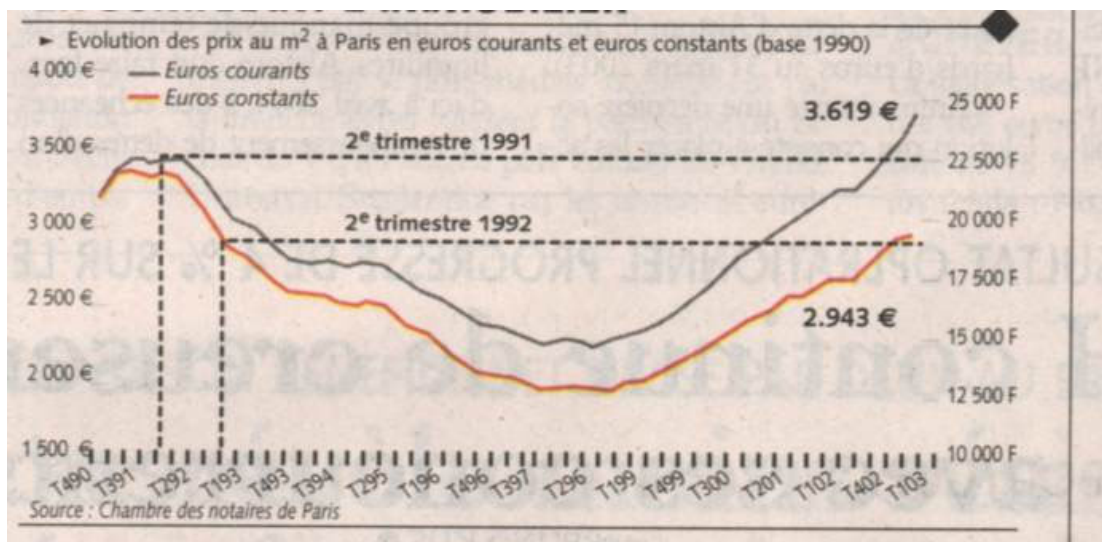
Source: *L'Observateur de l'Immobilier*, No. 43, Paris, 1999. The original data source is "Marché immobilier des notaires" (Notaries' property market) and INSEE *Annuaire statistique de la France*, ed. 2001

<sup>3</sup> Jean-Jacques Granelle, "Où en est la promotion immobilière privée?", *Etudes Foncières*, L'Association des études foncières, 7 avenue de la République, 75011, Paris, Tel. 33 156 982000 <http://www.foncier.org/articles/78/78Granelle.htm>, p.5

<sup>4</sup> Jean-Jacques Granelle, "Où en est la promotion immobilière privée", *Etudes Foncières*, L'Association des études foncières, 7 avenue de la République, 75011, Paris, Tel. 33 156 982000 <http://www.foncier.org/articles/78/78Granelle.htm>

A second international bubble quickly formed, however. It remains to be seen whether the effects of the internet and internal EEC migration (where the English, Irish and Dutch, for instance, seek the cheaper housing in France), and emigration of non-EEC retirees (who do not require work permits) and more French putting funds in rental properties in a shaky world stock market, will measurably affect France by raising the characteristically low base level of French property prices.

Fig. 3 showed the decline of France's first bubble, which went back almost to normal in 1997, 1998, 1999. The graph below shows that after a short pause the prices climbed right up again and have actually gone somewhat higher. Nevertheless they remain very low by our standards and around the middle for western European countries, despite France being a very attractive location.



**Fig 4 French Prices from 1990 to 2003** Source: *Chambre des notaires de Paris*

T490 means 4 quarter of 1990

T391 means 3rd quarter of 1991

T292 means 2<sup>nd</sup> quarter of 1992

T193 means third quarter of 1993

Etc... Taking us up to the First quarter of 2003.

### “French prices remain affordable

Paris remains one of the least expensive capitals of Europe for residential property, according to a comparative study conducted in 14 European countries by the Era Real-estate Agencies network.

The average price of a dwelling in the French capital is 220,000 euros, far behind London (389000 euros), Berne (400000 euros) or Luxembourg (420000 euros) and closer to that of Vienna (220000 euros) or Madrid (280000 euros), according to the Era study. At the national level, prices in France are also in the middle, despite the rises of recent years, at 139,000 euros as opposed to 100000 euros in Spain and 218000 euros in Ireland. (AFP)”<sup>5</sup>

One of the chief reasons that speculation may not persist in France as much as in other places is the tax regime. As well as this, because it is not possible to leave the bulk of your money and assets to anyone besides your children and other blood relatives in France, the prospect of serial marriages where the second or later wife/husband inherits the property and assets, doesn't really arise. This reduces avenues for creation of second families new households in France. As well as the land taxes and transaction taxes and inheritance taxes and laws in France, the income taxes are pretty steep as well. This isn't so bad for the bulk of the French population, for a variety of reasons, but for a person desiring to speculate on French property, it must be a rude awakening.<sup>6</sup> This makes the French look a lot smarter than us.

The research I have conducted suggests that speculative benefits of high population growth have been magnified by globalisation of the property market and that these rising stakes are likely to increase the difficulty of population stabilisation and energy conservation under the Australian land development and planning system. These observations may be extrapolated to English Speaking Settler States and contrasted with those for non-English speaking Western European States.

This submission has used more recent material, but uses as an important source, S. Newman, *The Growth Lobby and its Absence*, (2002),<sup>7</sup> a research thesis which compares population policy and demographic outcomes in France and Australia from 1945 taking into consideration projections to 2050. These features were analysed using a theoretical approach derived from James Q. Wilson and Gary Freeman, flagging focused benefits/costs and diffuse benefits/costs of population growth, including growth fueled by immigration. This analysis was framed by the New Ecological Paradigm developed by Dunlap and Catton.

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<sup>5</sup> La France reste dans la moyenne Paris reste une des capitales les moins chères d'Europe en matière d'immobilier résidentiel, selon une étude comparative conduite dans 14 pays européens par le réseau d'agences Era. Le prix moyen d'un logement dans la capitale française s'élève en effet à 220 000 euros, loin derrière les niveaux de Londres (389 000 euros), Berne (400 000 euros) ou Luxembourg (420 000 euros), et plus proche de ceux de Vienne (220 000 euros) ou de Madrid (280 000 euros), selon l'étude d'Era. Au niveau national, les prix en France restent également dans la moyenne, malgré les hausses enregistrées ces dernières années, à 139 000 euros contre 100 000 euros en Espagne et 218 000 euros en Irlande. (AFP) (Translation by S. Newman) Date of article was some time in September in 2003.

<sup>6</sup> Details of such taxes are to be found on a number of global internet property sites which were not there a few years ago. Some are: <http://www.propertyfinance4less.com/france.html>; <http://www.french-property.com/reference/taxation.htm> .

<sup>7</sup> S. Newman, *The Growth Lobby and its Absence*, (Sociology) Swinburne University, 2002 and [www.alphalink.com.au/~smnaesp/populationspeculation.htm](http://www.alphalink.com.au/~smnaesp/populationspeculation.htm). Appendices at Swinburne library or available from author.

The thesis I refer to contains a substantial appendix analysing and comparing French and Australian demographic and energy use statistics. (Appendices and specified raw data can be made available in confidence.)

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## Definitions & Terms

Some of these are interchangeable.

**Housing:** Housing refers in general to the house/land package. When talking about dwellings/housing in other countries, especially France, the term is used the same way, although of course in a high rise the amount of land per dwelling is reduced.

**Immigrationism:** is fairly self-explanatory, I think, and refers to a philosophy, attitude or policy encouraging high immigration. "Immigrationism" and "populationism" are two useful terms I borrowed from the French *immigrationnisme* and *populationnisme*. I have dropped the typical French double 'n' when I have spelled them in English. An "immigrationist" is a person with a philosophy, attitude, etc. of immigrationism

**Land-production:** The process of preparing land with infrastructure for human purposes; the business of developers.

**Nationally Co-ordinated Land Planning System :** This is France's system. It is nationally based and co-ordinated and involves State direction of public land. Uses are planned a long time in advance. The State purchases land specifically for public housing, equips it with infrastructure and releases it to builders. Land is also set aside for forests, roads, agriculture and other social and economic uses.

The Property Development and Housing industries are a part of the Land Planning System

**Populationism:** From the French 'populationnisme' - refers to a philosophy, attitude or policy encouraging population growth by any or all demographic means - natural increase and/or immigration and, arguably, low infant mortality and increasing longevity. "Populationist" refers to a person who holds this philosophy etc. These words didn't exist in English but I have added them.

**Property Development Industries/Property Development and Housing Industries :** I use these terms more or less interchangeably. The simpler term, "Property Development Industry" generally includes the Housing industry, unless the context specifically concerns office building or, for instance, industrial or civil engineering infrastructure, such as mines, bridges and roads. Arguably, however, all such infrastructure development entails an accommodation component and therefore also involves the Housing Industry.

The Property Development and Housing industries are a part of the Land Planning System.

**Statutory or Land Use Planning System :** This is Australia's system. It is not co-ordinated nationally or even State-wide and is mostly ad-hoc, relying on the whims of private developers. Although land is initially zoned and there are forums for the public to

raise objections to development initiatives, the system is piecemeal and no-one in one area is aware of what is being done in another area unless they take special steps to find out. Despite the fact that land is initially zoned, rezoning is comparatively easy, due to the absence of overall long-term planning at a sufficiently high level to over-ride local private interests leading to land speculation.

The Property Development and Housing industries are a part of the Land Use Planning System.

**Unitary Land Planning Systems :** Where the national system is dominated and controlled by a central or national government. As in France and most Western European systems.

**Upstream and Downstream Industries :** (With reference to the Property Development and Housing Industries). These terms refer to those industries that are partly or wholly dependent on and/or interdependent with the Property Development and Housing Industries. Such industries include, upstream: building and engineering materials suppliers, such as mines, forestry, and manufacturing and design plants. Downstream industries include the ones that finance investment in property development and housing, notably banks, building societies, the stock market, as well as major business organisations, including insurers and superannuation funds, which traditionally purchase property for its negotiable and speculative asset value; and individuals who do the same. This is by no means an exhaustive list of the upstream and downstream industries to property development, but only sketches in the most obvious.

## 1 Why this inquiry?

### Consequences for the economy of big rises or drops in housing prices

Various convoluted explanations exist for why high land prices (= land/housing prices) would not affect general inflation. These arguments do not hold, however, when a major factor in inflation comes from outside the local economy. In this submission I will draw your attention to the likely impact of the addition to the Australian property market of more and more home buyers and property investors purchasing from overseas using foreign currency that has greater value than our local currency. Some may be from poor countries but they may also be among the world's richest citizens. This is like the effect of first world tourists on a third world economy. Prices go up to meet the pockets of the tourists and locals are priced out of the market and reduced to living from a sort of fringe economy, as the more lucrative tourist economy takes over.

Those locals that have held onto property are able to interact with the foreign-based currency holders on a more equal footing, since their assets have benefited from the inflation. Rentals, like hotel prices, go up way past the affordability of the more and more marginalised locals, however the rents still seem quite cheap to the tourists and foreign residents as long as these foreign residents hold substantial foreign currency and as long as their currency remains better than the local currency, or they remain wealthy by world standards.

To illustrate the different impact of foreign currency and foreign wealth in an economy where the land-use allocation and housing system afford locals some protection from the inflation that accompanies speculation and foreign markets, I call to mind the example of French tourist resorts in the tropics and the way that their populations tend to be less beggared by the impact of globalisation than those which have inherited land and housing systems from Anglophone sources (or indeed, from early Hispanic ones).<sup>8</sup> First world tourists will often complain about the outrageous prices of everything in tourist-affected economies like Noumea, French Guyana, the Seychelles etc.

It is not so easy in these places to find little indigenous hotels where you may stay for a song, and dine at little cost. At least one of the reasons for this is that in the overseas French territories<sup>9</sup> the French system safeguards adequate public housing at affordable prices, as well as prioritising the employment of locals, the education of locals, the health system for locals, and unemployment benefits etc. This means that much of the earnings from foreign currency are passed on throughout the economy and to most of the

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<sup>8</sup> The rampant injustice of Hispanic settled colonies in Central and South America and the Philippines, for instance, could be related to an era of colonisation which bequeathed the economy and cultures of Europe at the end of the medieval era, coupled with the poor economic returns of agriculture in tropical climates.

<sup>9</sup> Generally known as the DOM TOMS and not to be confused with ex-colonies, which have many of the problems of Anglophone ex-colonies and protectorates.

population. So, whilst prices remain so high that only the rich really tend to stay in French resorts, the locals have sufficient incomes for them to be able to live within that economy without becoming marginalised into a secondary economy. This is a source of frustration to those who expect all resort economies located in third world areas, like the South Pacific and the Caribbean, to provide for cut-rate tourism. It is, however, a great thing for those who actually live on the islands.

The Commission may think that the comparison of Australia with resort islands is stretching things, however I would suggest that what is happening to Australia is the same thing that has happened in Hawaii. During the biggest hike in land/house prices prior to this one, which began around 1988 and followed the highest total net immigration ever in Australia, there was a fear that land/housing price inflation would cause Sydney to become like Hawaii, where real-estate prices are notoriously high and are related to the presence of a high volume of foreign investment capital.<sup>10</sup> Responding to an out-cry, the Australian government barred foreigners from purchasing established dwellings in September 1987. Peter Rimmer<sup>11</sup> observes, however, that this did not prevent "Australians living abroad, immigrants with permission to settle permanently in Australia, and foreign companies seeking accommodation for executives from purchasing residences."<sup>12</sup> Subsequent amendments to the Acquisitions and foreign takeovers Act (1975) have considerably watered down even these weak protections.<sup>13</sup> The FIRB now seems almost to be leading the charge in touting Australian real estate to foreigners with superior currency.<sup>14</sup> Foreigners on short-term visas, such as students staying for one year, are positively encouraged to purchase established dwellings, providing they sell them when they leave at the end of one year. Short-term immigrants also provide a good market for rentals. The effect of this rate of turnover on land/housing prices must be hugely inflationary. A strong indication that it is considered a source of big money by the speculative real-estate suppliers to the market is the aggressive promotion of this opportunity for purchasing

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<sup>10</sup> In a land-planning system with many of those hall-marks of the US system.

<sup>11</sup> Peter J Rimmer, "Japanese construction contractors and the Australian states: another round of interstate rivalry", in the *International Journal of Urban and Regional Research*, E. Arnold, London, Vol.12., no.3., pp.404-24.

<sup>12</sup> Peter J. Rimmer "Japanese construction contractors and the Australian States: another round of interstate rivalry", *op.cit.*, p.421.

<sup>13</sup> Information about these changes to The *Foreign Takeovers Act* (1975), now known as the *Foreign Acquisitions and Takeovers Act* (1975) over time is available from the Foreign Investment Review Board in appendixes to its Annual General Reports, which are available on internet from [http://www.firb.gov.au/policy\\_pubs/publications/AnnualReports/1999-2000/appd.htm](http://www.firb.gov.au/policy_pubs/publications/AnnualReports/1999-2000/appd.htm) Note that the Act is not confined to property investment but this seems to be a large part of its business.

<sup>14</sup> [www.escapeartist.com/australia](http://www.escapeartist.com/australia), which is an immigration and property investment internet site at announces, "Expatriates Build Wealth in Australia - The Aussie dollar is at an all time low against the American dollar and the strong Pound Sterling. Consequently there is strong purchasing power for Expats and UK residents in Australia. Australia welcomes foreign investment in real estate. Overseas investors can therefore obtain the benefit of freehold title. ..."

"To take advantage of this, major developers such as Central Equity apply to the Federal Government Foreign Investment Review Board to gain permission to sell their residential apartments to foreign investors prior to releasing their development to the public."



Australian real estate by migration agents with real estate and legal firm connections on the Internet.<sup>15</sup>

These trends to opening up Australian real estate and other equities began after the 1973 oil shock, in 1975, with Prime Minister Fraser. From less than 10% in 1972-75 under Whitlam, foreign investment in Australia increased to 49% of GDP in 1990-91. By 1986 *more than half* was destined for real-estate investment.<sup>16</sup> Fraser initiated a long series of amendments of the Australian *Foreign Acquisitions and Takeovers Act (1975)* with the effect of increasingly facilitating foreign investment in property development and real estate.<sup>17</sup>

In Japan after the oil shock opportunities for newly formed construction companies and developers became increasingly limited. Rimmer writes that those major Japanese construction companies, which had been hurt by policies of zero public sector growth, preference for regional contractors, and sluggish private sector activity in Japan, particularly through fiscal policy in the early 80s, adapted to the situation by seeking work in other countries. They brought with them the funds invested by Japanese investors and banks, offering "the most favourable fixed price" and "to take an equity in the project if necessary, arrange loans at low interest rates from financial institutions in Japan or Australia" and guaranteeing "any money required if the project [went] over cost". Australia, which was keen to attract major projects during the recession of the late 1980s, largely in the hope of job creation, responded to these inducements. Australian States vied with each other to attract these Japanese construction projects, many of which were in real estate.<sup>18</sup>

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<sup>15</sup> Here are some examples of these kinds of internet sites. Migrate Australia [www.migrate-australia.org/](http://www.migrate-australia.org/) are owned and operated by *My Great Australia Pty Ltd*. Like many members of the Migration Institute of Australia, they deal in real estate, finance and conveyancing, as well as arranging all sorts of visas and providing legal advice.

Some others are: [www.James Tan Immigration lawyer.htm](http://www.JamesTanImmigrationlawyer.htm), [www.escapeartist.com/](http://www.escapeartist.com/), which has pages for many other countries in the world and [www.australiaforyou.com.au](http://www.australiaforyou.com.au). Australia For You has remarkable graphics. In fact many of these sites are graphically innovative, information packed, multi-lingual, specialise in a particular language, may offer a specialty, such as romantic introductions, and seem impressively connected and serviced. They generally lead with the information that they have registered immigration agents on board.

<sup>16</sup> R.H. Fagan, "Foreign Investment", in *Australian Encyclopaedia*, Terry Hills, NSW, Australian Geographic, Pty. Ltd, 1995, p.1394. For more about the FIRB, see S. Newman, *The Growth Lobby and its Absence*, *Op cit.*, Chapter 3 heading, "The Residential Construction Industry"

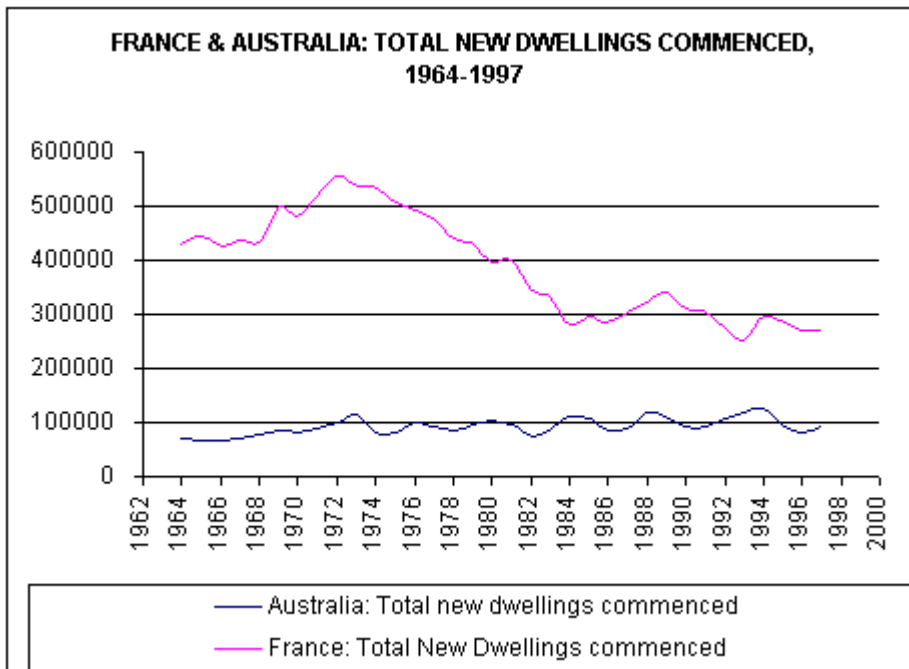
<sup>17</sup> Information about these changes to The *Foreign Takeovers Act (1975)*, now known as the *Foreign Acquisitions and Takeovers Act (1975)* over time is available from the Foreign Investment Review Board in appendixes to its Annual General Reports, which are available on internet from [http://www.firb.gov.au/policy\\_pubs/publications/AnnualReports/1999-2000/appd.htm](http://www.firb.gov.au/policy_pubs/publications/AnnualReports/1999-2000/appd.htm) Note that the Act is not confined to property investment but this seems to be a large part of its business.

<sup>18</sup> Rimmer, *Op cit* p. 405 and 418.

In Western Europe the adjustment required for construction companies and realtors was even more severe than in Japan. Many went broke and their number has never recovered (due to the different system there from ours). The progress of adjustments is indicated in a graph comparing the number of housing starts before and after 1974-1975, both private and public. (See Fig. 5 below) Thus Western European companies, such as the French and German ones, also began to trawl the Pacific Rim for opportunities.<sup>19</sup>

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<sup>19</sup> See S. Newman, *The Growth Lobby and its Absence, Op cit.*, Chapter 7, Fig.7.3 France and Australia, Total New Dwellings Commenced, 1964-1997.



**Fig. 5 France and Australia, Total New Dwellings Commenced, 1964-1997<sup>20</sup>**

Source for Australia: ABS Timelines series, 875001\_wks, Table 1, "Number of Dwelling Units Commenced: Seasonally Adjusted and Trend."

Sources for France: The original source for all secondary sources was the Ministère de l'Équipement, du logement, des transports et de la Mer. Actual sources were: *Insee Annuaire Rétrospective de la France, 1948-1988*, Tableau 1, "Situation de la construction", for the years 1948-1988 and *Annuaire Statistique de la France*, INSEE 1999, for the years 1992-1997. The figures for the years in between (1989-1991) came from Maurice Blanc and Laurence Bertrand, *Housing Policy in Europe*, Routledge, 1996, p.127, for the years 1980-1991.

This graph shows how French dwelling starts fell from 1973. If divided between public sector and private sector we would see that public sector starts began to fall in 1973 and that private sector began to fall in 1975. This was a response to slashing of government funding for both public housing and to subsidise private housing.

<sup>20</sup> From S. Newman, *The Growth Lobby and its Absence*, *Op cit.*, Fig.7.3

Rimmer wrote that "keen for the economic benefits and political spin-offs, the states, as we have seen, are prepared to override the usual planning role performed by local government of directing development into preferred locations to meet economic, social and spatial preconditions."<sup>21</sup> This obviously remains the case, although Premier Carr, of NSW, has attempted to resist the enormous pressures brought to bear on him in this regard.

The other consequence of concentrating investment on the property development/housing sector is that a growing population provides an easy, constantly increasing market for raw materials produced here, but for cheap imports produced overseas. This perpetuates the many problems associated with a commodity bound economy. Since commodities have been low in commercial value since the mid 1970s, such a pattern dooms us to ever increasing foreign debt. It has been argued that these development patterns condemn us to widening rather than deepening our economy, and to restricting our skills and systems bases.<sup>22</sup>

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<sup>21</sup> Rimmer *Op Cit.*, p.417.

<sup>22</sup> "Going for Growth – Business Programs for Investment, Innovation and Export", also known as "The Mortimer Report", to the Federal Minister for Industry, Science and Tourism, Australia, 30 June, 1997. The Mortimer Report drew a distinction between absolute growth and per capita growth. It pointed out that economic growth resulting solely from increased population *serves no economic purpose*. The true measure of economic progress, the report stated, is *economic growth per head of population*. That being the case, the Mortimer Report declared its brief to recommend measures that would enhance *per capita* economic growth. Taking its data from OECD reports, the Mortimer Report found a negative correlation between per capita GDP and population growth over the period 1970-1995.

A paper correlating population growth rate and per capita economic growth rate was prepared by Dr John Coulter for the 2003 ISOS conference on sustainability. For the purpose of his analysis, Coulter divided the countries of the world into two groups, rich and poor. For each group, he correlated per capita GDP growth with population growth, using rigorous statistical techniques. He found that for rich countries absolutely no correlation between per capita GDP growth and population growth. For poor countries, the correlation is strongly negative: the higher the population growth, the poorer is the country.

For countries like Australia that rely on their resource base for their income, the argument is particularly significant. In 1860 about 70% of the country's exports were mineral and agricultural products. Almost the same ratio applies today. For Australia's situation, the more specific question than what do countries have to win or lose from population growth is - *what does a country with a commodity-based economy have to gain economically from population growth?*

The answer to this question lies in the external trading account. For population growth in commodity-based economies:

- almost no relation at all exists between exports and population.
- an almost linear relationship exists between population and imports.

Extreme cases often make telling points. A country which is entirely reliant on commodity exports and has an extreme level population growth may reveal an outcome that a less extreme country might achieve at a more leisurely pace.

Saudi Arabia is an extreme example of a commodity-based economy experiencing excessive birth rate. Saudi Arabia earns over 90% of its export earnings from products based on one basic commodity – oil. Saudi Arabia's rate of population increase is about 4% per annum. Saudi Arabia's population is doubling in less than every twenty years. Half the population is under 15 years of age.

## 2 Rent Controls and other controls on housing markets

**“Historically, attempts to suppress price increases in housing markets (for example, through rent controls) have had the unintended effect of reducing the availability or quality of affordable housing.”**

This seems like a bit of a blanket statement. It takes no account of external factors on availability such as globalisation of the real estate market and immigration driven inflation. Where rent has been frozen over long periods it is true that people have stopped investing in rental properties because it didn't profit them. But this problem virtually defines land-production and housing systems that are left almost exclusively to the private-sector. There are examples of other interventions, such as tax rebates for owners investing in modest rental properties, which have been successful, for instance in Germany and France, however it is true that these other systems have substantial public housing components. Far more successful than ours is the European experience of a strong public housing and public land development sector competing with the private sector. Where the private sector is allowed to dominate the market at all levels, it tends to control the release of land and housing and charge whatever the market will bear, which is to say as much as people can pay. A well functioning public sector appears to be essential in modern society to avoid this.

This is probably all the more so in our society where those in power seek to grow the population well beyond its current size. Large populations with our kind of housing system finish up with a lot of slums and homeless persons simply because they fail to include housing as a citizen's right and to provide for it.

## Commonwealth grants, the GST, Shared Equity etc

**“The Commonwealth Government also provides grants to first home buyers as an offset to the imposition of the Goods and Services Tax (GST). And, as noted, the Prime Minister's Taskforce has put forward a number of proposals, including shared equity schemes and government safety net mechanisms.”**

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The questions can be asked: *how is the commodity-based economy of Saudi Arabia travelling under its high birth rate? If commodity based countries benefit economically from having population growth, shouldn't those with higher population growth do better than those with lower population growth?*

Economic statistics from Australia and Saudi Arabia quite graphically do not support this hypothesis. Both countries are commodity-based economies. Both have a chronic and widening current account deficit problem. Both have growing populations. Both were once net creditor countries that have become net debtor countries (Saudi Arabian debt is 95% of GDP, Australia's is 57%). Both countries have suffered a decline of per capita wealth compared to other countries. Figures produced by the World Bank in 2001 show Saudi Arabia's per capita income languishing in 62<sup>nd</sup> place between Slovakia and the Seychelles. This once rich commodity economy has impoverished itself with rapid population growth. Australia has also declined on the same scale, though not to the extent of Saudi Arabia. Source: Unpublished research by Peter North and Sheila Newman for their upcoming book *Privatising Democracy*.

(i). Grants to first home owners : These grants have merely proved to be subsidies for builders. The HIA appeared to literally demand them of the federal government and they were immediately absorbed in the price of real estate, contributing to the current inflation, which took off after an initial standoff between the introduction of the GST and the introduction of the grant. Grants to individuals do not appear to work in our system. Government (preferably Commonwealth)<sup>23</sup> subsidies including loans for specific kinds of housing or projects, built to cost ceilings but satisfying good standards of quality and structure, might work.

(ii). Shared equity schemes: Such as the one advocated for by Malcolm Turnbull and the Menzies Research Centre, seem to promise nothing but a return to feudalism, except on a global level. Already the banks own a great deal of real estate and many people are never free of them. The banks also tend to encourage overvaluation of real estate in order to be able to lend the maximum possible to home buyers. If the banks were to have much greater equity in dwellings they would be likely to increase inflation by any means possible. Pretty soon the value of half homes would tend to rise to the value of whole homes today. Another factor which would hasten this tendency would be for the Limited Partner to sell portions of their part in the house off as shares speculating on rising value in real-estate.

And what would happen where for some reason the value of the land deteriorated (for instance a new building obscured the view)? When the time to resell came around, would the Limited Partner politely accept the loss, or would they (being in the business of lending) demand that the Managing Partner compensate them the full value of their half of the house as it was before the view was destroyed?

To have more and more land finish up in the hands of the banking corporations, when we in Australia could stop this from happening, strikes me as a way of structuring democracy out of the picture. He who owns the land dictates to the renters. If the lord of the manor is a corporate system of banks and similar institutions which own much of the land on the planet, then they would be beyond the reach of governments, let alone individuals.

There is so much to criticize in this scheme that I will simply conclude here by referring the enquiry to an article by Gavin Putland, "Don't let the banks steal your land."<sup>24</sup>

(iii). Government backed Mortgage insurance schemes are part of the ethic that says that the community should guarantee via its government an affordable home for all its citizens. This is a much better principle than having a government provide citizens as a market for a corporatised housing industry dominated by fabulously rich land-barons. But the

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<sup>23</sup> This is because the Commonwealth, not a player in the State housing markets, is hopefully not so entrenched in the speculative culture. The Commonwealth also could have an overview of continent wide needs and possibilities.

<sup>24</sup> Gavin Putland, *Progress*, the Journal of Prosper Australia and Earth Sharing, 1/27 Hardware Lane, Melbourne, 3000, March-April, 2003

government would need to have more control over the price range and the system for this not to become outrageously expensive.

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## **Consequences of Government intervention on behalf of low income groups**

**“Governments already intervene in housing markets to assist low income groups in private rental accommodation or in public housing. These interventions, which are justified on the basis of redistributing income or achieving better and more secure housing for disadvantaged groups, may have consequences for housing prices and affordability.”**

Indeed, as I hope I make clear, the successful provision of affordable public housing is one of several factors affecting housing prices that feature in the land-use allocation and housing system that prevails in France and Western Europe and which do not suffer from our rate of speculation driven inflation. Home ownership is increasing in France and most of continental Western Europe, whereas it is decreasing here. Note also that the provision of public housing to citizens is not an issue that divides Left from Right in Europe. Australia’s way of providing public housing is not nearly so effective as Europe’s for a number of reasons. Some of these are:

- because, for many years (beginning with Menzies) it has fallen below a useful threshold
- because it has gone from providing respectable housing for ordinary working people to providing low status housing for the more or less indigent – the ‘disadvantaged’. Whilst the disadvantaged should be assisted in this way, the fact that public housing has lost its capacity to service a wider public has contributed to land price inflation (i.e. housing unaffordability).
- because we are increasingly allowing public housing to be built on private land by private sector developers using private sector construction. There is also a tendency to sell public land to private developers in exchange for their building some ‘low cost’ housing – but this will always be of much higher cost than public sector provided development

The French system<sup>25</sup> undercuts the private sector by

1. publicly purchasing land at prices mediated by a tribunal tasked with assessing and deducting speculative inflation from the purchase price.<sup>26</sup>

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<sup>25</sup> For documentation regarding these assertions, consult S. Newman, *The Growth Lobby and Its Absence, Op cit.*, especially Chapter 3, “Systems of Land Development Planning” and “Public and Private Housing Policy” and Chapter 7, “The Role of Land Production, The Housing Construction Industry, and Public Housing in Immigration Policy” and “The Role of Property Development and Housing in Immigration Policy”.

2. developing the land using public sector developers with regulated wages
3. either building the housing using public sector builders and then renting or selling to the public, or
4. selling the land cheaply to builders, thus avoiding the need for builders to purchase land from expensive private developers, or
5. selling the land to prospective home owners who then approach a dwelling construction firm which often designs and constructs the housing in a factory according to modern factory principles, which would include just in time storage etc.
6. The construction company has low overheads because it
  - Is generally able to get an up-front payment of around 75% from the private land-owner and home buyer, *thus avoiding substantial costs which many small builders incur through the need to finance land purchase and building with loans they must service until/if they find a buyer for the land and house.*
  - Does not have to send such a volume of raw materials and labor out to the site
  - Is able to manufacture a substantial proportion of the dwelling in the factory, using factory labor, and then transport it to the owners' site for assembly. In this manner many labor and material costs associated with intemperate weather and unforeseen circumstances are avoided.
7. All first dwellings, rental and purchased, public and private, are subsidised in some manner by the French government. This means that housing is perceived both as a cost and a government obligation, and that government has an incentive to control costs. This is also true of other Western/Northern European housing systems, but my information about them is less detailed. The forms of subsidy in France have varied over the years, but generally they consist of:
  - Provision of public dwellings at low rent
  - Low cost housing loans
  - Tax rebates to landlords of low-cost rentals
8. Demand has been limited since 1974
  - by limiting population growth through zero net immigration policies and restricted issue and extension of work permits
  - by the population also limiting its family size, as in Australia and most 'Western' countries, *but this fall in birthrate has not been compensated, as in the English speaking settler states, by encouraging legal immigration nor by laissez-faire accommodation of illegal immigration as in Britain, the US, and perhaps increasingly, Australia, although my information here is anecdotal.*
9. Disincentives for large numbers of persons to migrate and/or remain legally or illegally include

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<sup>26</sup> Note that the Scandinavian countries are famous in Europe for their foresight in purchasing public land banks for affordable housing before urban land became very expensive.



- limiting the stock of public housing in a system where public housing is the major low income form of housing and where the immigrant population is primarily of modest initial earning capacity<sup>27</sup>
- protecting land from rezoning for urban development, especially agricultural land, which may only be owned by persons with formal agricultural qualifications. This means that the stock of private residences is thus also limited, which means that squatting or clandestine renting opportunities are also limited

## Property Taxes and Inheritance Laws

10. France also has a number of ways of taxing speculative gains which frustrate a culture of speculation. Some of the taxes reflect a 'geoist' perspective. Unpaid charges may accumulate on tax on properties to the extent that inheritors may actually find themselves in debt. Properties may thus languish unclaimed until they accumulate such debts to the municipality and the State that they fall to the State. In low income areas the municipality may have first claim among potential buyers on suitable properties for low income housing and they may place a ceiling on the price at which they acquire the property.<sup>28</sup>

- The Tax Foncière is a lump sum payable on January 1 each year. It is payable on unbuilt land and built land, and may be apportioned between the two. Some exemptions exist for agricultural land.
- Non-resident owners who do not let their premises may be charged income tax on 3 times the notional income from the property if they are a tax resident of a country which is not party to a double taxation treaty with France.<sup>29</sup>
- Capital Gains Tax is payable by **second or holiday home owners** when the property is sold unless they have owned the property for 22<sup>30</sup> years or longer. Calculating whether there has been a capital gain involves deducting the purchase price plus 10% from the sale proceeds, less agents commission and legal costs. Costs of home renovations are deductible if detailed receipts are available, but these may not be claimed if the property is sold within two years. Exceptions for serious circumstances such as death may apply. Capital Gains Tax decreases for every year the property remains in the same hands, up to 22 years, after which it no longer applies. After five

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<sup>27</sup> *Op Cit*, the above references but also, for the history of this, consult Chapter 6, "The Absence of a Populationist Property Development and Housing Lobby in France" and "In the absence of a property development lobby for immigration, what drove immigration in France until 1974?" and Chapter 7, "The Role of Land Production, the Housing Construction Industry, and Public Housing in Immigration Policy".

<sup>28</sup> Various sources including experience translating inheritance documents and from <http://www.french-property.com/reference/taxation.htm>, <http://www.dkassociates.co.uk/legal.htm>, "Logement (Politique du)", Encyclopaedia Universalis France S.A., 1997.

<sup>29</sup> <http://www.french-property.com/reference/taxation.htm>

<sup>30</sup> I have seen 32% but cannot find corroboration for this. But the period will be reduced anyway to 15 years in 2004 due to a change in the law.

years, if you have lived in your holiday home for at least eight months of the year, Capital Gains Tax is no longer incurred. The rate of tax is 33.3%. Property dealers are charged a rate of 50% and people who frequently purchase, renovate and sell are treated like property dealers.

- Taxes from 5% to 20% and up to 40% in the case of sums above a certain threshold may be imposed where assets are passed on to children and 60% where assets are passed on to more distant relatives
- All children, not just the children of marriage or the most recent marriage, and not just legitimate children, are entitled to the entirety of each parent's estate, except where the parent applies to bequeath a portion [legally limited to about 20%] to some other party. In that case the children are still entitled to around 80% of their mother's and around 80% of their father's property
- Spouses do not automatically inherit and did not have priority over parents and siblings until recently. They still only have the right to about 20% of the inheritance, where the deceased arranged for them to inherit. The rest goes to any children and then to a range of blood relatives. If the children's entitlement includes the home then the spouse may not sell it, although she or he may continue to live in the family home.<sup>31</sup>

### 3 Recent trends in housing markets

#### **Bubble or Institution?**

**“What factors have caused recent housing price increases? Are some of them temporary? What evidence is there of a ‘bubble’ in housing prices? “**

#### *Factors:*

- Research I carried out threw up a number of significant factors contributing to high housing prices. These were:
- The development of a British tradition of commodification of land,<sup>32</sup> which the English-speaking settler states (which include Australia) inherited. A kind

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<sup>31</sup> “Successions”, *Encyclopaedia Universalis*, S.A. 1997. The hierarchy is from the closest blood (or adoptive blood) relation outwards : 1. legitimate and illegitimate children and their descendents; 2. Parents and their siblings and their descendents; 3. grandparents and their siblings and children; 4. uncles, aunts, cousins removed to the 6<sup>th</sup> degree (was to the 12<sup>th</sup> degree); 5. spouse; 6. the State.

<sup>32</sup> John Gray is among those who identify England's property ownership culture as different from the rest of Europe's. Gray argues that the free market was an Anglo-Saxon singularity in the 19<sup>th</sup> century. He writes that this "English paradigm" of the free market was interrupted by the second world war, which caused a more co-operative society. It resurfaced however during the 1980s in Britain, the United States, Australia and New Zealand, as a consequence of neo-liberal policies." Gray describes the English speaking settler societies as "societies in which a culture and economy of agrarian individualism preceded

of pioneering culture of endless expansion arose and has been exploited by various subsequent economic forces.<sup>33</sup> The commodity based big population culture, which Whitlam attempted to put to death at the end of the Snowy Hydro scheme, was rejuvenated in Australia by Malcolm Fraser after the 1973 oil shock when he sought finance for more development through the exchange of equity. This policy was exploited, not just by transnational mining and agribusiness, but by the export of property development and construction from countries like Japan and the West European ones whilst these countries actually cut down on their own population growth and infrastructure expansion.<sup>34</sup>

- Reading of literature, such as Trevor Sykes, *The Bold Riders*, contributes an impression that Australia is increasingly treated by its government, its major infrastructure developers, and by their overseas fund sources and transnational corporations, in a similar manner to the treatment of ‘developing’ S.E. Asian countries like Thailand, Malaysia, and Indonesia. In this ‘English’ system, property development is seen as a lucrative private industry, whereas in countries where states see basic housing as a right of citizens, property development is seen as a cost. Our commodification of land kept us rooted in a commodity based economy and sucked funding, government and cultural support from science, technology and secondary and tertiary manufacturing. We have in a sense also commodified population as something to be serviced for profit by materials suppliers and infrastructure, housing and shopping centre developers. We forget that this population should be democratically directing an economy which is ecologically sustainable in the long term for the benefit of itself and its children, rather than simply providing large fortunes in the short term for mining, land-production infrastructure, and housing corporations.
- Australia’s land-use planning and housing system is organised within a federated state system; there is no centrally based planning or control nation/continent wide. This has permitted ad hoc development in isolation from wider scientifically based environmental, ecological and social considerations
- the increasing privatisation of the property development market from Menzies time with decreased commonwealth funding for housing,<sup>35</sup>

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industrialization." He attributes this, in part, to the early disappearance of the peasant culture in England. Gray, John, *False Dawn*, Granta Books, Great Britain, 1999, pp.13-14.

<sup>33</sup> These included globalisation that replaced the colonial ‘motherland’ with the rest of the ‘developed’ world as a market for local commodities; a local commodity sector producing to service a big local population’s infrastructure needs; and a local manufacturing sector which had hoped to service a large population but which is increasingly suffering competition by cheap imports from countries with lower land rents and prices.

<sup>34</sup> See S.Newman, *The Growth Lobby and Its Absence*, *Op cit.*, Part II “Evidence” and Chapter 7, *passim*.

<sup>35</sup>

- the reduction in commonwealth funding for public housing since Whitlam’s time;
- the recharacterisation of public housing from affordable public housing on publicly developed land close to employment and infrastructure for working people into a form of housing for indigents;
- the practice by developers of land-banking;
- the release of land by professional developers to coincide with times of high population pressure;
- increasing national organisation of the property development lobby and its upstream and downstream beneficiaries to manipulate immigration numbers in order to affect population pressure and thus drive up inflation.
- the increasing sophistication and corporatisation of all branches of property development except for independent building companies. Most big players in property development, like AV Jennings, the Dennis Family Corporation and Westfield have the following setups:
  - land banks
  - property finance companies
  - infrastructure construction companies
  - housing construction factories
  - They are thus in a position to maximise profit through land price inflation
  - They are big enough to influence government and many do<sup>36</sup>
  - international links to growthist connections
  - political and media influence (Melbourne Population Summit, Victorian Regional population summit)<sup>37</sup> and massive contributions to Labor and Liberal parties. They also appear to be able to influence the other parties although it is not clear how they do this.
  - Public relations/’education’ wings (Apop, OzPop<sup>38</sup>, OzProspect<sup>39</sup>)
  - influence on public education

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<sup>36</sup> See section entitled “Some Modern Australian Population Boosters”

<sup>37</sup> See section entitled “Some Modern Australian Population Boosters”

<sup>38</sup> “Now there are some who say that Australia should welcome a population decline; but an ageing and declining population post the year 2030 will present some very serious economic and social problems for us. For example, **we have become accustomed in the housing market to have a continually increasing population demand. If we eventually have a decreasing population, what will that do to real estate values**, and what will that do to many similar sectors of the Australian economy that have been planned around growth, or at least stable population numbers.” From Ozpop, “OzPop - Australian Population Futures”, a collection of articles from their website.

<sup>39</sup> See section entitled “Some Modern Australian Population Boosters”

- influence and positions at all levels of government, especially local and state, for instance as consultants in the Victorian Dept of Infrastructure, as members of VCAT, as consultants to the Federal government on land-use and planning
- involvement of the major print media, Fairfax and Murdoch, in global property dot coms;<sup>40</sup> and of television life-style commodities promoting programs targeting new and renovating homeowners.
- related lack of forum for real debate on population growth and property development spruiking;
- positive publicity to politicians who promote population growth and negative publicity for politicians who criticise it;
- Changes to Foreign Investment and Takeover Laws with the Foreign Investment Review Board;
- Privatisation of the Immigration service, for instance by using self-regulated 'migration agents';<sup>41</sup>
- the increasing involvement of smaller players, such as individual real estate agents and conveyancing solicitors with migration agents in packaging land investment and immigration together;
- Most recently, probably growing from around 1994, the internet has been used by both big and small time players to market Australian real-estate, visas and citizenship to investors and or would be immigrants, short term, long term and permanent, in packages on the international market. These international marketers are looking for the highest value currency overseas and one of the ways they merchandise Australia is to point out how much more the English pound, the US dollar etc are worth than the Australian dollar.

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<sup>40</sup> It appears that these property dot coms have their US counterparts and are probably owned by the same media outlets. See: Page : 29  
 Steven Kropper, "Underneath Housing Prices: Bubble Or Solid Foundation? A brief review of the impact of interest rates and immigration on real estate prices and industry employment.", January, 2003, Domania/Primedia. Steven Kropper is Vice President of Domania/Primedia, which own US real estate dot coms: [www.RealEstate.com](http://www.RealEstate.com) and [www.Domania.com](http://www.Domania.com)

<sup>41</sup> For more on the role of the internet see the section entitled, "The Internet factor in global marketing of real-estate and visas". There is substantial indication that this is a growth industry that is poorly regulated with a number of participants who have manipulated the legal system by instructing their clients to provide false information. See, for instance, Trudy Harris, "Agency told visa seeker to tell lies", The Australian, 10/10/03, p. 7. This was about a Lebanese woman who had been instructed by a lawyer and a migration agent associated with Re Quest International to state that herself and her children were from Iraq and that they had fled due to being assaulted. And, Elisabeth Wynhausen, "Senate blocks curbs on migration shonks", The Australian, 10/10/03, p.7. "The federal government's plan to deal with shonky migration agents has been derailed amid claims it gives too much power to the Department of Immigration. The Government's bill, which was hastily drafted after revelations of widespread abuse by migration agents, has been referred to a Senate committee by the Democrats, who question the bill's intentions." [This bill sought to give the Department the power to suspend migration agents who have more than 75% of visa applications or more than 90 per cent of claims for refugee status rejected. The Democrats said that these provisions would mostly affect asylum-seekers whose cases are the most unpredictable.]

- Internet enhanced globalisation has been added to by recent turning away from the share market to property investment in poorer countries by people lacking confidence in the wider economy and in the long term stability of their currencies.
- It is important to maintain the rate of growth in property prices in order to attract investors. High population growth is probably the major influence here, and the major guarantor to the investor of a high return. The evidence for this is developed in my thesis, principally chapter 6 and chapter 8. In chapter 6 I trace the rise of the property lobby for growth in population and name current players. In chapter 8 I show what is to be gained from population pressure by graphing high population growth cities against low population growth cities and regions. It was when I was doing this that I realised there was another recent influence, at world level, which was the internationalisation of the market. I noted that Australia's response to this was for its prices to ratchet upwards, whereas in Western European countries prices would come down again. The exception in Europe to this was Germany, where the reunification of East with West, which has led to a lot of immigration to West Germany, caused ongoing inflation.<sup>42</sup>
- It is also useful for corporate players to maintain the Australian dollar lower than other currencies because this maintains our land and commodities as bargains for high volume turnover on the global market, and it keeps our wages comparatively low on international standards as well. This strategy however also contributes to national and individual debt. These debts are not of concern to transnational companies though, since their major shareholders and CEOs<sup>43</sup> may bank and live anywhere.
- An absence of effective taxes on unearned profits from rises in value on unimproved land is also an encouragement for speculation. (This should not apply to first homes.)
- An absence of effective taxes for unearned gains in value on improved land is also an encouragement for speculation. (This should not apply to first homes.)

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<sup>42</sup> *Le Magazine*, Credit Foncier, N° 41-42 de Mai 1999 « Le cycle immobilier, comparer pour comprendre La crise immobilière des années 80 et 90 6 pays : 6 études de cas ». This was an edition with six studies of different countries during the last international bubble. It was only in French.

<sup>43</sup> An increasingly blurry demarcation.

**What effects have recent housing price rises had on the affordability of home ownership? Are current trends in housing prices and affordability likely to continue for the foreseeable future?**

My research indicated that land speculation is largely fed by population growth and that, in systems like ours, population growth is supported and lobbied for by land speculators and the upstream and downstream industries that benefit from land speculation. I found that in Europe the system permitted massive downsizing of the construction and property development sectors, both private and public, when conditions prevailed which made them costly. In France this was accomplished over the period 1973-1976 by the government suddenly

- cutting back on public housing and subsidies for private housing
- focusing on renovation rather than new construction
- trashing plans to expand suburbs and infrastructure
- placing taxes on petroleum based energy
- causing by default or encouragement real efficiency in energy and manpower use
- cutting immigration and therefore population growth induced increase in the number of households claiming public housing. Note that most non-EEC originating immigrant workers and their families rely on public housing in Europe and are not an established source of custom for private sector property.
- By cutting immigration the French government and other Western European governments (all of which ended their programs for importing labor) also cut off the low cost labor that both government and private construction firms tended to rely upon.
- This situation of a leaner property development and housing industry sector has become the norm in France and Western Europe and it was the consequence of policy responses to the 1973 oil shock, where European governments of fossil energy-poor countries like France, acted to reduce their dependency on petroleum energy imports.
- Since the Australian system prevented most such measures being carried out over the same period (although several were initiated by the Whitlam government), it is likely that the industry will continue successfully to resist such changes here for as long as it is able to maintain through influence, custom, institutions etc., the political, economic and social conditions that benefit it. I therefore think that the current trends in housing prices and affordability are likely to continue for the foreseeable future, if the foreseeable future were to proceed along the lines of business as usual. Some statistical trends indicating a decline in availability of cheap petroleum based energy are, however, testing more and more accurately retrospectively. Since consideration of fundamental changes to the supply of cheap energy is rarely entertained in policy formation, I will not labor this point here. However I

think that this enquiry is probably able to consider the possibility of changes in the financial *cost* of energy. That energy costs might affect land speculation related bubbles and ratcheting long-term trends is, anyway, something beyond this enquiry's control. Therefore the role of cheap energy (either through large reserves or through foreign debt) should only be considered here as a factor maintaining our particular land-use allocation and housing system and the speculation it facilitates.

- as long as the market is internationalised and immigration and land commodification are linked and encouraged in the context of unequal population, economic and political pressures which lead people to migrate
- as long as the property development market has a hold on government and can affect population policy
- as long as there is high population growth in Australia
- as long as there is no major public land development and housing program to undercut the private property and housing development sector.
- as long as the FIRB and associated laws allow, privilege or prioritise foreign investors and purchasers of any form of real-estate over local citizens
- as long as speculation is rewarded socially and facilitated by government and business
- as long as there is no Australian value that says citizens have a right to affordable housing and that it is the State's responsibility to ensure this is available
- as long as property developers may contribute unhindered to political parties due to poor monitoring of party funding
- unless the community manages to get democratic representation

### **Things which could impede high property prices:**

- world events including terrorist threats, well publicised infectious disease threats, [the first two seem to have impacted on short term migration going by 2002 December figures for total net immigration in Australia and are likely to lead to a dip – but not a crash - in property prices] global economic crash, massive increase in value of Australian dollar, global or widespread war
- adoption of European system with the following qualities:
  - public purchase and development of land at low cost for resale at low cost to builders
  - factory construction of housing
  - discouragement of land banks, either by law or through public competition
  - public support to upgrade education of builders in organisation and techniques
  - drastic lowering of immigration or other forms of population growth
  - sustained public protest



- violent unrest in Australia
- falls in property values due to massive local problems, such as political disturbance, massive climate change, massive rise in cost of living
- public education about the way property development works. Most people don't realise that land is the major cost and they don't know about the existence of land banks. Nor do they know that population pressure drives up inflation, nor do they know that other systems are available.

***“Market-wide median or average price increases may not be representative of changes occurring in particular locations, for particular types of housing (such as established or new separate houses, flats and apartments), or housing with particular quality attributes. Owner-occupied housing price movements may also be influenced by developments in rental markets, and vice versa.”***

Indeed, position is also a factor that influences price increases in particular locations, for a variety of reasons, including amenity (especially coastal), perceived social value, and a variety of other physical environmental and social reasons.

### **Are median price trends representative of trends within housing sub-markets?**

Median prices for the whole of Australia do not disclose trends in cities and regions unless these trends are extremely widespread. Separation of stats into high and low population growth cities and regions shows very different trends. Addition of net demographic growth statistics including immigration statistics (not census data; this is too delayed in nature) for Australia and for States and regions clarifies the picture. High turnover of population inflates land prices just as high net migration gain, even if net population growth is actually relatively low, in Sydney for example. This is because of the tendency for Sydney incumbents to sell up and capitalise on their inflated assets and go elsewhere to escape the inflated cost of living in Sydney that accompanies high housing prices.

### **Is any ‘bubble’ in housing prices confined to particular market segments?**

The severity of the bubble and its costs vary according to locality. Whilst the cities of high growth have the highest prices, they are also most in the position to capitalise on these prices. The worst affected are those in the country regions where income is lower and house prices were very low. Migration out of the cities by retirees and those in flight from high prices, as well as those capitalising on their incomes, has bumped real estate prices up by four in some country areas. This means that the incumbent population, which is often largely reliant on social security, is priced out of rental and purchase market.

Apart from rural regions affected, coast and aesthetically appealing areas with some degree of infrastructure in place are affected.

## **Why have different parts of Australia (capital cities and regions) experienced different trends in housing prices?**

As noted above, the rate of population growth, especially immigration, and the location with respect to physical amenity, both built and natural, and to social amenity of various kinds, in different regions affects prices.

*“Recent reports indicate that housing prices are increasing rapidly in several other developed economies, including the United States, the United Kingdom, France, Belgium, Spain and Ireland. According to The Economist (2002), housing price rises in these countries have been most pronounced in the major cities.”*

There is indeed a global bubble, however, apart from some impact from the deregulation of the financial sector, where the only change has been the globalisation of the market via the internet, prices will only be ratcheting in the English speaking settler countries and other countries where there is little defense against commodification of land in relation to population growth and where there is high population growth. Great Britain, the USA, Canada, NZ and Australia are the worst places for this and Australia is probably the worst. France, which has been my chief area of comparison using data going back to around 1946, would be one of the least inclined to property inflation. Although France however, had her first ever post 2<sup>nd</sup> world war property bubble between 1986 and 1996, prices however returned to base. A new bubble has begun however and this will also hopefully return to base or near base – depending on surrounding global inflation and as long as laws and policies remain the same.

## **How do Australia’s housing price levels and trends compare with those in similar countries? What are the reasons for observed similarities or differences?**

### **The Situation in selected European cities.<sup>44</sup>**

#### **Germany**

Approximately one German in two owns their dwelling. The State promotes home ownership via a home savings plan. The German real-estate market is not yet completely unified. Prices are very high in Munich but often cheap in Berlin. Dwelling prices in

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<sup>44</sup>Except where otherwise specified, much of this information came from Gilles Arnaud “Actualité - Tour d'Europe du marché immobilier”, NexDom News July 2003,  
<http://www.nexdom.com/scripts/fr/interactif/nexdom-newsjuillet2.asp>

<sup>44</sup> « Le cycle immobilier, comparer pour comprendre La crise immobilière des années 80 et 90 6 pays : 6 études de cas », *Le Magazine*, Credit Foncier, N° 41-42 de Mai 1999

Germany are perceived by real estate writer, Gilles Arnaud,<sup>45</sup> to be under the level at which they are anticipated to 'stabilise'. This is probably because of an oversupply which arose in response to high demand coinciding with high immigration accompanying the reunification of East and West Germany.<sup>46</sup> Arnaud remarks that this could mean that prices may temporarily outstrip income rises as they 'return to longterm equilibrium'. *Note that in Australia we don't talk about return to long term equilibrium (=normalisation). We talk about 'booms and busts' or 'prices coming down'. This is presumably because our system of land commodification does not conceive of long term stability.*

## UK

The UK was a source of convicts to Australia during the industrial revolution due to fencing of commons and overcrowding of the cities and massive population growth. Some British industrialists pioneered decent worker accommodation from the 18<sup>th</sup> century. Between 1919 and 1940 Britain was building 300,000 dwellings per annum but could not keep up with demand due to population pressure. From 1944 (after massive war related housing stock destruction) a utilitarian approach publicly funded 200,000 bungalows of only four design types. A 1946 law instituted the creation of 15 towns to house 1 million people. 242,000 dwellings were constructed in 1972. In 1976 24,190; in 1979, 10,944; in 1983, 5,465. In 1972, 208,000 families were on the waiting list for public housing and homelessness was rapidly rising. In 1974 Thatcher came to power and became prime minister in 1979. She began to dismantle public housing programs and in 1980 sold off public housing cheaply to occupants.<sup>47</sup>

Arnaud writes that the British real estate market is quite different from the French one. The number of rooms is the principal criteria for estimating value in the UK, according to him, and the British make a distinction between freehold and leasehold up to 999 years. If a retiree opts for leasehold at 50 years old he can purchase a more luxurious dwelling than if he opts for freehold. In the UK property taxes are low and solicitors' fees are modest. Conveyancing is carried out mainly by professionals. Residential property remains one of the dearest in Europe, with prices that have climbed over 8 years by 80% in the UK and 150% in Ireland. (Perhaps Ireland is influenced by pressure of population growth due to immigration.)

## Spain

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<sup>45</sup> Gilles Arnaud "Actualité - Tour d'Europe du marché immobilier", Gilles Arnaud "Actualité - Tour d'Europe du marché immobilier", NexDom News July 2003, <http://www.nexdom.com/scripts/fr/interactif/nexdom-newsjuillet2.asp>

<sup>46</sup> « Le cycle immobilier, comparer pour comprendre La crise immobilière des années 80 et 90 6 pays : 6 études de cas », *Le Magazine*, Credit Foncier, N° 41-42 de Mai 1999

<sup>47</sup> *Encyclopaedie Universalis*, France, S.A. 1997

Even during the civil war Franco was concerned about social housing. In 1957 the position of Minister for housing was created and publicly funded housing went from 100,000 dwellings in 1957 to 397,000 in 1973. By 1970 64% of the Spanish were homeowners. The 1973 oil shock saw massive cutbacks in public and private sector construction but rationalisation of the industry and renovation of older stock has given Spain the highest rate of homeownership in Europe.<sup>48</sup>

About 70% of the Spanish are homeowners. There are few real-estate agencies in Spain because notaries and solicitors handle most sales. Debt and price hikes up to 85% in 8 years has not yet resulted in a slowing market activity. Demographic changes,<sup>49</sup> structurally low real-estate taxes and the large proportion of homeowners have all contributed to the high prices. But, without a big hike in unemployment, or a loss of confidence, or a big rise in interest rates, Spain's prices are unlikely to fall back to earlier levels.

## Italy

In 1949 a massive program began to co-operatively finance public housing, using funds contributed by employers and employees. This appears to have begun a national institution. Home ownership went from 40% in 1951 to 67% by 1985. Financed by employers and employees together, this stock became the property of the state/citizens. Italians are famous for their home savings habits.<sup>50</sup>

Italian real-estate prices have climbed 30% over the past four years and seem likely to remain around this level over the long term and to retain their current relationship with incomes. In Rome the real estate market is disorganised and the prices are excessive. The very high real-estate tax rates keep the market flaccid. In this city most transactions are carried out between individuals, by intermediary of concierges.

Note that Italy holds the record in Europe for institutionalised illegal construction, which is responsible for 50,000 to 80,000 dwellings per annum.<sup>51</sup>

## Holland

Since 1995 residential real-estate prices have risen 99% here. Holland is said to be the most high-risk of the Euro countries,<sup>52</sup> with very high housing costs and household debt levels which have doubled in the past seven years. In comparison with household income and rental incomes, property sales prices have reached extreme levels.

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<sup>48</sup> « Logement sociale en Europe et aux etats unis », Encyclopaedia Universalis France S.A. 1997

<sup>49</sup> These need analysis.

<sup>50</sup> « Logement sociale en Europe et aux Etats Unis », Encyclopaedia Universalis France S.A. 1997

<sup>51</sup> « Logement sociale en Europe et aux Etats Unis », Encyclopaedia Universalis France S.A. 1997

<sup>52</sup> According to UBS Wartburg cited in Gilles Arnaud "Actualité - Tour d'Europe du marché immobilier", NexDom News July 2003, <http://www.nexdom.com/scripts/fr/interactif/nexdom-newsjuillet2.asp>

Most recent statistics indicate that fewer people are applying for housing finance and this probably indicates that the market is about to slow. The Dutch government is also seeking to assist housing affordability via fiscal measures. Most transactions are done via real-estate agencies.

## **Belgium**

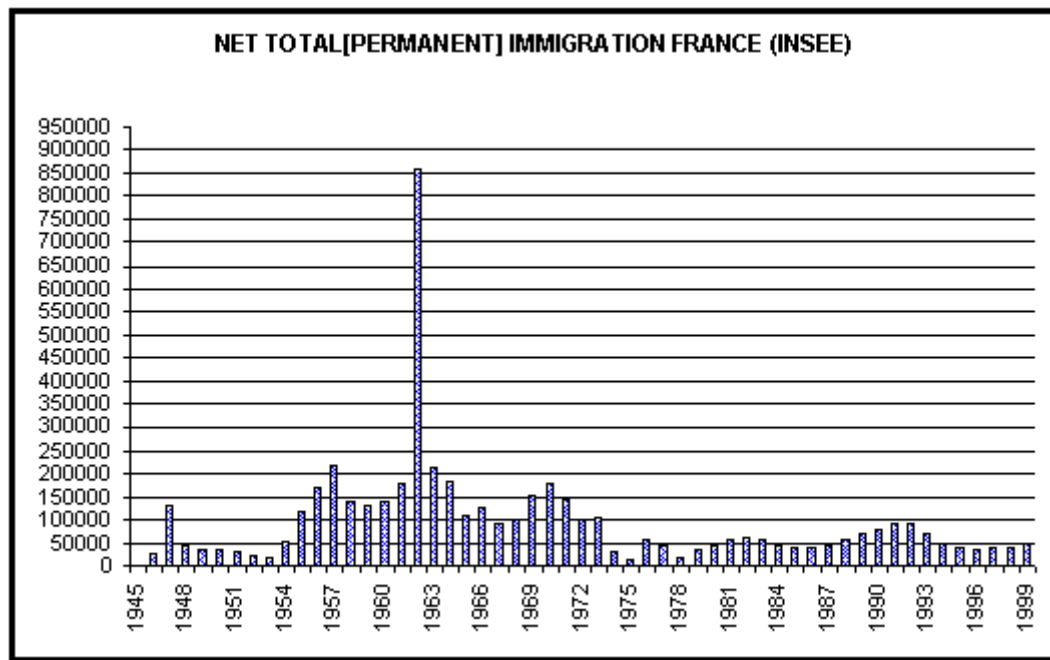
Brussels is the exception to the rule in Belgium. Due to the short term international traffic connected with international and EU political institutions, there are more renters than home owners in Brussels. Elsewhere in Belgium there is a tendency to oversupply: at any time about 25% of housing stock is up for sale or for rent. 80% of real estate sales are conducted via real-estate agents.<sup>53</sup>

## **France**

When the Second World War ended France, like most of Europe, France had a severe housing shortage, especially in Paris. Between 1952 and 1962 ratcheting prices occurred due to land shortage, rapid population growth and lack of public housing stock. However this pattern did not persist. In 1963 a law came into being for taxing capital gains. This law, combined with sustained programs to catch up with the provision of public housing stock, are two changes which might have contributed to the flattening out of housing prices. 1962 was actually the year of a one-off massive increase in population in France. The population increased by almost a million immigrants and more than a million persons in total, instead of numbers between 150,000 and 200,000 immigrants more typical of that rapid growth period and total annual growth of around 450,000 p.a. (Currently net [legal] migration is probably around 70,000 and total annual growth was about 0.39% between 1990 and 2001.) It is remarkable that prices did flatten out for such a long period.

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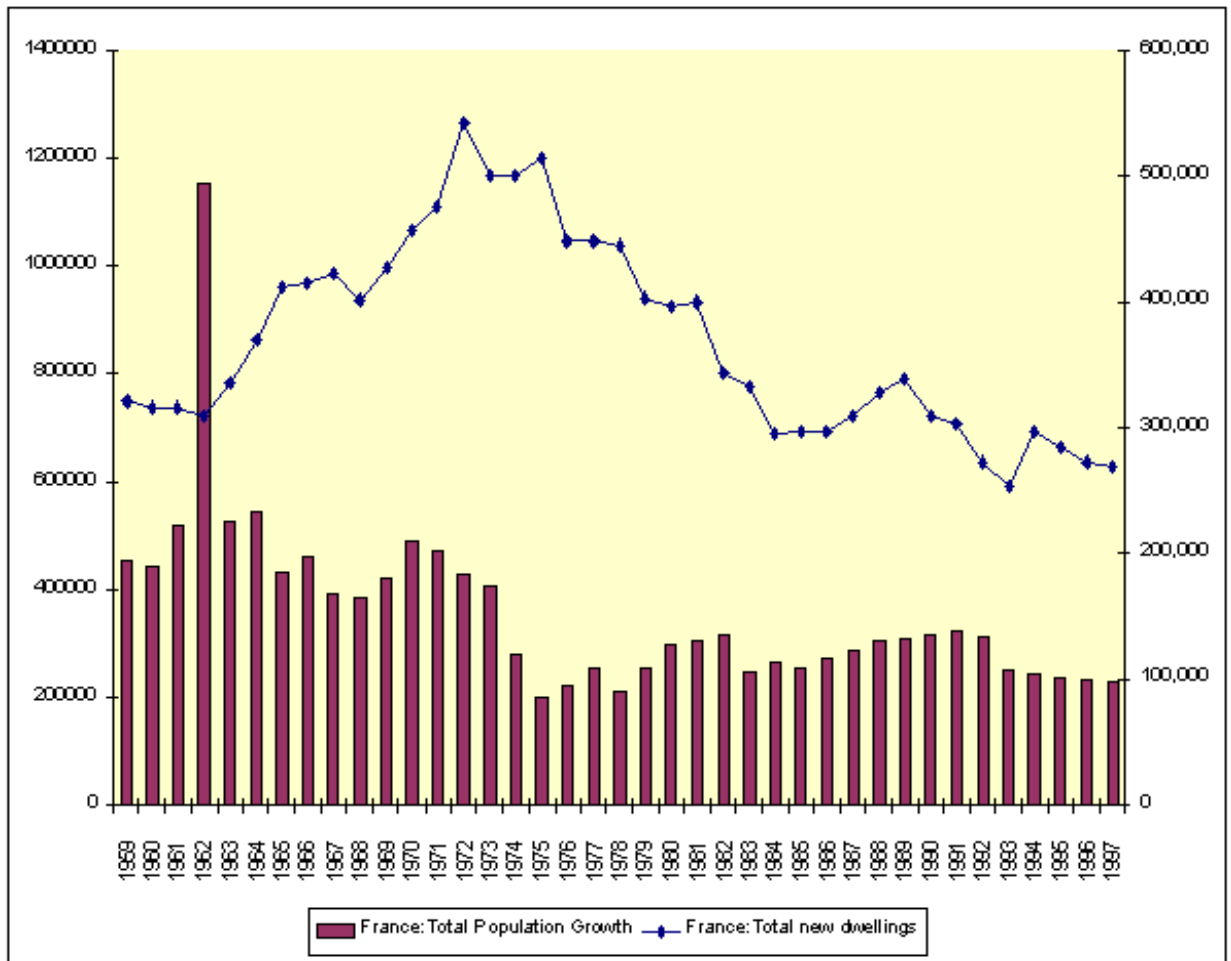
<sup>53</sup> Belgium's history and system is interesting and relevant but I cannot spare the time to add it here.



**Fig.6 Net Total [Permanent] Immigration France(INSEE)**

Source: S. Newman, *The Growth Lobby and Its Absence*, Appendix 4. Original Source: 1946-1990, Roselyne Kerjosse, Irène Tamby, "La Situation démographique en 1994: mouvement de la population", INSEE, Paris, 1996, Table 3, "Evolution de la population totale depuis 1946, Evaluation fondée sur les résultats des recensements de 1946 à 1990. Data source for 1987-1997 was INSEE: "France Métropolitaine, Indicateurs démographiques 1987-1997.

Between 1947 and 1962 Algerians were French nationals and movement from Algeria does not show up as an international statistic over this period. Between 1957 and 1962 there were numerous defacto attempts to discourage Algerian immigration, which included allowing workers from Algeria to be housed in shanty towns rather than compete with mainland French for housing. The extraordinary intake for 1962 was mostly of a French colonial stock repatriating to France the year of Algeria's independence.



**Fig 7 France's Total Population Growth and Total New Dwellings between 1959 and 1997.**

This is a dual axis graph. Source: S.Newman, unpublished research: Figures for France came mostly via various secondary sources, with the exception of the years 1992-1997, which were obtained directly from the *Annuaire Statistique de la France*, INSEE 1999. The secondary sources for French data were: Groux & Levy, *La possession ouvriere*, Les Editions Patrimoine, 1993, Table 9, p109, "Evolution du nombre de logements acheves selon le mode de financement durant les "trente glorieuses": 1945-1976, for the years 1964-1976; and Maurice Blanc and Laurence Bertrand, *Housing Policy in Europe*, Routledge, 1996, p.127, for the years 1980-1991. Population data was from INSEE.

From 1950 very cheap government subsidised loans for home purchase and construction were brought in, but with a ceiling on the price of the work to be subsidised. These loans were restricted to persons of lower income in 1963 to target the less wealthy home owner aspirant. Because local financial institutions of the time were unable to keep up with the demand of those who did not meet these criteria, in 1979 it was made easier to qualify for

home purchase and construction subsidies and cheap loans, but a ceiling was still imposed on the total cost of the work to be financed.<sup>54</sup>

### **Comparing European cities for buying or renting**

According to Gilles Arnaud<sup>55</sup> Paris, Rome, Berlin, Madrid and Amsterdam could be said to have some comparability for rentals, but London is 'on another planet', whereas Brussels is quite cheap. For purchasing real-estate, London is three times as expensive and Rome is seven times more expensive than Paris.

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<sup>54</sup> « Logement sociale en Europe et aux etats unis », Encyclopaedia Universalis France S.A. 1997. Since France is a major subject of this submission I shall not go into further detail here.

<sup>55</sup> Gilles Arnaud "Actualité - Tour d'Europe du marché immobilier", NexDom News July 2003  
<http://www.nexdom.com/scripts/fr/interactif/nexdom-newsjuillet2.asp>,



## **Systems of Land Development Planning**

In this submission I identify and compare two different systems of land development planning. Land development planning of cities and housing and other spaces in Western Europe is very different from statutory planning and housing in Australia and America. A major difference that has emerged is the relative lack of land speculation.<sup>56</sup>

One of the functions of government in any society is that of directing and controlling housing outcomes through appropriate housing policy. The form of that policy will vary from country to country, depending upon the particular form of society and governance. Terry Burke in his curriculum handout for Swinburne students, analysing housing and related planning policy, describes Australia, the United States, and Canada as market liberal federal systems, meaning that their "national political system is built around States with their own autonomy and rights." Their emphasis is on market processes and small government. Another system exists in other countries which have "unitary systems, where the national political system is dominated and controlled by a central or national government." He adds that this difference is "often neglected in an analysis of housing policy", but that it is an important one.<sup>57</sup>

**Nationally co-ordinated Land Development Planning :** This is France's system. It is a nationally based and co-ordinated and involves State direction of public land. Uses are planned a long time in advance. The State purchases land specifically for public housing, equips it with infrastructure and releases it to builders. Land is also set aside for forests, roads, agriculture and other social and economic uses.

**Statutory or Land Use Planning :** This is Australia's system. Australia's planning system reflects that Australia is a market liberal and federal society. There is no national planning system as planning is the responsibility of the states and local government. It is also a non-interventionist system compared to much of Europe, as the objective is to facilitate and direct the market rather than to override it. Although land is initially zoned by state governments and there are forums for the public to raise objections to development initiatives, the system is piecemeal and no-one in one area is aware of what is being done in another area unless they take special steps to find out. This is because administration of the development controls that attach to zones is left to the myriad of local governments, each with their own interpretations and aims and objectives. Despite the fact that land is initially zoned, rezoning is comparatively easy, due to the absence of overall long-term

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Burtenshaw, Bateman and Ashworth, *The City in West Europe* are useful for clarifying differences in land development systems, as part of the structure and implementation of property development in France and Australia.

<sup>56</sup> Burtenshaw, Bateman and Ashworth, *The City in West Europe*, John Wiley and Sons, New York, Toronto, 1981

<sup>57</sup> Terry Burke, *The Australian Housing System*, course notes for the Cities and Housing Program, Swinburne University of Technology, Hawthorne, Victoria, Australia, NO79AS487/2/6/1999, Module 2: "The Australian and International Housing Systems", 4.4.2, 'Systems of Government', p. 15.

planning framework in most states and territories and a greater desire to accommodate the needs of the private sector than in non-market liberal societies.

### *Australia*

The two systems are clearly very different and the literature on one does not often speak to the conditions of the other. Consequently the two systems will be analysed separately here.

Michael Cannon's *The Land Boomers*,<sup>58</sup> and Neville Hicks, *This Sin and Scandal*,<sup>59</sup> helped me to make connections between land speculation, economic growthism and population boosting. Cannon's work was about land speculation in Melbourne and Sydney in the 1890s and Hicks wrote about the desperate machinations of businessmen of the time to induce a rise in the birth rate and in immigration.

After the long boom associated with the 1860s gold rush, when gold ran out, international immigration dried up, the birth rate fell, and people went interstate, to Queensland and West Australia, following gold discoveries there.<sup>60</sup> The worst economic depression in Australia's history followed.<sup>61</sup> Up to the crash, however, more allotments had been subdivided for suburban houses in Melbourne than would have been sufficient for the entire population of London. In 1893 there were 14,000 vacant houses there.<sup>62</sup>

An unpublished doctoral thesis by Sandra Bardwell, *National Parks in Victoria 1866-1956, "For all the people for all time"*, 1974<sup>63</sup> provides valuable documentation of historical changes to space and amenities, in the form of the reservation of parks, changes to forest cover and increments to urban areas.

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<sup>58</sup> Michael Cannon, *The Land Boomers, The Complete Illustrated History*, Lloyd O'Neil, Australia 1986

<sup>59</sup> Neville Hicks, *This Sin and Scandal, Australia's Population Debate 1891-1911*, Australian National University Press, Canberra, ACT, 1978

<sup>60</sup> Leon L'Huillier, "Depression and a National Economy", *Essays in Economic History*, Ed. James Griffin, Jacaranda Press, 1973, pp 186-207. In 1894 a run of bad seasons culminated in a backbreaking drought that had a severe impact on the wool industry and the cattle industry. The restocking of the latter was not completed until 1909. This added to the liquidity problems of financial institutions and was contributory to the crash. But things were different in the West. By 1903 Australia was the leading producer of gold in the world. Between 1886 and 1888 there was a gold mining revival, beginning in Queensland at Charters Towers in 1886 and by 1888 having spread to new locations in West Australia: Kimberley, Pilbara, Murchison, Southern Cross, Yilgarn, Coolgardie and Kalgoorlie.

<sup>61</sup> Michael Cannon, *The Land Boomers, op cit*, Chapter 4, "The Hungry 1890s", pp36-48 and 377. In the 1890s this demographic and financial boom terminated in a terrible crash and starvation had actually stalked the streets of Melbourne, along with rioters, prostitution and infanticide, influenza epidemics and typhoid.

<sup>62</sup> Michael Cannon, *The Land Boomers, op.cit.*, p.20.

<sup>63</sup> Sandra Bardwell, *National Parks in Victoria 1866-1956, "For all the people for all time"*, PHD Philosophy, Dept Geography, Monash University, Clayton Campus, December 1974, (Two volumes, 742 pages).

Bardwell shows that the Gold Rush and its attendant land rush had rapidly devastated much of the Victorian landscape. Land was cleared for housing, for fuel and for agriculture as well as to dig holes to look for gold. The impact on forest cover was so early so devastating that the Land Act (1865) Commissioners recommended investigating the merit of establishing State Forests. They described examples of protective overseas legislation and raised the issue of massive forest clearing and the connection with climate change, drainage problems and water supply.<sup>64</sup>

It seems clear that rapid population growth was a good thing for the property development industry, but a bad thing for ecology and the environment.<sup>65</sup>

Continuing a similar line of research to Cannon's history of land speculation were Leone Sandercock's books, *The Land Racket* (1979) and *Property, Politics and Urban Planning* (1990).<sup>66</sup>

Sandercock describes these books as historical studies of the "national hobby of land speculation" beginning in the 19<sup>th</sup> Century. The first concentrates on corruption in the Victorian property development and housing industries with the institutionalisation of private interests over public interest in land development planning.<sup>67</sup> In her second book<sup>68</sup> she establishes the relationship between property speculation and population growth and the fact that it is an issue which gives rise to conflict among planners in Australia.<sup>69</sup> She provides a clear definition of "land development planning and statutory planning". Sandercock actually expressed these two concepts as: "development planning" and "statutory or land-use planning",<sup>70</sup> but I have changed the first to "land development planning" to avoid confusion with foreign aid 'development' programs and to emphasise the fact that land use of all kinds may be involved in this kind of forward large scale nationally co-ordinated planning. She also establishes very firmly the existence of

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<sup>64</sup> Bardwell, *Op. Cit.*, p.320, citing C.W. Ligar, C. Hodgkinson, R.B. Smith, "Report on the advisableness of Establishing State Forests", Papers Presented to Both Houses of Parliament, Vol.IV (Session 1864-5). Some of the things they recommended were plantations of native and exotic species to serve future need.

In the 1904 Edition of the *Cyclopedia of Victoria*, the Editor, James Smith, claimed that in the 1860s he "induced the Ministry of the day to proclaim large areas of forest land Permanent Reserves" on the basis of his precautionary words about the dangers of soil erosion and siltation where hillsides were denuded of vegetation. Source: Bardwell, *Op. Cit.* p. 320 citing the *Cyclopedia of Victoria*, The Cyclopedia Company, Melbourne, 1906, Vol. I p.220

<sup>65</sup> In the last part of chapter two of *The Growth Lobby and its Absence*, land-use planning and ecological theory for biodiversity needs is explored.

<sup>66</sup> Leone Sandercock, *The Land racket*, Silverfish, Australia, 1979 and *Property, Politics and Urban Planning*, Transaction publishers, New Brunswick (USA) and London (UK), 1990.

<sup>67</sup> Sandercock *op.cit.*, ascribes the particularly strong hold of the speculators in Victoria to the strong influence of the Country Party (which became the National Party later) on Victorian Government during the Menzies years. I am unable to comment on this factor.

<sup>68</sup> Sandercock, *Property, politics, and urban planning, op.cit.*, (1990), p. 1

<sup>69</sup> *Ibid.*, p.195.

<sup>70</sup> Sandercock, *The Land racket,op.cit.*, (1979), p.82.

speculation as an institution in Australia and the role that government's accommodation of private interests in land development and housing play in facilitating this.

### **France**

Modern French land development planning and public housing traditions and law in France actually had their origins quite early in the 20<sup>th</sup> century. Jean-Pierre Gaudin documents this in "Urban planning techniques and political legitimacy in France at the beginning of the twentieth century".<sup>71</sup> Ironically, the First World War appears to have had a beneficial effect on planning. Gaudin writes that the "scope of reconstruction work made necessary after the bombing in 1914-18 prevented those defending private property and real-estate speculation from holding up the process any longer." The process was to pass national laws making town planning compulsory, providing powers of compulsory purchase, and increasing the powers of the communes and the government. This process was first discussed in 1909 by the French Chamber of Deputies.<sup>72</sup>

After the first world war forward planning of "development, improvement and extension programmes"<sup>73</sup> for the allocation of land-uses became a reality. In a paper for an urban planning conference in 1923 at Strasbourg, France, G. Bechman wrote that "the period of small-scale road maintenance operations, designed with a narrow-minded outlook, prepared and undertaken in isolation, accompanied by a great many endless formalities, to end finally in ruinous expenses, is now definitely over".<sup>74</sup>

Gaudin writes that French planners immediately saw that plans for new residential areas would have little chance of success if it was attempted to implement them on land belonging to private owners. Hence laws were made for compulsory acquisition of land by government for the building of public housing and amenities, financed by taxes. The goal was for "land regrouping" where the State would purchase private land to form blocs destined for specific public use. The Cornudet planning Act of 1919 continued on a national basis the principles of planning initiated by the famous statesman and planner, Haussmann, who remodeled Paris between 1853 and 1869 and had a lasting influence on urban design throughout Europe.<sup>75</sup> It had the purpose of dealing "with the question of the future development of the city and built-up area; the general review and modification of routes of communication, conservation of existing open spaces, formation of wooded

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<sup>71</sup> Jean-Pierre Gaudin, "Urban planning techniques and political legitimacy in France at the beginning of the twentieth century", *International Journal of Urban and Regional Research*, Vol 12, No.3, pp 515-530

<sup>72</sup> *Ibid*, p.515.

<sup>73</sup> *Ibid*, p.515, Gaudin cites Bechmann, G., "Urbanisme et legislation en France", in *Où en est l'urbanisme en France et a l'etranger?*, Colloque de la Societe française des urbanistes, Strasbourg.

<sup>74</sup> Jean-Pierre Gaudin, *op.cit.*, p.515, citing, Bechmann, G., "Urbanisme et legislation en France", in *Où en est l'urbanisme en France et a l'etranger?*, [What is the State of Urban Planning in France and Overseas?] Colloque de la Societe francaise des urbanistes, Strasbourg. [Conference of the French Society of Urban Planners, Strasbourg].

<sup>75</sup> Encyclopedie Encarta 1998.

reserves, rational distribution of public buildings, creation of health, archaeology and art organizations and major clean-up operations."<sup>76</sup>

The concept of protecting the heritage of future generations through "plans based on forecasting" was thus introduced and legitimatised in France before 1920. Planning was a communal responsibility according to the principles of "social solidarity", a concept popularised by the Radical Party at the turn of the century. The idea was that those who had become rich in a society owed a debt to the society as a whole, for their wealth had been acquired through many anonymous acts of cooperation over time.<sup>77</sup> This philosophy provided an important rationale for taxing speculative profits.

These innovations to the structure and implementation of property development seem to have contributed to a situation in France where there were, arguably, fewer obstacles to nationally co-ordinated land planning development than in Australia. Structural limitations and taxation disincentives to land speculation seem to be especially important. For instance, although in 1945 according to their urban planning projections, the French had anticipated a higher growth rate, both by natural replacement and immigration, far into the twentieth century when growth slowed dramatically from 1974 onwards, these plans could be revised without the kinds of revolt and lobbying for renewed population growth that occurs in Australia from the property development and manufacturing sectors. An indication of this flexibility of planning was the capacity by government to reduce funding for public housing and subsidies for private home buying.<sup>78</sup> Since government provided much of the funding for housing of all kinds this dramatically reduced the creation of unnecessary new housing stock.

In an international comparison, Barry Simpson provides further information on planning and infrastructure provision in his *Planning and Public Transport in Great Britain, France and West Germany*, Longman, 1987. This work gives numerous instances of specific laws authorising public authority land requisitioning and obligations for developers during different periods. The comparative material is useful as well because it demonstrates the broad similarities of Western European planning approaches. Simpson's work also contains a few examples of where private property development had found ways around institutionalised planning obligations. This situation is alluded to by Burtenshaw and Bateman below. It seems that property speculation was just getting ready to seriously entrench in France, particularly in the commercial sector, when the oil crash came.<sup>79</sup>

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<sup>76</sup> Jean-Pierre Gaudin, *Op. Cit.*, p.522, citing Latour, 1919 on the Cornudet Act. (No further details of publication given regarding Latour, 1919.)

<sup>77</sup> Jean-Pierre Gaudin, *op.cit.*, p.524.

<sup>78</sup> See Claudie Louvot, Division Comptes et études de l'industrie, "Le BTP depuis 1945", *Insee Première*, No. 472, July 1996. (4 pages).

<sup>79</sup> Burtenshaw, Bateman and Ashworth, *op.cit.*, pp 68-69, write that there was "no established tradition of speculative office development prior to British involvement in the French property market. Indeed, in the mid-1960s, 80 per cent of new office space was for owner-occupancy. The situation changed rapidly in the 1970s, however, as British companies turned their attention to property development in Europe, and the balance in new office provision was reversed so that approximately 80 per cent of new office space was built speculatively. In much of Europe from the late 1960s onwards, British property companies became very active as promoters of new urban development. Their somewhat voracious methods were not always

Another source of international comparisons is the *International Handbook of Housing Policies and Practices*.<sup>80</sup> Willem Van Vliet in his introduction to this collection of articles, provided material to situate Australian development and housing policies and practices internationally.<sup>81</sup> He evoked the different roles that governments in capitalist systems could take in land development,<sup>82</sup> writing that in the US “local growth coalitions dominate” and national government intervention is minimal. Australian policy and practice seem to be closer allied to US practice than European practice, as I suggest often in my thesis. He adds that “political constituencies in many European countries were better positioned to extract government commitment to public concerns such as education, health and housing than was the case in the US, Canada and Australia”.

Van Vliet does not comment on the relationship between population growth and housing, but he does write that “housing has also been an instrument of population-related policies” and gives examples which include the redistribution of population (in Britain, the Netherlands, China ...) which were part of broader strategies to stimulate economic growth, but also to protect agricultural land and curtail adverse effects of urbanisation, and to promote the integration of diverse population groups.

## Public and Private Housing Policy

There is in fact quite a lot of comparative work on housing policy internationally.<sup>83</sup>

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welcomed. In some cases, and notably in the case of Brussels, they were totally insensitive to the pre-existing urban fabric. In this case, controls were imposed somewhat belatedly to prevent further transformation of sensitive parts of the city.” Burtenshaw, Bateman and Ashworth cite Goodall, B., *The Economics of Urban Areas*, Pergamon, Oxford, 1972, for an explanation of the rise of speculative office building .as mostly due to “the massive flow of funds available for property investment in the postwar period via insurance companies and pension funds. Further, the restrictions on the increasing of capital in post-war Britain could be circumvented by the so-called leaseback transaction. This enabled a company to sell its interest in a property, but to lease it back from the purchaser. In the process, the company raised much-needed capital and the purchaser, often an insurance company, had found in property a secure investment for part of its funds. Property companies themselves were often funded by insurance companies with pension funds. All of this activity meant that property, seen as an investment with a very high return, in comparison with other investment and the added advantage of being at that time virtually inflation-proof, was being actively developed.”

<sup>80</sup> Van Vliet, (Ed.), *International Handbook of Housing Policies and Practices*, Greenwood Press, 1990, “Cross-National Housing Research: Analytical and Substantive Issues,” pp.1-83

<sup>81</sup> Unfortunately there was little material on France. Western Europe was mainly discussed in terms of Italy and Germany.

<sup>82</sup> Ed., Willem Van Vliet, *International Handbook of Housing Policies and Practices*, Greenwood Press, New York, 1990, “Cross-National Housing Research: Analytical and Substantive Issues,” pp1-83; p.3. In Japan, (which is a country known for the intense activity of the construction industry), the national government “is a powerful actor working in tandem with conglomerate firms to shape local development”. “In Italy political parties have legislative and bureaucratic power to set rent levels and control landuse.”

<sup>83</sup> The following were important sources.

Terry Burke, Peter W. Newton, Mary Ann Wulff: “Australia”, Ed. Willem van Vliet, *International Handbook of Housing Policies and Practices*. This describes trends in housing conditions and construction from 1945-1986, the changing context of housing provision from 1975-1986 especially in Europe. It

A number of key differences exist in the housing systems of France and Australia. One is the greater role of public housing for the lower socio-economic strata in France compared to Australia. Where Australia's in the mid-nineties was five per cent of stock, that of France was 17 per cent.<sup>84</sup> The obvious point to make here is that the housing system in France is therefore more amenable to state control than the largely private Australian system. The two other important aspects of the way housing is provided are, firstly, that the Australian system is dominated by the detached dwelling (almost 80 per cent of stock) whereas the French, notably in urban areas, is dominated by flats and apartments.<sup>85</sup> Secondly and relatedly, the construction of housing in Australia is dominated by small builders, where the French system is controlled more by large builders using industrial techniques. The small scale fragmented nature of the former, along with the more marketised nature of the residential building industry means it is much more prone to booms and busts and therefore to the speculative opportunities that a boom and bust process creates. The role of household growth and migration in relation to the attributes of the housing system including the tendency to market speculation and production is one theme of the research.

Many of these books are primarily concerned with better servicing the housing needs of the lower socio-economic strata. This objective is of obvious social importance, but, in pursuing it they unavoidably provide information on patterns of provision and rates of provision of different kinds of housing in relation to population growth and immigration. Statistical sources help us to establish rates and patterns of population growth through immigration and natural replacement, but historical and sociological studies are necessary to elicit material on interactions between immigration and production and access to housing.<sup>86</sup>

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covers tenure status, housing quality, housing construction, housing type and location, special population groups and changing patterns of household formation, the cost of housing, the role of housing institutions and organizations: planning, house building, housing design, finance, and the real estate industry. It gave me more information about the differences between Europe and the English speaking settler states.

Terry Burke, *The Australian Housing System*, Modules 2 and 7, institution published text of course notes for the Cities and Housing Program, Swinburne University of Technology, Hawthorne, Victoria, Australia. Terry Burke kindly provided me with these modules and answered questions I asked him. Module 1 was "The Australian and International Housing Systems" and Module 7 was the Land Development and House Building Industries. Module 1 gave a broad overview of different systems and used comparative graphs and tables to show different characteristics, usually using UN Demographic sources. Module 7 showed the still largely speculative nature of the Australian housing industry and the tendency for the majority of property developers to be separate from building firms and the relationship between these participants in the industry and their impact on labor conditions, technology used, housing supply and costs.

<sup>84</sup> Some sources were Michael Ball, Michael Harloe, Maartje Martens, *Housing and Social Change in Europe and the USA*, Routledge, London, 1988 and Laurent Ghékière, *Marchés et politiques du logement dans la CEE*, la Documentation Française, Paris, 1991, David Hayward, "The Reluctant Landlord? A History of Public Housing in Australia", *Urban Policy and Research*, Vol.14, No.1., 1996, pp5-21.

<sup>85</sup> As French population growth slows, detached dwellings become more accessible and affordable and, per capita, there is more space inside dwellings. Climate and energy considerations need to be borne in mind even in country towns, where houses tend to be built with shared walls in order to share heat.

<sup>86</sup> These included Professor Ronald F. Henderson, Chairman, Australian Government Commission of Inquiry into Poverty, First Main Report, April 1975, *Poverty in Australia*, Vol.1, Australian Government Printing Service, Canberra 1975, p.269; Monique Hervo and Marie-Ange Charras, *Bidonvilles*, Cahiers

### *The Residential Construction Industry*

Burke (1999) points out that the methods by which housing is produced, as well as its form, have important implications for housing policy, including low income housing provision.<sup>87</sup>

The residential construction industry is that part of the property development industry that actually designs and builds residences. His work makes it clear that the structure of the provision of housing and systems of land development, housing policy, and the residential construction industry are interdependent.

For some time I concentrated on material that described actual residence construction industry organisation, technologies and product design. I thus initially zeroed in on differences between the way the residential construction industries in France and Australia had adapted to energy price changes and economic recession, supposing that organisational and technical changes in the French residential building industry after 1973 reflected a drop in demand due to lower population growth, together with a rise in the cost of building materials and wages. I assumed that this alone must have led to so much contraction in the industry that it had been unable to marshal sufficient forces or funds to lobby for more migrants or to attract international finance.

Although I was right about the depressant effect on the French residential construction industry, what I did not realise is that I would find no evidence of any part of the French property development industry, including the residential construction industry, *ever* having relied upon or lobbied for population growth, especially not from immigration. The time I spent researching characteristics of the residential construction industry that emerged after 1973 proved to be useful however, for establishing industry flexibility. Importantly it also provided indications of relationships between rising energy costs and industry restructure or lack of restructure and change or lack of change in product design and focus in each country during this period.

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Libres, 1972; Jacqueline Costa Lascoux, *De L'Immigre au citoyen*, La Documentation Francaise, Paris, 1989; Patrick Weil, *La France et ses étrangers*, Calmann-Levy, 1991, and Castles and Kosack, *Immigrant Workers and Class Structure in Western Europe*, Second Edition, OUP, 1985.

<sup>87</sup> Terry Burke, *The Australian Housing System*, Module 2, "The Australian and International Housing Systems", 5.2, 'Housing Production, Land Ownership and Development', Swinburne University of Technology, Hawthorne, Victoria, Australia, 1999, p. 18. "The methods by which housing is produced, as well as its form, have important implications for housing policy, including low income housing provision. Australia, Canada, New Zealand and the United States all have housing industries which are fragmented, largely small-scale, and oriented towards the construction of single detached housing, although the United States and Canada have made considerable inroads into multi-unit housing. For lower income housing provision and broader objectives, this has a number of advantages. It is likely to have lower management and maintenance costs than scattered detached housing and, by enabling higher densities, can reduce the land component of new construction costs. Construction costs in general can be reduced by the receptiveness of this type of housing to standardised factory techniques. It allows for the incorporation of community facilities if built at sufficient scale, for example, 50 plus units, and reduces infrastructure costs and enables a more consolidated urban form.



The main thing to emerge from reading about the course of the residential construction industry in France and Australia was that after the 1973 oil shock, the French industry restructured. This was also the case in the rest of the EEC. In France the industry rationalised resources, utilised new technology and adapted design and production to increased energy costs and to the reduced product demand.<sup>88</sup> This reduced product demand was related to reduced population growth and reduced government projects and finance.

In contrast, the Australian industry made few if any such adaptations although a number of similar conditions initially prevailed. From the late 1970s however, there was actually infrastructure, residential and office construction *expansion* in Australia. There are many indications that the Australian construction industry came to rely on overseas borrowing, much of it brokered through international Japanese construction companies.<sup>89</sup>

Peter Rimmer's article, "Japanese construction contractors and the Australian States: another round of interstate rivalry", provides material indicating major international financial links to State infrastructure and residential and office construction projects. He describes Australian States competing for international funding in the face of the post oil shock economic fall-out.<sup>90</sup>

Sandercock, in her introduction to *Property, Politics and Urban Planning*<sup>91</sup> describes very clearly how from the "late 1970s until its defeat in 1983, the Fraser government relied ..." on attracting foreign investment by the provision of cheap power and encouragement of the "provision of infrastructure for private sector resource" which relied heavily on foreign borrowing.

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<sup>88</sup> In France the housing industry adapted by greater energy efficiency of housing design, by refurbishing old buildings and most of all by adapting to customer demand and factory construction with major pre-payments, rather than borrowing to build speculative estates. The Government also reduced its annual commitments to public housing construction. Inflation, which affected the public's ability to purchase houses caused many in the building industry to go broke. Sources: Claudie Louvot, Division Comptes et études de l'industrie, "Le BTP depuis 1945", *Insee Première*, Paris, No. 472, July 1996. (4 pages).

<sup>89</sup> Peter J Rimmer, "Japanese construction contractors and the Australian states: another round of interstate rivalry", in the *International Journal of Urban and Regional Research*, E. Arnold, London, Vol.12., no.3., pp.404-24.

<sup>90</sup> Rimmer, *Op. cit.*, p.405, writes that since 1980 major Japanese construction companies had been hurt by policies of zero public sector growth, preference for regional contractors, and sluggish private sector activity in Japan (a result of fiscal policy in the early 80s). They had therefore sought work in other countries. They brought with them the funds invested by Japanese investors and banks, offering "the most favourable fixed price" and "to take an equity in the project if necessary, arrange loans at low interest rates from financial institutions in Japan or Australia" and guaranteeing "any money required if the project [went] over cost". (p.418). Australia, which was keen to attract major projects during the recession, largely in the hope of job creation, responded to these inducements. The States vied with each other to attract these Japanese construction projects, many of which were in real estate. Eventually a law was brought in making it illegal to sell real estate to foreigners, since the influx of Japanese capital inflated real-estate prices particularly in Sydney (p.421). The author writes that "keen for the economic benefits and political spin-offs, the states, as we have seen, are prepared to override the usual planning role performed by local government of directing development into preferred locations to meet economic, social and spatial preconditions." (p.417)

<sup>91</sup> Sandercock, *Property, Politics and Urban Planning*, Transaction Publishers Edition, 1990, p.17

Rimmer also alludes to immigration as a way for foreigners to acquire cheap land in Australia.<sup>92</sup> Ernest Healey's thesis, *The Political Economy of Immigration and Multicultural Policies under Labor during the 1980s and Early 1990s*<sup>93</sup> hypothesises global market and finance motivations for a connection between high immigration policy for Australia and the vision of Australia as more imbedded in Asia. These are new ways of looking at the relationship in the Australian property development industry between high immigration and land speculation. *The Bold Riders* by Trevor Sykes, as well as chronicling the activities of the grand Australian speculators of the late 1980s, provided evidence of some relevant links between these speculators and government.<sup>94</sup>

Fagan writes that after 1975 State governments increased their foreign borrowing firstly to finance infrastructure projects, especially for mining, and later to "offset mounting balance of payments deficits on current account."<sup>95</sup>

Between 1963 and 1977 capital from Japan increased ten-fold. From less than 10% in 1972-75 under Whitlam, foreign investment in Australia increased to 49% of GDP in 1990-91. By 1986 *more than half* was destined for real-estate investment.<sup>96</sup>

It appears thus that the Australian economy was able to perpetuate pre 1973 conditions by overseas borrowing, whereas the French economy chose a more conservative path.

Prime Minister Fraser liberalised foreign investment rules under the *Foreign Takeovers Act (1975)*.<sup>97</sup> Successive amendments have progressively removed barriers for foreigners to purchase land in Australia. Few restrictions remain. A 1987 amendment prohibited foreigners from purchasing established residences, but since 10/9/99 a foreigner married to an Australian citizen may co-purchase an established residence. There is no restriction on

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<sup>92</sup> Rimmer, *Op. cit.*, p.421, "Fearing a similar situation to Hawaii where foreign investment has sent house prices sky-rocketing, the federal government has ended its open access policy in respect of the acquisition of residential real estate for foreign-owner occupiers. [In September 1987] it stipulated that foreigners cannot buy houses or home units. Under these new guidelines, approval is not required, however, for Australians living abroad, immigrants with permission to settle permanently in Australia and foreign companies seeking accommodation for senior executives."

<sup>93</sup> Ernest Healey, *The Political Economy of Immigration and Multicultural Policies under Labor during the 1980s and Early 1990s*, Doctoral thesis, Department of Anthropology and Sociology, Monash University, April 1997. See pp i-iii for the hypotheses. Healey does not specifically refer to property development.

<sup>94</sup> Trevor Sykes, *The Bold Riders*, Allen and Unwin, St. Leonards, New South Wales, Australia, 1996 edition, printed 2000.

<sup>95</sup> R.H. Fagan, "Foreign Investment", in *Australian Encyclopaedia*, Terry Hills, NSW, Australian Geographic, Pty. Ltd, 1995, p.1394.

<sup>96</sup> *Ibid*, pp. 1393-1394.

<sup>97</sup> Now known as the *Foreign Acquisitions and Takeovers Act (1975)*. Information about the changes to this Act over the years are to be found in appendices to the Foreign Investment Review Board Annual General Reports. An internet source is : [http://www.firb.gov.au/policy\\_pubs/publications/AnnualReports/1999-2000/appd.htm](http://www.firb.gov.au/policy_pubs/publications/AnnualReports/1999-2000/appd.htm) A useful general source of the history of foreign investment in Australia is R.H. Fagan, *op.cit.*

purchasing any other land with the exception that foreigners must notify the Foreign Investment Review Board when they intend to purchase developed non residential land for more than \$50 million.

In France, foreign borrowing and foreign investment were discouraged up to the 1990s. Pompidou changed policy to the extent of facilitating foreign investment in productive industries that created employment, "Greenfield investment", but discouraged the buying out of French enterprises. From the mid 1980s French investment overseas increased. By 1992 French direct investment abroad made up 18% of the world total and 32.1% of investments originating from the EEC. Most of this finance was invested in Europe. From the mid 1980s foreign investment in France increased, but most came from within Europe. Up to 1992 EEC investment was clearly preferred. After 1992 policy was less discriminatory. There has developed over this period a notable symmetry between imports and exports.<sup>98</sup>

Van Vliet in *International Handbook of Housing Policies and Practices* analyses the average size of residential construction firms in different countries in the 1980s as an indicator of efficiency in the building industry. Australia's firms were among the smallest, with about 20,000 firms in 1984-1985 with an average of 3 employees each, including the working proprietors.<sup>99</sup> This point is important to my argument as the size of construction firms is linked with the ability to adapt new methods and this is a factor in reliance or lack of reliance on accelerated population growth. In *The Australian Housing System*, which refers to the different systems in Europe and the English speaking settler countries, including Australia, <sup>100</sup> Terry Burke comments that developers in Australia frequently employ a strategy of "inviting as many builders as possible to set up display houses. Some have up to 60 different builders working on their estate at any one time. This fragmentation not only limits the degree to which the builders can appropriate development gains, but also further restricts their ability to embark on more industrialised forms of production techniques that might occur on site."<sup>101</sup>

In short, the cases of France and Australia provide many differences in industry restructuring post 1973, differences in energy use practices, differences in infrastructure investment and in overseas borrowing. Added to differences in population growth rates between France and Australia, these variations underpin my argument that Australia took a 'cornucopian' route and that France took a 'Malthusian' route after the 1973 international oil related economic crisis.

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<sup>98</sup> Michelet, Charles-Albert, in "France", in Dunning, John, H., (Ed)., *Governments, Globalization, and International Business*, OUP, 1997, pp.313-334, p.317-322.

<sup>99</sup> Willem Van Vliet (Ed.), *op.cit.*, p.19

<sup>100</sup> *The Australian Housing System*, Module 2, "The Australian and International Housing Systems," *op.cit.*, p.18.

<sup>101</sup> *Ibid*, p.32.

## Trends in affordability

The HIA graph cited in the Issues Paper does not, in my opinion, give a very accurate picture of the gravity of ‘housing’ affordability problems in Australia because the HIA ‘housing affordability’ measure it uses graphs ‘average’ household income rather than ‘mean’ household income in Australia. The ‘average’ income is much higher than the ‘mean’ income since it includes some very high incomes in the national aggregate. For instance, whilst the *average measure* of gross household disposable income per capita was \$21,000 per annum in 2000, the ‘share of equivalent income going to the bottom fifth of Australians was only 7.1%, and that share going to the upper quintile was 38.5%.<sup>102</sup> Mean total weekly earnings of all employees before tax was \$653. Median gross weekly income of couple with dependents was \$1000 and median gross weekly income of one-parent families was \$424.<sup>103</sup>

## Another concept of affordability:

The use of other indicators and methods by the Land Values Taxation group gives a wider picture. It aggregates the value of land for all Australia, then averages it among all Australians, then separates costs of the actual building structure, and runs these alongside the value of dwelling assets per capita, and of household disposable income. This way we get a more comprehensive long term picture which includes population growth. Sadly, the author of this study recently passed away but someone who could interpret the operative definitions and the method and theory would be Maury Fabricant, a land tax expert, on (03) 95124869.

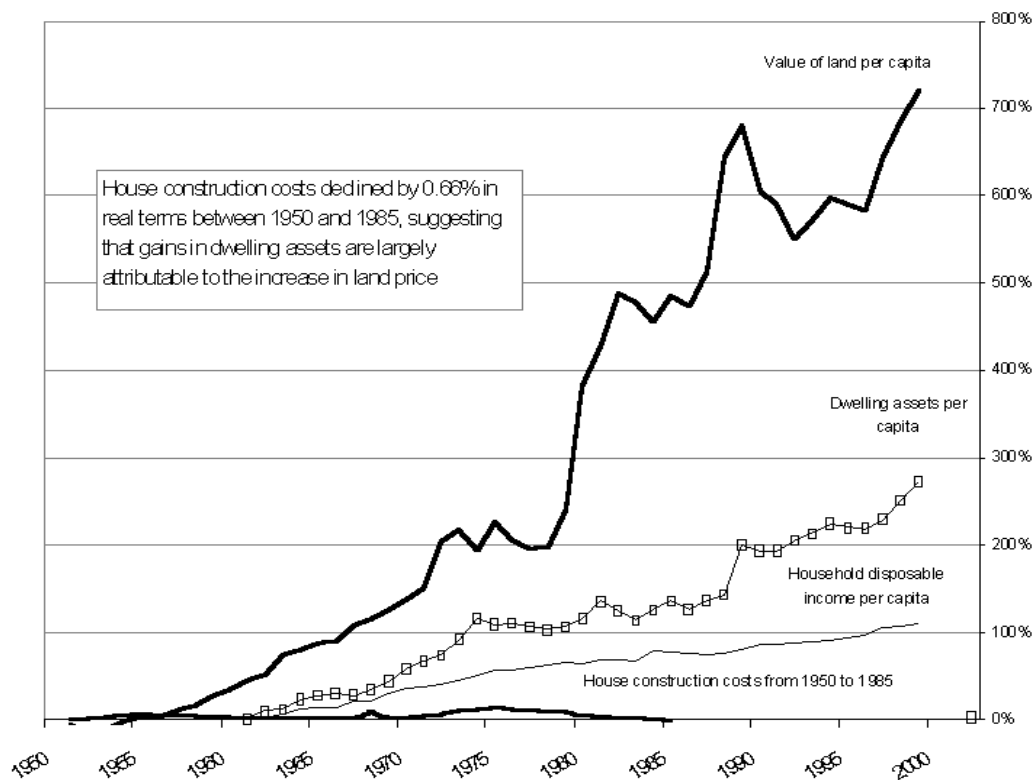
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<sup>102</sup> Per ABS Australian Social Trends 2001, Income and Expenditure – National Summary tables, [www.abs.gov.au/ausstats/abs@.nsf/0/D73C9385A4DC114...](http://www.abs.gov.au/ausstats/abs@.nsf/0/D73C9385A4DC114...), downloaded on 30/9/03 at 11.58 am., Table, “Income Distribution”.

<sup>103</sup> *Ibid* and *Op Cit*, “Sources of Income”.

Real per capita percent change of selected economic indicators (1950 to 2000) AUSTRALIA

Real per capita percent change of selected economic indicators (1950 to 2000) AUSTRALIA



**Fig. 8 “Real per capita percent change of selected economic indicators (1950-2000) Australia”**

Source: Tony O’Brien, Land Values Taxation Group, published in *Progress*, The Journal of Prosper Australia, special edition 2001, 1/27 Hardware Lane, Melbourne 3000. For statistical definitions used and data sources see note here.<sup>104</sup> (Records of house construction costs were no longer available after 1967 in this series.)

<sup>104</sup> Statistical definitions, data sources and methods: “Consumer Price Index”: *Year Book Australian 2000*, CD Rom, CPI Prices Long term price series.

“Capital Value of Land”: *Report on General Revenue Grant Relativities 1999*, Commonwealth Grants Commission, Volume III, Appendices and Consultants' Reports", Consultancy by Australian Valuation Office 1998, pp 373-413. I have adjusted the figures between 1993 and 1996 inclusive, to include rural land values, which were excluded from the official valuations in 1993. Rural values, when last assessed (1992), equated to 11.18% of total land values, whereas in 1984 they made up 19.6% of total values. I have therefore added 11% to the figures in the official tables for the years 1993 to 1996.

“Estimated site rent”: Based on records maintained by the Land Values Research Group in Melbourne. These figures record estimates based on Victorian figures, of total Australia-wide real estate sales over the period. Site values are assumed to be approximately 65% of capitalised values. The site rent is calculated as the yield on the capitalised values for each of the years in the survey.

“Dwelling Assets”: *Economic roundup, Australian Net Private Wealth 2000*, Table 1(b): “Real private sector wealth at market value” (a). Treasury Historical Data. (See also fig 3 above). Virtually all of this rise is due to land price alone, since housing construction costs have in fact declined over the period in question, and will obviously continue to do so as we get smarter and more efficient, and therefore more economical in our use of materials and labour.

“Business Assets”: *Economic roundup, Australian Net Private Wealth 2000* Table 1(b): “Real private sector wealth at market value” (a). Treasury Historical Data. Treasury Historical Data

“Total Wealth”: *Economic roundup, Australian Net Private Wealth 2000*, Table 1(b): “Real private sector wealth at market value” (a). Treasury Historical Data. Treasury Historical Data. Total business assets and total dwelling assets do not add up to total wealth due to a net liability consisting mainly of foreign debt, which in 1999 was estimated to be \$A537 billion against foreign investments valued at \$A230 billion.

“GDP Chain Volume”: Statement 9: The Public Sector (From The 1999 2000 Budget Papers).

“Labour”: Extract from Reserve Bank of Australia Gross Domestic Product Income component Historical. G11 to September 1999.

“Aggregate weekly hours worked”: Reserve Bank of Australia Table GO6 Labour to Sept 1999.

“House Construction Costs”: *Australian Historical Statistics*. (Editor Wray Vamplew), Fairfax, Syme & Weldon Associates. 1987, p357. See also fig 3 above.

“Household Disposable Income per capita”: Reserve Bank of Australia: GDP, Income component Historical. G11 to September 1999. The rise in disposable household incomes cannot, even roughly, be equated to a rise in individual incomes, since over the designated period, a large number of households went from having one income earner to two, as more women entered the workforce; i.e a very large number of households went from being one-income to two-income households. I calculated the percentage increase in this category by “deflating”: the gross household disposable income by the percent rise in population over the same period; hence the designation ‘per capita’. Because of the difficulty of defining the annual fluctuations in the number of income earners in a household, the average and minimum wage statistics are a much truer indicator of percentage change in wages.

The table below used figures based on data from the following: 1999 2000 Budget Papers Statement 9; Reserve Bank of Australia Bulletins; Treasury Historical Data; Treasury *Economic roundup* - “*Australian Net Private Wealth 2000*”; *Australian Historical Statistics*, Fairfax, Syme & Weldon 1987. Incomplete data, ie, those not spanning the whole 50 years from 1950 to 2000, are still valid in that they indicate the “trend gradient” of that series and therefore may be validly compared to those series which span the whole period. For example, the wages line although only starting around 1972, nevertheless shows a very slow real increase over the 30 years to 2000 as compared with, say, the capital-value-of-land line over the same period, (1972 to 2000). The site-rent line, starting at the same time, shows a similar rate of increase to the capital-value-of-land line, which is what we would expect. Figures are based on Commonwealth Grants Commission Report on General Revenue Grant Relativities 1999, Volume III, Appendixes and Consultants’ Reports”, Consultancy by Australian Valuation Office 1998, pp 373-413. Calculations used are derived from figures from *The Australian System of National Accounts 30<sup>th</sup> June 1998*, Australian Bureau of Statistics (ABS) Catalogue 5204.0. I have extrapolated the 7% increase in land values a further year up to June 2000 from June 1998. See also; *Housing Occupancy and Costs Australia 1995 – 96*, ABS Catalogue 4130.0.

An alternative calculation based on Dwelling assets recorded in *Australia’s net private Wealth* in the ‘Economic Roundup – Summer 2000’, Table 1(a) ‘Nominal Private Sector Wealth at market value’, from the Commonwealth Treasury, was calculated as follows. Capitalised values of private sector dwellings for 1999 was \$A1357 billion. I took residential unimproved site values to be 65% of capitalised values, and

## USA History of Housing

Slums were a feature of big industrial cities in the US in the 19<sup>th</sup> Century, which was a time that coincided with the birth of Henry George, who invented the land-tax economic theory of *Progress and Poverty*. (The geist movement which sprang up from this was overtaken by socialism, which has since been subsumed by capitalism.) Roosevelt's "New Deal" of 1932 promoted funding for public housing and schemes to assist home ownership. The construction of public and private housing became a major factor in economic and infrastructure expansion in the US along with the car. In the 1973 oil-shock Nixon stopped funding home ownership but continued to assist rentals for poor families. The public housing sector has degenerated into housing for the marginalized and by 1988 comprised only 1.4% of total housing stock. Reagan reduced public funding from \$31 m in 1978 to \$9.5 m in 1987.

## Canada

Factors which have been cited to explain the higher than the average activity on the market in Canada are "lower interest rates, the low levels of inflation, strong economic bases and the massive influx of new buyers via the immigration and upscale social promotion." In Canada prices rose by nearly 6% between June 2001 and in some areas like Toronto and Montreal, they rose by 10%. Affordability was deteriorating and was "expected to pass over 33% of the household incomes by the end of 2002."<sup>105</sup> Note that Canada has a system which allocates funding to the states according to immigration intake.<sup>106</sup>

## Markets for housing

## What determines market outcomes?

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this to represent 75% of all sites residential, commercial and rural, thus giving a total unimproved site value of \$A1176 billion for 1999 and with an increase, estimated by the ABS of 7% to 2000; a current value of \$A1258 billion. It should be borne in mind that the *Dwelling Assets* referred to in the Treasury table from which these extracts were taken include neither vacant residential land, nor the estimated value of non-rateable land of \$38 billion suggested in the National accounts referred to above. The choice of 65% as the ratio of unimproved site value to Capital Improved Values is accepted by most valuers as a reasonable average over all sectors. Percentage figure of 7.3% used for site rent calculations is averaged over the three sectors. The sector site rent percentages are those suggested in May 1999 by B. Kavanagh, Director of the Land Values whole of Australia.

<sup>105</sup> Simeon Mitropolitiski, "Canada: Not A Bubble But Still Not A Healthy Boom", *Sponsor*, 13 June 2002, © 2002, Simeon Mitropolitiski, simeon@ired.com

<sup>106</sup> Unfortunately I cannot find the article I refereed on this to cite, but I could look it up if anyone wanted to see it.

The internet has permitted real globalisation of Australian real estate. By keeping population growth high, lobby groups have kept dwelling/land prices growing and have maintained investor interest. This has been explored elsewhere in this document.

## **Population and demographic change**

**“To what extent has immigration influenced overall housing demand? Has it been a significant factor in the recent surge in housing prices? “**

**“Is the boom a long-term trend?”**

## **USA: The impact of Immigration in the USA and the Housing Boom**

Below I have cut and pasted an article sent to me from the US. It is by the Vice President of Strategy for Domania/Primedia, which are Press related global real-estate marketers which have their counterparts in Australia in [www.domaine.com](http://www.domaine.com) and [www.realestate.com](http://www.realestate.com) which are both owned respectively by Murdoch and Fairfax Press.

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## **Underneath Housing Prices: Bubble Or Solid Foundation?**

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### **A brief review of the impact of interest rates and immigration on real estate prices and industry employment.**

Last week, a friend told me that her friend's acupuncturist's astrologer predicted a decline in housing prices for summer of 2003. While I was trained as an economist, so you might think I feel threatened when palm readers make real estate forecasts. But, I am a humble economist and I believe in the free market. I have always felt that regulating fortunetellers but NOT economists was unfair. It is the quality of the results, not the rigor of the analysis that matters. Besides, I am sure that astrologers charge less than economists (and real estate agents). Another reason to let them practice in peace.

However, if you want more than that astrologers' view, I offer the following simple explanation of why I do not anticipate a fall in housing prices. It has to do with sex in foreign countries. If people keep having babies abroad (safe prediction) and they see America as the promised land, so long as our immigration flood gates remain open, then demographics, the fundamental driver behind US housing growth guarantee that prices will not fall. But let me distinguish my forecast from the astrologer with some rigor.

### **Focus on the Resale Market**

Credit, war, economy, and El Nino are not the key long term variables in resale housing growth. If you plot interest rates, GNP growth, unemployment and even war against the long term data on existing (not new construction) home sales you find that these are not the primary drivers of home sales volume. The reason is simple, housing is like oxygen. While housing may be a good investment, people buy homes because they need a place to live. Life change events like babies, marriage, retirement and merit salary increases are the primary drivers behind home buying. Housing: you just gotta have it!



New construction is different. It IS impacted by everything: GNP, interest rates, building materials, labor costs and weather. My focus is resale homes and the mortgage sector, so let me defer any new construction prognostication to the experts at the National Association of Home Builders.

While the home price bubble may not burst, let's not forget mortgage servicing and the retail channels, the lender's own branch operation and independent mortgage brokerages.

If and when the seemingly permanent refi boom ends, I see a cataclysmic reduction in unemployment in mortgage brokers. When interest rates rise, more than half of the mortgage origination and processing employment will blow away in the dust. It has happened before, though not as dramatically as can be expected this time.

This chart demonstrates that tremendous growth in mortgage lending employment has continued throughout 2002.

However an interest rate rise don't seem anywhere in the offing, but even if rates stay stable surely the volume has to shrink eventually. In time, every borrower, even those with 550 FICO scores will have refinanced and re-refinanced.

At that point, lenders own retail channel will also shrink, but slower than the brokers resulting in market share gains. And once the refi boom is over, lenders will uncover a new/old channel: Realtors. The easy money of the refi boom has caused mortgage brokers to neglect their historically close relationship with real estate agents - their primary source of referrals. Look for lenders to rediscover Realtors late this year.

After mortgage brokerage gets decimated, lenders will have mixed feelings on what comes next. Obviously origination income shrinks. On the positive side, servicing portfolios will get some stability, impairment charges (the downside of the refi boom) will return to normal and servicing may get back to profitability if average loan life rises above four year break even level. As the flood of applications abates, I hope lenders will become concerned with retention, which is a miserable 7%. Yes, today, 93% of mortgage borrowers DON'T stay with their current lender when they borrow for their next home. Only the funeral industry has lower customer retention rates! Customer retention is the "low hanging fruit" for lenders looking for a "new" channel. Two lenders, Chase and CitiMortgage are very forward thinking in this area, and they are implementing programs that maintain relationships with their borrowers, as well as tools that detect when a loan is "at risk" of runoff, whether due to refinance or purchase prepay. Note that Chase and CitiMortgage are Domania clients.

## Back To Real Estate

But, let's get back to real estate. Just as the new car market is supported by a healthy secondary or used (excuse me "pre-owned") car market, likewise, growth in the housing market depends on first time or new home buyers. First time buyers nip at the heels of current owners and are the fundamental engine of volume growth in the resale market.

### **Up is Not Down! It's Different.**

In analyzing the risk that the bubble will burst, I believe that people confuse the factors behind price increases and price declines. Different forces drive prices up and down. Let's disaggregate the reasons behind home price rises and falls. While fear and greed are part of the equation, price rises are mostly rational, while declines (or the lack of) is irrational. Price increases are driven by excessive demand, low interest rates (the real lever on housing prices), and recently, the excess cash injected into the economy from stock market profit taking. Price declines are very different.

A near catastrophe is required to make prices fall. The reason is human psychology. We are more willing to sell our stock and take profits (upside) than to acknowledge losses (downside). Prices are very "sticky" (reluctant to fall) in the downward direction. Just as we are reluctant to sell stocks that have lost value, because we figure "*may as well hold, they might go up*", the same goes for housing. I still own my CMGI

stock which costs Fidelity more in stamps on my statements than the shares are worth. Consumers are very reluctant to recognize losses unless a catastrophe hits us over the head and says that there is no prayer of a recovery in the near future. Prices dropped in Massachusetts in 1990, and there was a sharp drop in Southern California prices in the early nineties. Low rates notwithstanding, we should have had a price decline starting a year ago. But we are all stubborn about recognizing losses.

Now, let's get back to sex in foreign countries to illustrate why home prices won't fall. I don't believe there will be a housing price bubble because the key driver of primary demand is untouched: the flood of immigration to the US continues unabated. This keeps the market flush with first time buyers who come in at the bottom, and support the market as they move up. They comprise roughly 11% of all resale home transactions. Let me give a brief history of immigration to bring focus your attention on demographics, and help you understand the impact on housing.

## Domestic Stability

Back in 1957, the population was 171 million and the Elvis had two top ten hits. My parent's generation was apparently weak at math, and the US birth rate reached its high point at third world levels: an average of 3.8 children per woman. Today, the country has 100 million more people than in 1957!

In 1980, I was in my first house, and the US population was 226 million. The eighties added twenty-two million souls. By comparison, it was only 203 million souls ten years earlier. The growth of the eighties was like adding an additional Atlanta and all of its sprawl every two years! That gets a homebuilder salivating, and an environmentalist crying!

However, 1990 was a milestone year. Although the population reached 250 million - up a whopping 47 million from 1970, the US came close to stabilizing the population. Families had just 1.9 children - right around the stable replacement level. Perhaps our bedroom math skills improved and couples were able to calculate that college and food bills cost more for three kids than two!

Also, in 1990 I was on my third house. Home prices had just fallen by seven percent in Massachusetts, and it took five years to recover my loss. Domestic population stability was overshadowed as immigration rules loosened and the floodgates opened for legal and illegal immigration. During that 1990s, the immigrant population increased by 57% to 19 million. And the foreign born proportion of the population rose to almost 8 percent. Over one third of population growth in the 1990s was due to immigration.

Immigration added 1.1m immigrants annually in the 90s. Further, the higher immigrant birth rate compounds the effect of immigration beyond the first order effects.

Today, almost 25% of the US population is foreign born, and the forecast for legal immigration in the next FIVE years suggests that we will add another 10 million. With new home construction at just over one and a quarter million units a year, we can expect that immigration is filling half of the future new home demand pipeline. If immigrants.

## All States Are Not Equal

In the 1990 census, six states held 75% of the immigrant population, but only 39% of the housing stock. Immigration (and home building?) is concentrated in California, New York, Texas, Florida, New Jersey and Illinois. Other states are affected by migration whether it is foreign, domestic snowbirds or California escapees.

Did you know that Massachusetts has more people per square mile than Haiti? Or were you thinking of moving to Colorado? The influx increased Colorado's population by one million (1,017,488 to be exact) in just TEN years. A 22 31% increase in ten years. Once pleasant Fort Collins has suffered 28,000 new residents in the last ten years. So what do Realtors think about growth? I remember asking the head of a large real estate brokerage in Fort Collins to compare the housing market in growth-conscious Boulder with his town. The confident answer was that his practice would thrive with or without limits. Growth controls

certainly raise house prices, and thus the commission on a side whereas new construction increases salable inventory.

Do you plan to move to Missoula? Do your kids plan to get a job in Idaho Falls? Doubt it. Fort Collins notwithstanding, they are more likely to move to Washington, DC, Phoenix or Las Vegas. The National Geographic depicts bison as standing in a vast emptiness, and we know that America is a country of wide-open plains, and infinite space. However, you, me, our kids and immigrants are not headed to North Dakota. We are moving to Walnut Creek, Colorado Springs, Bethesda, Norcross and Jacksonville. Are you planning to move to a “fly fishing” state where the cows outnumber the people?

## National Origin

For years, the National Association of Realtors has promoted the immigrant market opportunity to its aging membership. Roughly one third of homes sold were to first time home-buyers, and in turn, about 1/3 of first time buyers were immigrants. Like the NAR, the Mortgage Bankers Association, FannieMae, FreddieMac, every major bank and myriad federal programs provide initiatives to help immigrants become homeowners. In his address to the MBAA’s recent convention in Chicago, HUD Secretary Martinez’s speech focused not on programs for Americans, but on a Peruvian family that achieved homeownership less than two years after their arrival in the US. These exhortations are well rooted in statistics. In 2000, Mexican immigrants were the largest group, comprising just over a quarter of the foreign born residents. China, the Philippines, India, and Cuba, El Salvador, Vietnam and Korea provided another quarter.

Of the 6m homes sold each year, about 10% of the market or 600,000 homes are sold to immigrant first time buyers. If immigrant home buying is concentrated in the resale sector, not new construction, then immigration is even more important to the resale market, being perhaps 12% of the total. This is a market where prices and growth are sensitive to new customers, including foreign ones.

## Immigration Vs. Home Ownership!

Last week, I hid in a cave for my quadrennial immersion deep in the minutia of housing stats. The state variations in homeownership fascinate me, and I am used to New York being at the bottom (Big Apple apartment dwellers?) and West Virginia near the top (affordability trumps growth). What surprised me was that home ownership in California a top immigrant destination, was an astoundingly low 58% - ten points below the national average. Looking deeper, I found that there is a correlation between low home ownership and the double-digit immigration states (immigrant population above 10%).

State	% Ownership	% Foreign Born
US	68%	11%
DC	43%	13%
NY	54%	20%
HI	56%	18%
CA	58%	26%
RI	60%	11%
MA	61%	12%
TX	64%	14%
NV	65%	16%

Although there is a correlation, this does not prove causation. What is the cause of low home ownership rates in the top immigration destinations? Does immigration push up the demand side and put pressure on prices that makes housing unaffordable? Or is there a natural time lag as immigrants build the capital to become homeowners. More study is warranted.

## The Wrap Up – Immigration=Demand

We want cheap labor to cut our lawns, prepare our fast food, skin chickens and even build our homes. And immigration provides demand side pressures that support housing growth and the current price levels. Population growth benefits the value of our homes, but devours open space and wills a more crowded America to the next generation. Our children will have to worry about disappearing cornfields in Fort Collins, golden hillsides in Vista, leveled woodlands in suburban DC and filled wetlands in Fort Meyers.

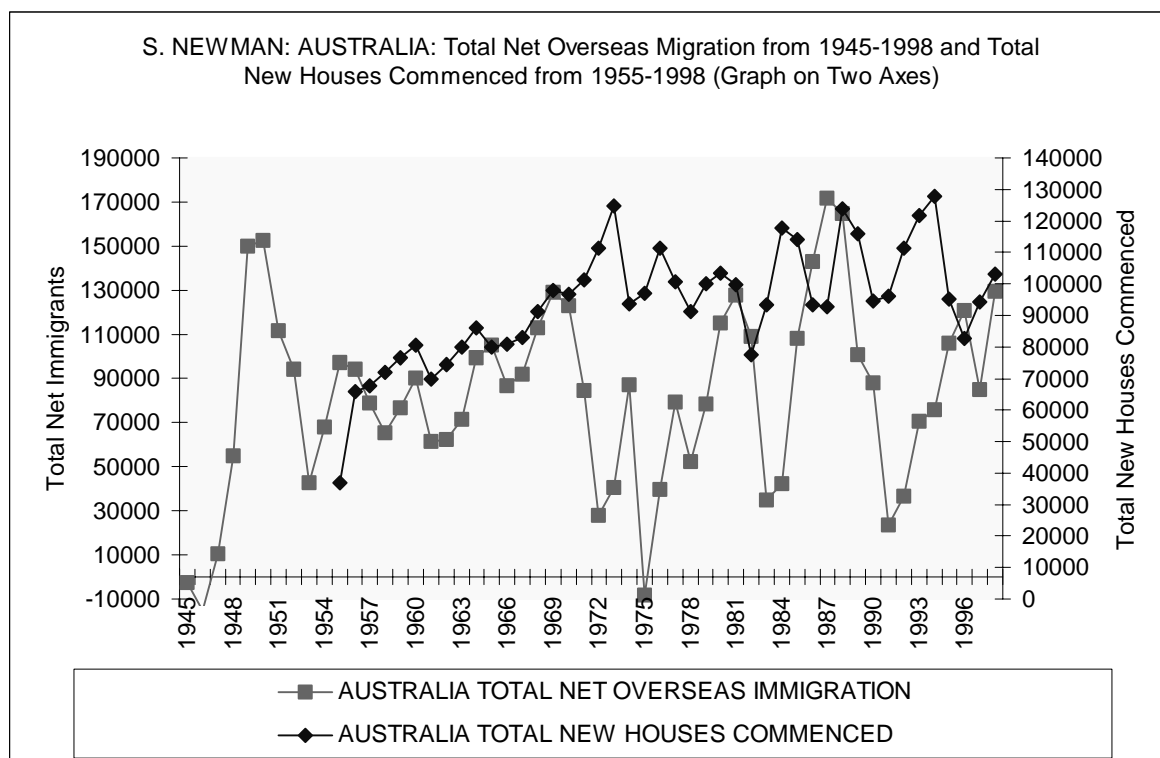
As a key driver of housing growth, and price rises, immigrants and home prices are safe as there is no national plan or consensus to change our immigration policy. There is no likelihood that the gates will be closed on immigration, a key driver in housing demand.

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## **Dynamics of Immigration-fed demand and how it links with prices in Australia.**

Note that below I am summarising here from *The Growth Lobby and Its Absence*, Chapters 7 and 8, and that the full argument also relies in part on comparison of Australian conditions with the different performance of French housing prices in the absence of immigration-fed demand. In France the Massive reduction in demographic growth and dwelling construction in France was fundamentally linked to the 1973 oil shock and coincided with it. Public housing funding was slashed in 1974 and production immediately fell. Funding of the private sector rapidly shrank and by 1975 private housing production had also dropped enormously. (See preceding Fig 5). Figure 9 below shows how land and housing production rose relatively steadily in Australia as long as immigration and natural increase contributed to steady growth in demand. The see-saw boom and bust of the post war housing market did not come into being really until the oil crash when the smooth flow of post war immigration was interrupted in conjunction with a slow dive in fertility rates.



**Fig 9 Australia: Total Net Overseas Immigration (year ending December 31) from 1945-1998 and Total New Houses Commenced from 1955-1998. <sup>107</sup>**

The purpose of this graph is to show broad statistical relationships between immigration and property development, which are fairly clear between 1955 and 1971. Time prevented me from exploring the relationship between State population growth and housing starts, but graphs for the states like this would be very useful. Nevertheless, we can see that after the first oil shock there was an initial overshoot of building and then the relationship is much more irregular.

Source: ABS Timelines series, 875001\_wks, Table 1, "Number of Dwelling Units Commenced: Seasonally Adjusted and Trend." Source for Total Net Migration was ABS 3101, various years, and Commonwealth Year Books, Various years. This is a graph on two axes and has been displayed on two axes in order to highlight the movements of the respective units (net immigrants and new houses commenced) in relation to themselves. (Since numbers of dwellings commenced varies within a smaller scale than numbers of immigrants, if numbers of dwellings were placed on the same scale as numbers of immigrants the apparent scope of variations would have been diminished.) Note that this graph deals only with private sector houses. A later statistical series counts, as well as detached houses, which is the earliest in the series, other kinds of new residences, including apartments - "Total Private Dwellings". In the year 2000, total private dwellings was on an upturn in production, whereas detached houses were showing as a slight decline. All data for housing was "original data", that is, not smoothed for trends. This choice was because of a desire to use comparable data sets, and the earliest sets were "original data".

<sup>107</sup> From S. Newman, *The Growth Lobby and Its Absence*, *Op cit.*, Fig. 8.1

Figure 9 chronicles the negative immigration in Australia due to the Second World War and then the return of soldiers and the arrival of new immigrants in 1948 and 1949, years of immigration that were never to be exceeded until 1987 and 1988, when Prime Minister Hawke gave amnesty to Chinese students in Australia following the Tiananmen Square Massacre of June 4, 1989, after which many Chinese became permanent immigrants, with substantial subsequent chain immigration.

We can see that around the time Menzies introduced policies (notably in 1950 and 1956)<sup>108</sup> to encourage private home building to overtake public housing, housing construction went from less than 40,000 dwellings per annum in 1955 to nearly 70,000 in the space of one year. After this, dwelling construction clearly appears to closely follow the general trend in immigration between 1967 and 1972. 1973 is the first year of five years - 1973 to 1979 - when the trend of net immigration to continuously rise, taking into account relatively small troughs, was suddenly reversed, with relatively small peaks and enormous troughs.

Over this very period, however, housing construction proceeded at higher levels than ever before and prices rose. Certainly there are valleys in between the peaks, but they are very high valleys if we compare them to the peaks preceding 1973. In fact housing construction remained at an all time high average over this period. It was not until 1983 that the optimistic waves of new dwelling construction succumbed to a year of greatly diminished production, falling to around 1963/64 levels at about 75,000 dwellings - a number which had once seemed quite reasonable for the industry.

Between 1973-1982 the Australian situation resembles the contemporaneous French one, with the production of dwellings in a state of comparative overshoot, relative to population growth, both from immigration and in relation to total population growth. However after 1983 the situation no longer resembles the French one. See Fig. 5 "France and Australia, Total New Dwellings Commenced, 1964-1997"

In France the housing industry began collapsing between 1974 and 1975. Production declined until 1984, and, after survivors had consolidated, its course remained much more

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<sup>108</sup> J.M.Bourke, "Social and Economic Aspects of Government Housing" in Jill Roe, Ed., *Social Policy in Australia, Some Perspectives, 1901-1975*, Cassell Australia Ltd., 1976, pp277-283. In 1943 the Chifley Commonwealth Government created the Housing Commission under National Security Regulations to investigate the existing situation and needs for the future in the immediate post-war period. The Commission reported that housing would be a vital aspect of effective regional and town planning and that 'The Commonwealth Government should take an active part in housing'. (p.279). Subsequently the Commonwealth-State Housing Agreement came about in 1945. In this the Commonwealth government agreed "to provide State Governments with funds for housing purposes repayable over a period of 53 years at an interest rate of 3 per cent. The Commonwealth further agreed to bear 3/5 of any possible financial losses and provision was made for families with low incomes to be granted rebates on rental. Things began to change, however, under the Menzies government. (19/12/49-26/1/66) When the first 10-year agreement expired, a new agreement for a period of only five years was signed in 1956. The new agreement, however, made no provision for the continuation of a rental rebate scheme, but increased the interest rate on moneys loaned to the State for housing purposes from 3 % to 4%." The 1956 CSHA agreement redirected 30% of funds that had been destined for public housing into strategies to assist the public tenants buying the houses they were renting. <sup>108</sup>

modest than prior to the crash. What is interesting is the way the Australian housing industry not only recovered, but went on to ever greater production, with peaks in 1985, 1989 and 1994 (the highest peak ever). Prices rose and this churning out of dwellings occurred despite the fact that affordability was at all time lows according to the CBA/HIA index,<sup>109</sup> due to the highest ever interest rates. After the high housing production there was a period of relatively low price increase coinciding with immigration being cut temporarily but strongly, in 1992 and 1993. It did not return to high levels until 1996.

Note that the prolonged flatness of prices in Melbourne coincided with outward interstate migration from Victoria to Queensland and other places (where prices rose). In these areas the property development industries took advantage of the relatively low land prices there to purchase land and resell it to builders and home buyers as the flight from Sydney's high prices produced new homebuyers in Northern coastal NSW and Queensland. The outward bound interstate migrants from Victoria would have been a partial response to the presence of construction jobs in these growth areas.

Despite the apparently 'flat period' for prices, they actually never really dropped after 1987. It is this phenomena that I call 'Australia's ratcheting effect'. Furthermore, from 1987 on, prices in the major capital cities of Perth, Sydney and Melbourne began perhaps the steepest ascension since the 1890s.

We know that this phoenix-like activity had something to do with foreign investment.<sup>110</sup> Following the October 1987 US stock market crash, there was in fact a world wide boom in property speculation.<sup>111</sup> In Australia, however, it is possible that the rise in housing prices had a lot to do with a return to high immigration, particularly in 1980 and 1981 and especially in 1988 and 1989.<sup>112</sup> Price rises began with the sudden peaks of immigration in

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<sup>109</sup> Source: Housing Industry Association, *CBA/HIA Housing Affordability Index* tables and *Housing Industry Association Economic Research: Housing Affordability Index: Methodology and Data Source*, 15 April 2001.

<sup>110</sup> Ian Burnley and Peter Murphy in *Immigration, Housing Costs and Population Dynamics in Sydney*, Bureau of Immigration and Population Research, AGP, 1994, ISBN, 0 644 349107, p.76 concludes that "Changing patterns of foreign investment in residential property and Sydney's incorporation in the 'Pacific Rim' economic dynamism via investment in business, professions and tourism were almost certainly influential [on Sydney's rising dwelling prices]."

Trevor Sykes relates: "At one of the parties Bond derided a table of WA Liberals, saying they had always helped overseas investors in the state but not the local entrepreneurs. Under Labor, Bond claimed, entrepreneurs such as himself would be given the mandate for any new projects. Then overseas capital would be invited to finance the projects and the local entrepreneurs would wind up with a free ride. The Liberals laughed, but the formula Bond enunciated was almost exactly what would happen." Trevor Sykes, *The Bold Riders*, Allen and Unwin, Second Edition, 2000, p.71. The date of this would have been after September in 1983.

<sup>111</sup> Jean-Jacques Grenelle, *Où en est la promotion immobilière privée?*, p.4. Jean-Jacques Grenelle is an economics professor at the University of Paris XII, Val de Marne, France. And Joseph Comby, *La Boucle est bouclée*, p.4. Both these articles are from *Etudes Foncières*, L'Association des études foncières, 7 avenue de la République, 75011, Paris, Tel. 33 156 982000 and are available on the internet at <http://www.foncier.org/articles/78/78Granelle.htm>

<sup>112</sup> See *The Growth Lobby and its Absence*, *Op cit.*, Figures 8.1, 8.3, 8.4 for all States and, for Melbourne only, Figure 8.2.

1988,<sup>113</sup> rather than at the beginning of the international property boom in 1987, when they first show in Paris. (See Figure 3: Dwelling Prices and Affordability in France at the beginning of this submission). Although immigration numbers fell in 1992 and 1993, following Immigration Minister Hand's recession-related immigration cut-back, housing production increased. The international speculative cycle was still going. It ended around 1996, when there was another big trough in housing production in Australia.

As we are aware though, another international boom began shortly after. And, if you look at charts for housing prices in Australia, you could be forgiven for stating that the first boom never stopped in Australia. Yes, there was a slight drop in prices, but, unlike Paris and its provinces, we have never gone back near the starting point. In 2000 prices came down to the heights they had reached in 1998 – big deal, some might say – before rising like shooting stars in 2001, surpassing themselves again in 2002 and in 2003.

By themselves, these assertions about the dependency of the property development industries on high immigration (since the birth rate refuses obstinately to rise), coupled with the ratcheting prices that appear to accompany population growth, might show that there would appear to be benefit to the industry in high population growth. But unless we could show that the industry knew this and encouraged this and benefited from it, this would remain a rather speculative assertion. However there is plentiful evidence that the property development industry not only knows that there are major benefits in lobbying for high immigration, but that they consistently do this and have organised efficiently at national level in numerous bodies to do so. Thus the entire country has been yoked to frenetic population and infrastructure building, based on corporate and individual debt. Although this has recently relied on an ideology that links growth in GDP to population growth, none among the interested parties has been able to demonstrate that, per capita, individual Australians are substantially better off through this. There is, however, quite a lot of study to indicate that population growth, especially when divided into a commodity based economy with substantial debts, simply divides a limited family fortune up between an increasing number of heirs. And the general pattern is that most of the fortune will go to just a few of the heirs. The bulk will remain indebted, impoverished cousins.<sup>114</sup>

## **Institutionalisation of Industry Lobbies for population growth**

During the 1860s gold rush the demand for housing and infrastructure seemed inexhaustible and there was an extraordinary land boom, with subdivisions marked off far beyond the cities. Population 'boosting' by the property development industry and those upstream and downstream has been going on in Australia, on and off, since the decline of this gold rush. The first organised business lobby group was in the form of the Enquiry

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<sup>113</sup>*The Growth Lobby and its Absence, Op cit.*, Figure 8.4 which shows peaks for several States. Figure 8.1, which is for Melbourne only, shows the peak in 1989, possibly reflecting the milder immigration curve.

<sup>114</sup> Refer to footnote 21 comparing Australia to Saudi Arabia.



into the Decline in the Birth Rate in NSW in 1904.<sup>115</sup> This 'enquiry' came about after gold ran out in Victoria and people (mostly men) left the eastern states and went to Queensland and then to West Australia to join digs there. Naturally the birth rate and the immigration rates fell in the eastern states. Drought, followed by an international depression, made everything worse. Pretty soon there were a series of bank and corporate crashes. The boosters failed to raise the birth rate or the immigration rate much and it really wasn't until after the second world war that they had any great success.<sup>116</sup> This was a time when petroleum based energy was really coming into its own and nearly every industrialised country in the world experienced massive growth in production and population, known in Australia as "the long boom" and as "les trentes glorieuses" in France. Those in western Europe reined growth in after the first oil shock of 1973, but Australia and the US and Canada, continued more or less merrily on, although their progress has been increasingly boom and bust. Windfalls and public assets have been sold off to pay the interest on our debts.

### **Some Modern Australian Population Boosters**

The following people, who have high profiles for political or business reasons, or have published books on the subject, are well known for supporting a much larger population for Australia in public forums. It is difficult to say how many they really are: in the end they seem to resolve to a small circle of people who nevertheless get maximum media coverage.

Phil Ruthven, self-styled "futureologist" of IBIS business association, which provides data to industry, has talked of the inevitability of an Australian population of around 150 million in various forums, including *Australia Talks Back*, ABC National radio, August 1997.<sup>117</sup> In October 1997 *The Age*<sup>118</sup> reported Malcolm Fraser, ex-prime minister, who headed a return to high immigration and dismantled land development reform structures after the fall of the Whitlam government, as saying "Australia must drastically increase its population, chiefly through immigration, if it is to protect its interests and maintain any influence ..." . Fraser, once widely seen to be a bumbling and unpopular figure, is increasingly lionised by the business and media populationist lobby.<sup>119</sup>

In *The Age* in March 1998,<sup>120</sup> the following businessmen and politician argued that population growth was desirable and inevitable: Tony Berg, then Chief Executive Officer of Boral Industries (building materials and components) and still, in 2001, director of numerous banking, insurance and property trust related groups and holdings, and the Midland Brick Company; Jeff Kennett, populationist Premier of Victoria (who presided

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<sup>115</sup> See S. Newman, *The Growth Lobby and its Absence*, *Op cit.*, Chapter 6.

<sup>116</sup> Assisted perhaps by the BA Santamaria movement, which ironically brought down the ALP for years. Not surprisingly perhaps, Gough Whitlam, whose government briefly interrupted Labor's period in exile, was no fan of population boosters.

<sup>117</sup> *Australia Talks Back*, ABC National radio, 28 August 1997

<sup>118</sup> Gervase Greene, "Immigration vital for nation's future: Fraser", *The Age*, 23 October 1997

<sup>119</sup> Geoffrey Barker, "A Citizen in full", *The Australian Financial Review Magazine*, February 2001, p.8.

<sup>120</sup> *The Age*, 16 March, 1999, "Kennett calls for big rise in migrant intake".

over a developmentalist Ministry for Planning and Infrastructure which decreased housing lot sizes under a code and administration largely unresponsive to public outrage),<sup>121</sup> and Phil Ruthven, who again claimed that by the end of the 21<sup>st</sup> century Australia's population would be 150 million.

On Geraldine Doogue's ABC National radio programme, *Life Matters*, June 1998,<sup>122</sup> Phil Ruthven, Ron Silberberg of the Australian Housing Industry Association, and Stephan Kerkashyrian, of the New South Wales Ethnic Affairs Commission, all spoke in favour of big populations.

The Ex-Prime Minister, Malcolm Fraser, Tony Berg, Ron Silberberg and Western Mining Chief, Hugh Morgan, were among a solid cast of immigrationists at the April 1998 Australia Unlimited Conference, which was co-hosted by the *Australian* newspaper along with other populationist manufacturing and business concerns.<sup>123</sup>

In 1998, the Housing Industry Association co-published with Allen and Unwin, Australia, a book called *Immigration and Australia, Myths and Realities*, written by academics well known for their immigrationist viewpoints: Prof. Glen Withers, Head of the Australian Public Policy Program at the Australian National University, Stephen Castles, William Foster and Robyn Iredale.

An article in *Civil Engineers Australia* – December 1998, entitled, "Big Population Growth Needed, Forum Told – enVision '98 Conference", reported speakers for high immigration and a big population. Among them were Tony Berg, Jeff Kennett, Alan Stockdale, Treasurer of the Kennett Victorian Liberal Government, Dr Jack Wynhoven, chairman of the enVision 98 organising committee and chief executive officer of Connell Wagner (Engineering and major infrastructure projects) and John White, chief executive officer of Richard Pratt's Visy [Paper and Packaging but also manufacturers of Visy board, a building material] Industries. (Pratt was Vice President of the Victorian Chamber of Manufactures and has extensive involvement in business.)<sup>124</sup>

In February 1999 *The Australian*<sup>125</sup> published an article by Prof. Glenn Withers, entitled, "Migration fits our true ideals: The new Australia needs more new Australians." In this Withers argued for a gross immigration intake of 190,000 per year (what he referred to as '1% of population' - 1% of 19 m = 190,000) then and rising each & every year so as to remain at the level of 1% of population. That is, when Australia's population reached 20 million, the intake would be 200,000; at 30 million, the intake would be 300,000 and so forth." In the same year Federal Labor MP Lindsay Tanner's new book *Open Australia* in which he argued for higher immigration for a big population, was published and received wide coverage.

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<sup>121</sup> Miles Lewis, *Suburban Backlash*, Bloomings Books, Victoria, Australia, 1999, p.viii.

<sup>122</sup> Geraldine Doogue's ABC National radio programme, *Life Matters*, 10 June 1998

<sup>123</sup> Reported in the *Australian* on 27 April 1998

<sup>124</sup> Trevor Sykes, *The Bold Riders*, Allen and Unwin, St. Leonards, New South Wales, Second Edition, 1996, (Year 2000 reprint), p.337 mentions that Pratt controlled Regal Insurance and Occidental Insurance in the late 1980s and was one of the funders of a shelf company called Bacharach Pty Ltd, which corporate cowboy, Abe Goldberg, used to purchase Brick and Pipe Industries, which he believed to be an unrealised land bank. Additional information about business interests was obtained from the Business Who's Who of Australia, Dun and Bradstreet Marketing P/L, 35<sup>th</sup> Edition, 2001.

<sup>125</sup> *The Australian*, 23 February 1999, p. 15.

John Nieuwenhuysen (Director of the Australian Bureau of Immigration from 1989-96) is another fiercely pro-immigration writer, see for instance, "There's room for more", *Herald Sun*, 12/2/1999,<sup>126</sup> subtitled : 'We can't shut ourselves off from the world, says John Nieuwenhuysen.'

The theme of needing a big population in order to repel invaders remains popular. In "More Migrants, Pleads Kennett", by Christine Jackman in the Melbourne *Herald Sun*, 12/2/1999,<sup>127</sup> Victorian Premier, Jeff Kennett was quoted telling "a New York business lunch" that "Australia's population was so low it would not even be able to defend Tasmania", attacking immigration levels as "almost negligible"... and underestimating them at "about 60,000 a year."

Lord Alistair McAlpine wrote an article for *The Sydney Morning Herald*, 20/7/2000, entitled, "Populate the north before the decision is forced on us" : ... "The population and the preservation and the development of northern Australia are just not a possibility. It is an imperative." Lord Alistair McAlpine is a British developer and businessman who first invested in Australia 40 years ago. The article was an extract of a speech he delivered to the Brisbane Institute on 18/7/2000.

The CEDA Conference, November 1999, inaugurated the Australian Population Institute (Apop), a group with the sole purpose of promoting a big Australian population. Apop seems to be mainly composed of business people involved in the property development industries.<sup>128</sup> Altogether nine papers were delivered in favour of, or neutral about, population increase, including that of the key speaker, Professor Withers.<sup>129</sup> The sincerity and disinterest of the academics involved is not in question. But Tom Morrow points out in *Growing for Broke*, that Apop - composed of businessmen with a vested interest in maintaining high population growth - thus benefited from the cachet of academic disinterest, whilst only airing one point of view.<sup>130</sup> Morrow also criticises the lack of an ecological perspective.

In a Financial Review article on 23 January 2001, p.32, "Australians all, let us get the numbers right", Mark Paterson, Chief Executive of Australian Chamber of Commerce and Industry came out strongly in support of population growth through increased immigration, stating critically that "Current immigration levels are placing us in a holding pattern." Raja Junankar, Professor of Economics and Finance, University of Western Australia wrote that, "Migrants increase the supply of labour and bring with them skills, entrepreneurship and capital. They help improve the methods of production in our economy, increase a network of contacts for possible exports and imports and increase the demand for domestic products (especially housing and household goods), not to mention increasing our cultural

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<sup>126</sup> "There's room for more", *Herald Sun*, 12/2/1999, p. 19.

<sup>127</sup> Christine Jackman, "More Migrants, Pleads Kennett", Melbourne *Herald Sun*, 12/2/1999, p.16.

<sup>128</sup> More detail further on in this section. This information was yielded by investigating the business associations of the officials of Apop as listed on the Apop website and downloaded on 20/7/2001 from <http://www.apop.com.au/people.htm>. Additional information about business interests was obtained from the Business Who's Who of Australia, Dun and Bradstreet Marketing P/L, 35<sup>th</sup> Edition, 2001.

<sup>129</sup> Tom Morrow, *Going for Broke*, Tomorrow Press, 2001, p.109

<sup>130</sup> *Ibid.*, "Five of the papers were delivered by university professors, two by PhDs, one by a Federal Cabinet Minister and one by a Shadow Cabinet Minister: impeccably qualified commentators, all - and none of them directly from the corporate sector that was hosting the event."

diversity. All the evidence suggests that immigration increases the growth of the economy and possibly also the growth per capita of GDP."

In February 2001 *The Australian* published "Our Shrinking Nation",<sup>131</sup> by Alan Wood, who cites David Buckingham, Business Council of Australia, stating that "Australia is facing a population crisis in the next 30 years".<sup>132</sup> On the same page there is an article by Vanessa Walker, "One Big Happy Investment", about a family with ten children, described as a demographic and economic blessing" [for Australia].

In the US and Australia there seems to be a greater tendency than in France to perceive and to portray the aging of the population as a dramatic economic threat.<sup>133</sup> This is particularly true of the Anglophone property development and housing industries.

Richard Reed writes in "Baby Boomers and Property Busts",

"The relationship between the ageing of the baby boomers and housing values is a current topic of debate throughout the world. Particularly in the USA warning have been sounded of a dramatic decrease in property values causing a property bust as the baby boomers move into the older generation. "With the passing through of the baby boom generation resulting in a shrinking population base in the prime home buying years, many are concerned about decreased demand and subsequent lower prices."<sup>134</sup>

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<sup>131</sup> Alan Wood, "Our Shrinking Nation", *The Australian*, February 26, 2001, p 11

<sup>132</sup> Note that higher migration has not averted the aging of the population. Note also that the projected break-even point where deaths and births and emigration and immigration come level is not due for 30 years (when conceivably there might have been more room for more immigrants). And note that by 2030, per ABS projections on a 1999 base, current in 2003, Australia was headed for 30 million plus.

<sup>133</sup> In January 2000 an article issuing from the New York quarters of the United Nations received wide international coverage, particularly in the anglophone media. It canvassed a quite extraordinarily high immigration "solution" to Europe's aging population. Mr Joshep Chamie, Director, Population Division, United Nations, New York, NY, 10017, tel: (212) 9633179, Fax. 212 963 2147, was the spokesman for the press release, "Replacement Migration: Is it a Solution to declining and Ageing Populations", 6 January, 2000 and for the final report, released on 22 March.

Many anglophone sources unquestioningly supported the UN study as a proposal, including *The Economist*, March 11, 2000 and Peter Ford, *The Christian Science Monitor* January 21, 2000, and (Reuters Press Release): "Ageing, shrinking populations face stark challenges UN population," by Robert Holloway, reported on Australian SBS 9.30PM News 21/3/00.,

The report was not much attended to in the French press, but where it was, it was greeted with some amazement. See Afsané Bassir Pour and Sylvain Cypel, "L'Europe aurait besoin de 159 millions d'immigrés d'ici à 2025", *Le Monde*, Thursday 6 January, 2000.

The reaction of the few French demographers who commented was to criticize its mathematics and to ridicule its concepts. See Henri Leridon, "Vieillesse démographique et migrations: quand les Nations unies veulent remplir le tonneau des Danaïdes...", *Population & Sociétés*, No. 358, Juin 2000 and Hervé Lebras "Les Mauvais calculs de l'ONU", *Rebonds*, 29 March 2000. "To want to maintain at all costs the ratio of [aged to youth] is truly to try and fill the Danaïde's well. For France this would require [increasing numbers of immigrants each year] beginning at about 800,000 now, growing to two million per annum towards 2020, and three million in 2050. In total, between now and 2050, something like ... 100 million immigrants!"

<sup>134</sup> Richard Reed, *Baby Boomers and Property Busts*, paper for Australian Population Association Conference 2000, Melbourne, p.1. Richard Reed wrote this in 2000 whilst with the Department of

In fact, the United States total fertility rate is very close to replacement and is rising, but the longevity of the US baby-boom cohort is proving a problem for the continued provision of social security. The US political system appears powerless to change the social security system, which, like the French ones, is not capitalised. The situation with the aging cohort in Australia is, however, different. To begin with, Australia began to capitalise its social security system - through a system of pensions and superannuation - quite early by international standards.<sup>135</sup> The aging cohort in Australia is also not nearly as large as Europe's or the USA's. And the problem is self limiting through death. Immigration - except in absurdly huge quantities - makes virtually no difference to the aging of the population, but aging is still used aggressively to promote high immigration by the Australian populationist lobbies.

In "Our Shrinking Nation"<sup>136</sup> Wood states that "The dramatic change [sic] in attitudes is most evident in the business community, where groups such as the business Council of Australia, the Australian Chamber of Commerce and Industry, the Australian Industry Group and the Housing Industry Association have all started to agitate for higher immigration and a new focus on population policy"...[Changes in Australia's population age composition] will affect income distribution and could have a severe impact on the price of assets such as the national housing stock, as demand for houses falls."

In February, in "People number-crunching",<sup>137</sup> Alan Wood wrote again. "There are sectors such as retailing and housing where population numbers matter, so it is no surprise that shopping centre developer Frank Lowy, the housing industry and some manufacturers dependent on the domestic market are keen on higher immigration. But for the Australian economy as a whole it is not the domestic market but the world market that matters."

In the *Business Review Weekly*, November 26, 1999, Robert Gottliebsen wrote in "Warning: prepare your finances for a slowdown": "Migration a must. Although most areas of the media are still ignoring it, Kim Beazley's decision to commit the Australian Labor Party to revising Australia's population assumptions is encouraging people to begin to discuss the issue." What he meant was that Beazley was trying to sell higher fertility and higher immigration to the masses.

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Geographical Sciences and Planning at the University of Queensland, St Lucia 4072. Pages 5-6 of his article review arguments in housing analyst literature about the impact of the baby boom. Note that Reed's list of sources includes only one non-Anglophone source article, and this is Japanese. The Japanese property development industry is notoriously speculative. There are no European references.

<sup>135</sup> Christobel Young, *Australia's Aging Policy Options*, Bureau of Immigration Research, AGPS, Canberra, 1990.

<sup>136</sup> *Ibid.*

<sup>137</sup> Alan Wood, "People number-crunching", *The Australian*, Tuesday February 27, 2001, p.18,

From around that time on it seemed that Kim Beazley, who had up until then been a lackadaisical leader of a decimated Labor Party and the butt of journalistic jokes, began to get serious press.<sup>138</sup>

All that was missing before serious pressure could be applied to the Prime Minister, who was perceived as anti-immigration, was a serious economic downturn, which the recession accompanying the 1999-2001 oil crisis provided. By 9 March 2001 Prime Minister Howard was portrayed on page one of the *Australian* as desperately trying to bolster a faltering residential construction industry, because Australia's financial position was perceived to depend on it.<sup>139</sup> Howard talked of doubling financial incentives for first home buyers to purchase new properties in response to demands from the Housing Industry Association.<sup>140</sup> According to the article, of 82,344 grants awarded to individuals up to January, only 7 per cent had been for new houses. Before the scheme had been introduced, 20 per cent of first home buyers had bought new properties.<sup>141</sup> Whereas the French system has tended to cut down on housing construction during recessions, the opposite applies in Australia. The difficult situation of the building industry was also linked to international investment and the falling Australian dollar in the above article.

For further evidence of a business and development based populationist lobby, one could do no better than to cite the Australian Population Institute Inc. (Apop). The Apop website announces in an unsigned statement that Apop has, "no political or other mission objective" other than to "represent the views of the many Australians that support responsible population growth". The statement describes Apop as "a group of non-political businessmen", and names its early core supporters as including "Tony Berg [identified as a member of the Business Council of Australia's population committee in the *Australian*],<sup>142</sup> Lindsay Cattermole [Member of the Committee for Melbourne], Ivan Deveson [director of

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<sup>138</sup> Bracks seemed to take over as Beasley fell from grace and Creane has come into an era when the Liberal Party has embraced a populationist policy itself.

<sup>139</sup> It seems apparent that the industry expects this kind of treatment. The article by Richard Reed, *Baby Boomers and Property Busts*, *op.cit.*, gives abundant material supporting this view. Richard Reed is with the Department of Geographical Sciences and Planning at the University of Queensland, St Lucia 4072. In his paper he states, p.8, "If demand fell due to a smaller population base a chain reaction would commence, decreasing the supply of new and established housing stock and indirectly influencing house prices ... On a brighter side, after considering the close analysis traditionally placed on new house construction any signs of a slowdown from the baby bust would be quickly recognised and acknowledged by the relevant authorities and transmitted to the marketplace."

<sup>140</sup> Sid Marris and Ian Henderson, "PM's panic rescue attempt", *The Australian*, Friday March 9, 2001, p.1.

<sup>141</sup> I read this as a combination of the housing related population lobbies having taken their support to the Labor opposition. This calculated defection was followed by the return from oblivion of the Pauline Hanson Party with an election ploy that successfully persuaded Liberal voters to vote against Liberal incumbents, especially in rural areas. The Prime Minister then lowered a tax on petrol in an attempt to win back rural voters, but international petrol prices rose and the Australian dollar fell almost immediately, so Australian petrol prices rose again as well. Presumably reflecting the world recession, the building industry's place in the national accounts had fallen by 21.5 per cent in September and it fell by another 15.4 per cent in the December quarter.

<sup>142</sup> Wayne Adams, "Counting Heads", *The Australian*, May 4, 1999, p.31.

Crane Group Ltd and United Group Ltd, groups with very wide interests, including construction and asset management; and Chairman of the Business Skills Assessment Panel for the Immigration Department from 1992-1996; and Lord Mayor of Melbourne from 1996-1999], Malcolm Fraser, Hugh Morgan, Richard Pratt, John Ralph [Director of BHP Ltd., Commonwealth Bank, Pacific Dunlop, and Telstra Corporation], Phil Ruthven, Ron Silberberg, Jack Smorgon and many others". Most of these names are in fact recognisable from their frequent appearance in the media arguing for population growth. (I have added the information in the square brackets.) Less recognisable are the names of the office bearers, however some net searching yields the information that Apop president, Albert Dennis, is Chairman of the Dennis Family Corporation, which is reputed to be Victoria's largest private land developer, with considerable land holdings in Melbourne and Brisbane;<sup>143</sup> Secretary, Geoffrey Underwood is Director of Underwood and Hume P/L, which is a group of Town Planning Consultants,<sup>144</sup> and Vice President, David Coomes is the Managing Director of the Coomes Consulting Group, which is concerned with development and engineering of major residential and industrial estates as well as roads, bridges and assorted infrastructure. The Coomes Group is also a member of the Australia-Arab Chamber of Commerce and Industry.<sup>145</sup> To further bear out my theory, Apop declares that it began with "initial support and seed funding of the peak body, the Urban Development Institute of Australia", which is of course an association of property development organisations.<sup>146</sup>

The Sydney Institute is another active immigrationist organisation. Although most of its publicity comes from journalist Gerard Henderson and his wife, the Chairman is Rob Ferguson of the Bankers Trust and, among its board of governors is Frank Conroy of Saint George Bank.<sup>147</sup> Banks and building societies have significant stocks in property investment and use mortgages as a regular source of funding for other investments.

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<sup>143</sup> John Rouw, "Victorian Developer plans Chinese deal", *The Age*, Comment: What's New in Victoria, 21 May 2000. Here the Denis Family Corporation is described as a "majjor Victorian Land Developer" and Rouw also writes, "The Dennis Family Corporation is thought to be Victoria's largest private land developer, controlling major land holdings throughout metropolitan Melbourne and Brisbane." He relates that turnover in the year 2000 was reportedly over 139 million dollars.

<sup>144</sup> Information in the Melbourne Phone Directory.

<sup>145</sup> [www.austarab.com.au/coomesconsulting/](http://www.austarab.com.au/coomesconsulting/)

<sup>146</sup> All the information cited is available from Apop and I downloaded it on 20/7/2001 from <http://www.apop.com.au/people.htm>. Additional information about business interests was obtained from the *Business Who's Who of Australia*, Dun and Bradstreet Marketing P/L, 35<sup>th</sup> Edition, 2001.

<sup>147</sup> See the Sydney Institute Website at <http://www.sydneyins.org.au/board.htm> for informatin about the Board of Governors. See also, Jenna Price, "It's the G and A Show: Who are the Hendersons?", *Canberra Times*, 2/9/95. This is the article that gives information about the Chairman and some backers of the Sydney Institute, mentioning FAI insurance and Rob Ferguson, who is Chairman of BT Financial Group Ltd. Some examples of the Henderson's immigrationist writings are, Anne Henderson, *The Age*, 23/11/1998, "Why Fortress Oz is a Fairy Tale"; Gerard Henderson, "Empty Vessels Make the Most Noise", *Sydney Morning Herald*, 20/4/1998; Gerard Henderson, "Hockey raises the heat under the melting pot", 24/7/2001. (This latter was a defense of Liberal politician, Joe Hockey, stating that Sydney was at risk of becoming a retirement village if it did not quickly double its population to eight million in a speech to the Committee for Sydney.)

As well as material on the Apop website, there is also plenty of overt populationist material on the websites of the Housing Industry Association (HIA), [www.buildingonline.com.au](http://www.buildingonline.com.au) and the Business Council of Australia (BCA), [www.bca.com.au](http://www.bca.com.au))<sup>148</sup>

In 2000 the Business Council of Australia launched a report called *Population Futures*,<sup>149</sup> which was prepared for them by the Australian Academy of Technological Sciences and Engineering (ATSE). The report came out strongly supporting the view that Australia can support a much larger population and dismissed the relationship between population growth and environmental stress as tenuous. Alan Jones, of the Division of Earth and Environmental Sciences at the Australian Museum strongly criticised this work for a marked failure to review the substantial and world class scientific literature in the area.<sup>150</sup>

Big business entities have continued to run conferences with government to drive up immigration fed population growth. The information that results from these population drives acquires an air of authority which it does not deserve. The February 2002 Bracks Population Summit, which militated for high immigration was organised and sponsored by Apop and Oz Prospect (organizations dedicated to massive population increase) with the Victorian Government, in conjunction with building materials company, Boral, the Dennis Family Corporation (which has its own housing finance company, several housing factories and declares it is in the business of 'building suburbs')<sup>151</sup> and the Fairfax owned *Age*, which derives important funding through housing ads along with the associated property dot com which benefits from the globalisation of the real-estate industry. Much of the material cited was from opinion pieces written by journalists and many of the speakers were journalists, with a relative smattering of real specialists in the fields addressed. Richard Pratt gave the lunchtime speech in a theatre ballroom.

In 2003, another population book studded with contributions from well-known boosters and their friends with no particular expertise in the matter, interspersed with a few more thoughtful articles was launched by Steve Bracks at a carefully managed press conference, where the public had no chance to ask questions until the photographers had left. *Australia's Population Challenge*<sup>152</sup> was edited by Melbourne Population Summit personalities; commercial lawyer and entertainer, Steve Vizard, Tim Watts, who is the Director of OzProspect and Fairfax Age Online editor, Hugh J. Martin. The Vizard Foundation is a sponsor of OzProspect; and Martin (along with a number of other journalists) is sponsored as a 'fellow'<sup>153</sup> of OzProspect. OzProspect is 'modelled on' the

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<sup>148</sup> This was the case in 2000 and I doubt that it has changed.

<sup>149</sup> *Population Futures*, Australian Academy of Technological Sciences and Engineering (ATSE), 2000, (Report from consultants Spiller Gibbins Swan Pty. Ltd, ([www.atse.org.au/publications/reports/population](http://www.atse.org.au/publications/reports/population)))

<sup>150</sup> Alan Jones, "The Business Council of Australia's Case for Population Growth: An Ecological Critique, *People and Place*, Monash University, Vol.9, No. 2., 2001, pp 49-56.

<sup>151</sup> [www.denniscorp.com.au/](http://www.denniscorp.com.au/)

<sup>152</sup> *Australia's Population Challenge*, Penguin, 2003

<sup>153</sup> <http://www.ozprospect.org/initiatives.html> "OzProspect's core initiative is the Fellowship program. Employing a venture capital approach, we aim to provide promising young writers and broadcasters with



New America Foundation, a nationalistic organization.<sup>154</sup> Tim Watts spent several years working within it. The New America Foundation has an especial interest in “the experience of giving ordinary citizens greater access to credit for such purposes as homeownership [which] could be adapted for use in many emerging economies.”<sup>155</sup>

Even more recently, Bracks and 30 sponsors consisting almost entirely of development and/or finance/bank businesses, were hosted by the Australia-Israeli Chamber of Commerce on 18 July 2003 at the Crown Palladium Room in Southbank.<sup>156</sup> Sam Lipski, who featured at the 2002 Population Summit and at this event, gave a 15 minute introduction on the theme of “population growth and development” being the way forward for Australia. Bracks, who heads the developer led push for one million more people in Greater Melbourne, known as “Melbourne 2030” then spoke for about 45 minutes on how Victoria’s ‘successful’ economy was fuelled by immigration and population growth.

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the financial, editorial and research support to tackle those public policy problems which government, industry and the established academic community are struggling to resolve. “

<sup>154</sup> Many Americans would class this as a ‘left’ organisation, but to an Australian it seems substantially to the right.

<sup>155</sup> <http://www.ozprospect.org/initiatives.html> “OzProspect was a leading sponsor of the Population Summit 2002 which took place in Melbourne on February 25. The conference was convened by Steve Vizard and Victorian Premier Steve Bracks. It featured addresses by a host of prominent Australians including former PMs Bob Hawke and Malcolm Fraser, and OzProspect Advisory Board member Tim Flannery. .. A collection of essays and speeches from the Summit edited by Tim Watts, Hugh Martin and Steve Vizard called Australia's Population Challenge is available from Penguin.”

“OzProspect and New America Foundation

OzProspect is modeled on the ground-breaking New America Foundation in Washington, DC. OzProspect Director Tim Watts spent several years working alongside New America’s President, Ted Halstead, and founded OzProspect equipped with the benefit of that experience.

New America’s board includes Francis Fukuyama, author of *Trust: The Social Virtues and the Creation of Prosperity*; Laura D’Andrea Tyson, Dean of the London Business School; James Fallows, National Correspondent at *The Atlantic Monthly*; and Eric Schmidt, Chairman of Google. Founded in 1999, its annual budget in 2001 was \$US2.5 million. The largest donations to date have come from the Ford Foundation, the Markle Foundation and the Packard Foundation. In 2002, it provided more contributions to the opinion pages of the *Los Angeles Times* and *New York Times* than any other research organisation.”

From the New America Site - <http://www.newamerica.net/index.cfm?pg=program&ProgID=4> “Building a Global Middle Class in Emerging Economies. Thanks to increasing global integration, more than 60 developing countries have now reached a level of development at which the United States and western Europe stood at the time they moved to become affluent, middle-class societies. This project will seek to identify the main elements of a middle-class-oriented international economic strategy that would enable many of these countries to evolve into successful middle-class societies over the next decade or two, providing expanded markets for world goods and services, and greatly extending the benefits of globalization. More specifically, GEPP seeks to show how the American and European models of building a middle class in the 20th century, especially the experience of giving ordinary citizens greater access to credit for such purposes as homeownership, could be adapted for use in many emerging economies. ”

<sup>156</sup> See [www.aicc.org.au](http://www.aicc.org.au).

Bracks made no mention of the environment, nor of the increasing amount of unhappy victims of infilling, rezoning and urban open land grabs<sup>157</sup> who are taking complaints to VCAT, or of rising housing unaffordability, private debt and homelessness. Also overlooked was the growing disharmony between speculative regional development and rural water users, and the fact that the Government's own advisors have shown that if Melbourne's population grows as the government intends, the city will need to get water from some unknown source in 20 years even if per capita consumption could be cut back to nearly half by making water increasingly expensive.<sup>158</sup>

On the subject of population growth and wealth, these same government advisers stated that,

***“Even at a national level, the uncertainty associated with projections of economic growth is high when a timeframe of more than a year or two is considered. The Federal and State budgets project only for the forthcoming year. To say that the same level will continue for even the next five years is highly uncertain.”***

The State government advisers were in fact unable to find any causative link between population growth and economic wealth.

Their definition of economic wealth linked to population growth was where demand rose with population growth but quality of life did not fall. They based a projection for this on continuation of past trends, ignoring the likely impact of radical changes in water distribution and cost of land on social equity and environment.

The Victorian government advisers stated that

***“Given our inability to project economic growth per se, we need to at least tie it to population growth using an assumption that standard of living is unlikely to decline.”***<sup>159</sup>

A particular 'spin' is often put on the business of growing populations of consumers in order to make it difficult for people to criticize high population growth for legitimate reasons. This is a form of wedge politics. For instance, Ron Silberberg of the Housing Institute of Australia has said that migrants are being unfairly blamed for high house prices ("Migrant bogey blame shift", a statement by HIA's Managing Director, Ron Silberberg, in a press release on 8 Aug 2003). In fact, no-one is blaming migrants but high immigration is driving population growth up, as this Enquiry into Housing Affordability acknowledges. Prices go up in response and the property development and housing industry is well aware of this. The general immigration stream, which favours wealthy immigrants, should not to

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<sup>157</sup> See for instance, Miles Lewis, *Suburban Backlash*, Bloominings Books, 1999; organisations like Save our Suburbs, and the recent protests about development on the Mornington Peninsula, especially of Point Nepean.

<sup>158</sup> [http://www.melbourne.vic.gov.au/committees/meetings/ECaCD\\_571\\_20030616.pdf](http://www.melbourne.vic.gov.au/committees/meetings/ECaCD_571_20030616.pdf)

<sup>159</sup> [http://www.melbourne.vic.gov.au/committees/meetings/ECaCD\\_571\\_20030616.pdf](http://www.melbourne.vic.gov.au/committees/meetings/ECaCD_571_20030616.pdf)

be, but frequently is, confused with the very small numbers of refugees admitted annually which has remained more or less fixed for decades.

Mr Silberberg, in his press release of 8 August 2003, said that the “link between house price increases and population growth is loose at best. Brisbane's population has increased at more than double the rate of Sydney's but its house prices haven't. Certainly immigration adds to the demand for housing, but it also helps improve the supply of housing through expanding the housing work force.”<sup>160</sup>

In fact, research published by the 2000 APA Conference and elsewhere clearly demonstrates that in Australia land for housing prices rose in cities of high population growth and high immigration (from whatever source) in contrast to price stability in low growth, low immigration cities between 1985 and 2000.<sup>161</sup> And Brisbane's house prices

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<sup>160</sup> Note that this would be a reference to the tendency to import skilled workers, who conveniently also provide custom to the industry and create demand for more expansion. Here a circular, self-fulfilling problem is portrayed as its own solution: that there is already a demand for housing is due to the population outgrowing the available housing stock due to high immigration; this [induced] demand can't be satisfied without importing extra skilled labor, which will, of course, create more demand for housing which will create more demand for skilled labor, but there is a solution – we can import skilled labor! Which will create more demand for ... Etc.

<sup>161</sup> S. Newman, "Growth Pressure and the Consolidation Mentality: Immigration and the French", in "Refereed Papers" for the 10th Biennial Conference of the Australian Population Association, Population and Globalisation: Australia in the 21st Century, 28th November to 1st December 2000, Melbourne Australia. Published on CD Rom as part of the Proceedings of the 10th Biennial Conference of the Australian Population Association Melbourne 2000, ISBN 0-9578572-0-9 Also published in S. Newman, "Immigration, Housing and Land Speculation: Comparison of Australia and France", SPA Newsletter, No. 50, June 2001, <http://www.population.org.au/pressrm/newslet/nl200106.pdf>. and in chapter 8 of The Growth Lobby and its Absence, *Op cit*. In Chapter 6 the first section gives a rundown on the history of and the current population boosters and their relationship with land speculation.

Note that BisShrapnel has also come up with a link between land price rises and immigration increases. I have not seen their recent data, but a statement to this effect was made by Mellor of Bis Shrapnel on Insight SBS - see transcripts: <http://www.sbs.com.au/insight/> The relevant one is July 31, part of which I cite below:

"Housing Debate Buying a house in Australia is becoming increasingly difficult. Housing affordability - the cost of buying a home compared with our ability to pay - is at its lowest level in 13 years. Perhaps most worrying is that some pundits believe house prices will keep increasing faster than wages. It's potentially a hot political issue as the boom spreads into regions and suburbs surrounding our biggest cities. Joining Jenny Brockie to talk about it tonight - Shadow Treasurer Mark Latham and Robert Mellor, director of building services for the global research and forecasting company BIS-Shrapnel.

JENNY BROCKIE: Gentleman, thanks very much for your time. Robert Mellor, you're arguing that this housing boom isn't going to go away. What do you think will happen to the cost of housing across Australia in the medium to long term?

ROBERT MELLOR, BIS SHRAPNEL: Well, I still think over the next few years in an environment of very strong economic growth, very strong population growth, that we're still going to see quite strong house price growth. Maybe not up around 20% per annum we've seen over recent years but we still could be seeing 10% per annum plus, particularly in cities like Sydney and Brisbane, and that's going to be driven by that continued high population growth and in the case of city of Sydney in particular land shortages.

JENNY BROCKIE: So you see land shortage as the major pressure on housing or do you think this population growth issue is equally important?

ROBERT MELLOR: Well, I think the critical thing is we are seeing much higher population growth coming in from overseas than what we were, say, three or four years ago. At the moment we believe the latest estimates from the Bureau of Stats are showing that overseas migration into Australia is running at about

have risen. If they have not risen to the same extent as Sydney's this may be because, as well as having more land left to clear,<sup>162</sup> Brisbane does not have Sydney's rate of turnover - *yet* - since Brisbane is more or less the end of the line as regards big cities and Sydney is the major point of entry.

In its press statement, the HIA avoids addressing the real dynamics of Sydney population change. Immigration pressure is creating a dual impact in Sydney. Inflow of immigrants, especially wealthy immigrants, keeps demand for new housing high. This drives up land prices and the cost of living in general. Sydneysiders cash in on the land price rises and avoid the cost of living rises by selling their houses and moving far away from Sydney. So the turnover in real estate is extremely high and this is linked to the high turnover in population, which is linked to high immigration.

The question from the Enquiry issues paper that I am addressing here is **“Population and demographic change: To what extent has immigration influenced overall housing demand? Has it been a significant factor in the recent surge in housing prices? Is the boom a long-term trend?”**

The data I have presented on prices, housing starts, and immigration does not absolutely quantify an answer to the question. The argument I have presented above, however, demonstrates that the industries in question rely on immigration *an awful lot* and that if it is that important to them then it must make a *very big* difference to demand.<sup>163</sup> In the presence of low interest rates - (anywhere in the world, since the market has been globalised), political stability in Australia, liberalized foreign investment policy and law that promotes investment in and purchase of property on a global level, privatization of an immigration industry to supply universities, the property market etc., high immigration policy, promotion of onshore change of visa category from short term to permanent, deregulation of banking and other finance; deregulation of legal firms, permitting them to advertise like real-estate agents, and the remarkably effective do-it-yourself global press of the internet – this demand will continue to be huge and therefore the ratcheting property prices will continue. There may be some short drops in property demand in the short term, due to September 11, 2001 terrorism and then SARS showing up in reduced short-term international movement. The Press and governments, however, seem to manage such political and medical problems with view to prioritising economic growth.

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140,000 per annum. That compares to around about 100,000 per annum for the latter part of the 1990s. So that's a critical driver. Not all of those people are out into the housing market as owner-occupiers but certainly it's adding to demand particularly from a lot of students studying here in Australia from overseas and that's adding to rental demand in many markets. So, you know, whichever way you look at it, stronger population growth ultimately flows through for demand to housing whether we're talking owner-occupiers or renters. " ....(This was an excerpt).

<sup>162</sup> Not that myself or SPA in any way endorse further land clearing or rezoning of agricultural land to urban.

<sup>163</sup> The industry is no doubt in possession of figures on this, although the small amount of published research has been hampered by use of census data, which gives very delayed and distorted information, instead of the much more immediate ABS derived data for total net overseas migration and the ABS measure of Net Overseas Migration (adjusted for category jumping) although the latter incorporates slight delays in trends showing up.

## Issues Related to Population growth distribution

**“Has population growth been concentrated in the capital cities? If so, why? Is this changing? Does it need to change? If so, how should this be achieved?”**

Yes, population growth has been concentrated in the capital cities. And this is a real problem since over time landed asset holders in the high population growth cities have been much more able to capitalise on these than have people in low growth areas. This puts the rural regions, for instance, at a disadvantage with the banks, since the lower (but much more valuable in the long run) returns of agriculture cannot compete with land speculation returns for bank loans. For some time now there has been a spreading of population up the eastern coast of Australia and also on the south west coast. In the past couple of years there has been a knock on effect to other regions and country towns and resort towns which is proving devastating to the low income populations there, and which will bring agriculture into conflict with new regional urban populations over water.<sup>164</sup> These are just some of the problems in store for us. In other words, sending population to the country does not solve the capital problem; it creates new problems. Some other unintended problems will be skewed planning decisions for rural areas on water due to politicians being influenced by votes. We can see this now, I think, in the Riverina, where water speculators are more able to get the attention of State government than dry-land farmers. This has partly to do with greater numbers of voters in urban populations in the irrigated areas and not much to do with long term sustainability.

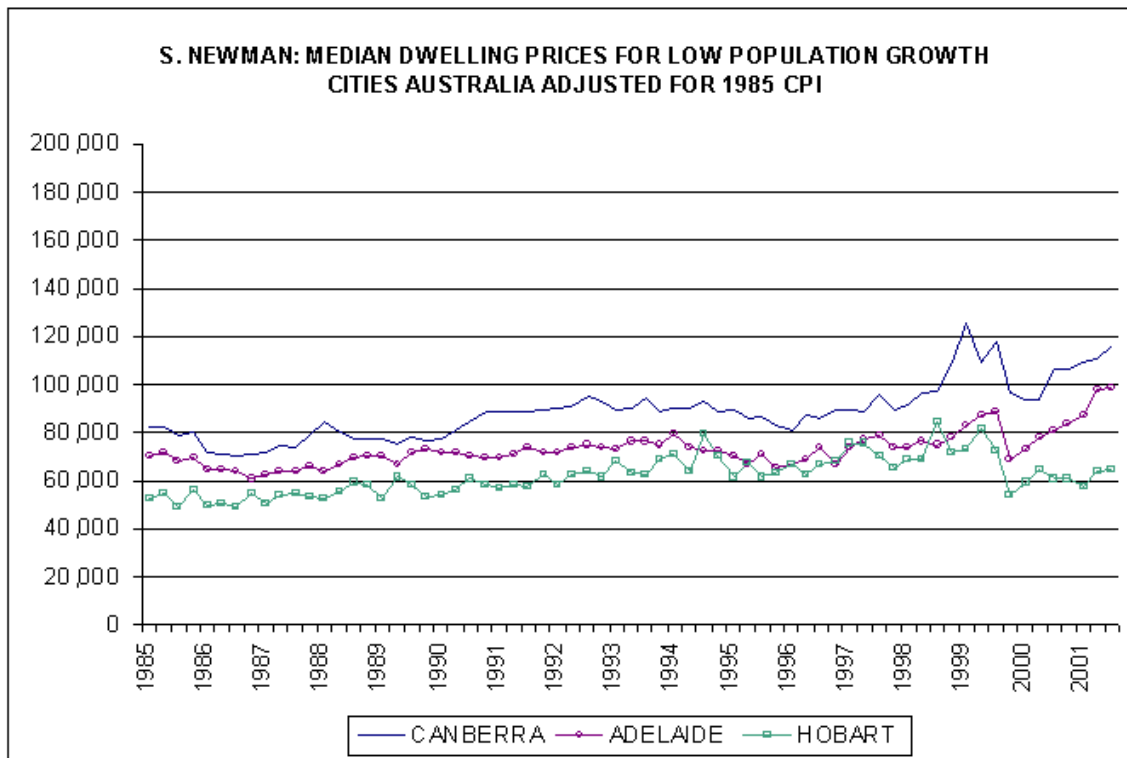
The committee might consider inviting the Victorian State manager for the YMCA to talk about the problems in the regions with drought, increases in water costs, and population growth and rising house prices. YMCA Regional managers manage recreation and other services in rural towns and regions and seem very well informed on these issues.

Below are graphs demonstrating rises in land/housing prices where high population growth in the big cities is flowing (Fig 11) on to previously lower demographic growth regions and cities, like Canberra, Hobart and Adelaide (Fig 10). Note that the short drop in prices associated with the introduction of the GST has been very well compensated since.

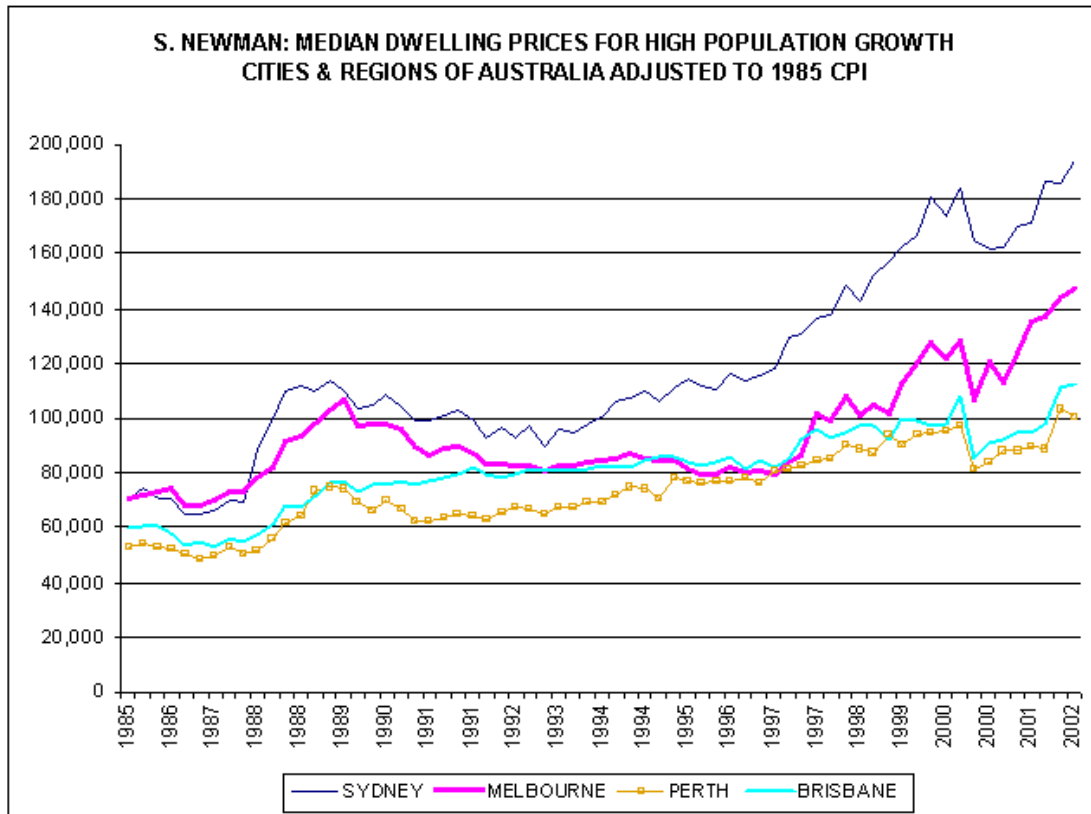
Figures 10 and 11 are followed by Figure 12, which graphs short-term, long-term, and total net overseas migration.

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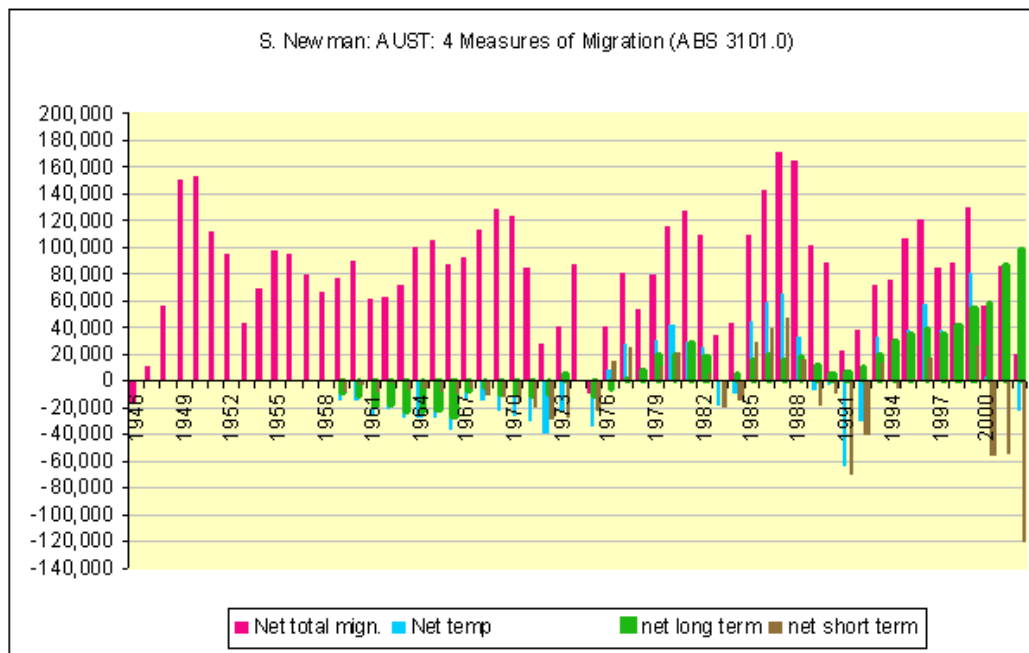
<sup>164</sup> And the growth of cities will bring the big city populations into conflict with rural regions as well. Current pronouncements by the Victorian government are that water use by urban regional populations will be capped. Melbourne’s population is supposed to grow by one million plus but to reduce water consumption by 40%. Meanwhile climate trends threaten to reduce Victoria’s rainfall by around the same percentage.



**Fig 10 S. Newman: Median Dwelling Prices for Low Population Growth Cities Australia Adjusted for 1985 CPI (1985 dollars AUD) Data source was HIA/CBA.**



**Fig 11 S. Newman: Median Dwelling prices for High Population Growth Cities and Regions of Australia adjusted to 1985 CPI (1985 dollars AUD). These are quarterly figures. Source: HIA/CBA data**



**Fig 12. S. Newman, 4 Measures of Immigration. Source: ABS 3101**

The red columns represent total net overseas migration, which includes ALL entries and departures of any duration. The thick green columns represent net long term immigration. The brown columns represent net short term immigration. Total net overseas migration is the only measure that goes back to the beginning of the graph and before that. Unusually for the year 2002 (December) total net overseas migration is quite low. This is a reflection of a fall in short term arrivals. This fall is thought to be due to the impact of fears of terrorism. It is anticipated that SARS will also have had a similar impact. Nevertheless we can see that long term immigration is gathering steadily and the figure, although subject to some controversy, was very high in 2002. This would explain why there has been no great fall in prices yet. These long termers largely reflect overseas students, who may purchase dwellings and who are important to the rental market. Nevertheless the fall in short term immigration should have some impact, since any migration onshore must impact on dwellings or hotels. In this graph permanent immigration is not distinguished, however, over the past few years more long term immigrants have been able to convert to permanent immigration than ever before.



## Where has population growth contributed most to rising housing prices?

See Figures 10 and 11. Some of the highs and lows of immigration (both overseas and interstate) that line up with the highs and lows of housing prices are:

- 1987-88 Tienanmen Square related immigration, which was the highest ever, and included a lot of family reunion downstream
- 1992-93 ALP Minister for Immigration Gerry Hand sharply reduced immigration during a recession
- 1996 John Howard became prime minister with Ruddock as his immigration minister. Ruddock appeared to attempt to curb high migration that resulted from the preceding government's policies but legislation to this effect was blocked in a number of ways by parliament, notably Democrats and Greens in the Senate. He did succeed in getting immigration down a bit by 2000, 2001, but by then Kennett<sup>165</sup> had managed to get Melbourne redesignated for all intents and purposes as a region in need of high migration and a number of other premiers did likewise. As BIS Shrapnel has commented, it is probable that the growth in overseas students onshore over this period increased demand for rental property.<sup>166</sup> Ruddock's policies promoting onshore conversion from short term to permanent immigrant status seem to have resulted in the biggest increase in long-term immigration to date. (See green columns in Figure 12).
- Until recently, if we compare the high population growth cities with the lower growth ones and regions, we can see that prices have fluctuated and climbed very little. Until recently. Here I believe we are seeing the knock on effect of very high prices in the high growth cities leading to outward migration, as well as investor and property professionals' speculation in the lower population growth cities and regions.
- The trough in Melbourne's prices (around 1995-1997) coincided with negative net interstate migration (a lot of people left the state looking for work) there and the revival of prices coincides with renewed immigration.
- We should not forget, however, the other factors, especially overseas buyers.

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<sup>165</sup> A strong supporter of the property development industry.

<sup>166</sup> Birrell and Healy, "Migration and the Housing Affordability Crisis, *People and Place*, Vol 11, no.3., 2003, p.46. "Lest anyone doubt this impact, the actual growth in household numbers for Sydney over the period 1996 to 2001, and the share attributable to overseas-born households is shown in Table 1. The table shows that the number of households in Sydney grew by 76,931 during this period and that 54 per cent was attributable to household heads born overseas. Most of these extra households would have been renters rather than purchasers... Nonetheless, they were occupying dwellings and thus contributing significantly to the growth in demand for housing in Sydney. They provided an important part of the scaffolding, which holds up the Sydney housing market."

For much more detail of policies and numbers, as well as the documentation for the above, see S. Newman, *The Growth Lobby and its Absence*, Chapter 8 and the relevant appendices.

#### **4. Government assistance: Macroeconomic influences**

##### **Economy-wide linkages to affordability through monetary policy, the level of inflation and borrowing costs.**

The English speaking settler states inherited a British tradition of commodification of land.<sup>167</sup> In these states, which include Australia, a kind of pioneering culture of endless expansion arose in the context of colonisation. The philosophy of colonisation derived from Cromwell and Colbert, where colonies were seen merely as a source of raw materials and cheap labor for their European owners. After 1904 a counter colonial movement gained support, particularly in the Liberal Party, which sought to exploit Australia for Australian business rather than for British/European needs. This business culture developed a tension between the manufacturing sector and the commodity sector as well as some positive partnerships. The manufacturing sector sought to develop a skilled workforce with a high standard of living producing largely for a more or less self-supporting economy. A big population was not mandatory for this purpose. The commodity sector sought to extract and package raw materials, using plentiful local labor provided by a big population, but exporting for the profit of entrepreneurs. With the evolution of private sector housing, consumerism and globalism, population itself has been commodified as 'consumers'. A third sector has now arisen which unsustainably combines the interests of commodity production, 'land production' and the consumer culture. Commodities are produced to support land production which services and profits from population growth. The manufacturing sector, paying very high costs for land, finds itself in competition with cheaper imported manufactured goods and is the loser. The country itself has an increasing foreign debt due to this, plus the fact that so much development is financed from abroad and in exchange for equity.

This economic evolution has made it very difficult for governments to impose monetary policies which would restrain borrowing to purchase homes. And we saw that in the late 1980s, when interest rates were huge, people kept purchasing property due to their expectation that it would appreciate in value. Even when interest rates are high in

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<sup>167</sup> John Gray is among those who identify England's property ownership culture as different from the rest of Europe's. Gray argues that the free market was an Anglo-Saxon singularity in the 19<sup>th</sup> century. He writes that this "English paradigm" of the free market was interrupted by the second world war, which caused a more co-operative society. It resurfaced however during the 1980s in Britain, the United States, Australia and New Zealand, as a consequence of neo-liberal policies." Gray describes the English speaking settler societies as "societies in which a culture and economy of agrarian individualism preceded industrialization." He attributes this, in part, to the early disappearance of the peasant culture in England. Gray, John, *False Dawn*, Granta Books, Great Britain, 1999, pp.13-14.

Australia, as long as we are encouraging overseas buyers with overseas currency and access to cheap loans, to impose costly borrowing terms on the incumbent Australian population would disadvantage them even more. The deregulation climate has led to a situation where governments have become unfamiliar with the notion of regulating the market. Governments must do something, however, or they face such inflation in the overall cost of living that they will not be able to fund social security, subsidise rentals, or purchase land for housing, or fund public housing purchases or subsidise private purchases.

### **Has growth in household incomes been a major factor affecting housing prices and affordability?**

As commented on elsewhere in this document, the land-use planning and production and housing system currently in place will maximize price to whatever level the market will bear. Where only one income was once available, a two income household is now the standard setting the price. Likewise, any money to assist home buyers quickly goes to subsidise the industry because it is absorbed immediately into price increase. This negates the benefits of rises in income and rises in productivity and leads to constant tension between those seeking wage rises and those seeking to minimize labor costs as well as the cost of renting or buying manufacturing premises.

### **“Practices that encourage inappropriate demand for housing”**

In my opinion the practices of property seminar providers marketing real estate which have recently obtained so much public criticism are only a very public aspect of an industry which routinely influences government and our immigration program in order to promote a growing customer base and inflation of land prices.<sup>168</sup> Perhaps these high profile new players are most resented because they are making the system so *obvious*. Moreover they are enlarging the number of local property magnates and thus reducing industry dividends for the long-term incumbent. They are probably the most visible targets in the field and may well become the industry scapegoats.

The land production and housing industries, including manufacturers of building materials, are important contributors to both major parties, State and Federal.<sup>169</sup>

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<sup>168</sup> No doubt some or many see themselves as having higher motives for this. Others might suggest that they have merely fallen in with an irresistible system. Others might show how they have attempted to improve the system. Unfortunately the system is so bad that it must inevitably detract from the admirable qualities which many of its above average players undoubtedly have.

<sup>169</sup> Joo-Cheong Tham, “The normalisation of corporate contributions to political parties: a threat to democracy.” Victoria University thesis:  
<http://democratic.audit.anu.edu.au/Joo%20Cheong%20Tham.rtf>

The general topic of political influence and party donations is discussed in an article by Bob Browning, "Is the political system for sale?" *Newsweekly*, 2 June 2001.  
[http://www.newsweekly.com.au/articles/2001jun02\\_politics.html](http://www.newsweekly.com.au/articles/2001jun02_politics.html). Also reported earlier at Skynet, but with no author, <http://www.skynet.net.au/~rwb/corpmoney.htm>, downloaded on 4 December, 2002.

Michael Yabsley, the NSW Liberal Party's fundraiser, recently acknowledged collecting \$3.5 million in little over a year from major companies. ....Yabsley's admission emerged during recent controversy over the extent and purpose of political donations by big property developers. His \$3.5 million effort included money from developers and builders, some of them multinational. Lend Lease, Multiplex, Mirvac, Meriton and Stockland were named among the Liberal Party donors.<sup>170</sup>

That State and Federal Government and the FIRB have all adapted to such demands and evolution of these industry combinations to the detriment of home affordability and good governance. Ex-Prime Minister Paul Keating himself, in a speech to an architecture forum in Sydney in 2001, stated that that he thought [Australians] would be better off if developers were forbidden from donating election funds to municipal candidates and to political parties.<sup>171</sup>

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Malcolm Maiden, "Bracks summons elite to top table", *The Age*, 11 March, 2000.

"Health Minister's Meals for Deals," *The World Today*, *ABC News Online*, 4 April, 2000.

"Is corporate money hurting the democratic political system?" *The Australian Financial Review*, 6 April, 2001 article repeated on web at address <http://www.skynet.net.au/rwb/corpmoney.htm>.

<sup>170</sup> "Is corporate money hurting the democratic political system?" *The Australian Financial Review*, 6 April, 2001 article repeated on web at address <http://www.skynet.net.au/rwb/corpmoney.htm>.

<sup>171</sup> Lisa Allen, "Keating backs ban on developer donations", *Australian Financial Review*, 6/4/2001, p.10. The Lord Mayor of Sydney, Mr Frank Sartor, lent support to Keating's recent call for the real estate industry to be banned from giving political donations. Sartor added that "State governments are very concerned about investment levels and employment and they fear the flight of capital. They're very concerned to ensure that there is development happening because it's about jobs and economic activity. So it's a more complex issue than just saying developers are bad."

An angry property developer was reported to have commented that Sartor was just as keen as any other politician for donations. The New South Wales liberal Party fundraiser, Mr Michael Yabsley was also reported as having said, "Disclosure laws in Australia are among the toughest in the world ... This is a brain wave from the sideline. Why wouldn't Keating have come up with this when he was a major beneficiary of those sorts of donations?" Mr Yabsley was reported in the article as having raised \$3.5 million from major companies, including property developers and builders such as Multiplex, Mirvac, Meriton and Stockland since the launch of the liberals' "Millenium Forum" in November 1999.

The article concluded with the remark that "most property developers" were "coy" about giving details of donations and went on to list a number of very small amounts.

Journalist Lisa Allen gave the following details: Lend Lease had "reported giving \$42,000 to the Federal ALP, \$62,500 to the Liberals and \$10,000 to the National Party." And, "according to the Australian Electoral Commission's website", Westfield Holdings', a shopping centre developer, had donated "\$10,705 to a Liberal organisation, Vapold, \$5000 to the Australian Labor Party (ALP) national office, and \$4000 to the New South Wales ALP."

Clearly these known official donations to political parties are not major sources of influence. More important, it appears, is the combined political pressure from the major land development and housing industries, plus the industries that benefit downstream. Members of Parliament and media owners with major land development holdings or other related investments, such as real-estate marketing, have information to barter, power to wield and interests to defend.

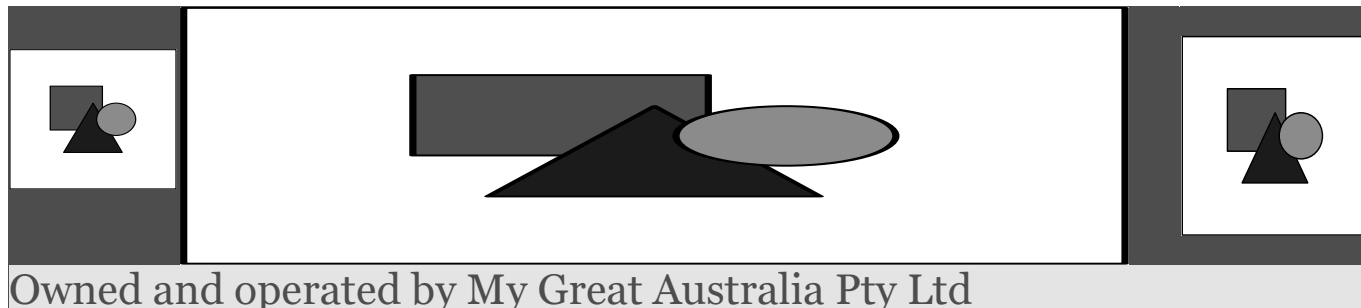
## **The Internet factor in global marketing of real-estate and visas**

Recently private migration agents, legal practitioners, property developers and real-estate agents have combined to tout for customers globally. Their activity on the internet is an indication that the situation has reached an extreme level.

Below I have inserted excerpts from a few impressive examples. The entrepreneurship is admirable, amusing, creative and I do not mean to criticize the authors, but only to point out that their quite legal pursuit of international demand for visas and real-estate may be having an untoward effect on housing prices.

Note that the sites cited below are copyright, however I believe that for the purposes of a public submission, which is educational, it is okay copy parts of the sites, which are quite extensive.

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THAT OCCUR IN  
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PREPARE THE  
CONTRACT FOR  
SALE;
- ADVISE YOU ON  
THE CONTRACT  
AND ALL OTHER  
RELEVANT  
MATTERS;
- NEGOTIATE  
IMPORTANT  
CHANGES WITH  
THE OTHER  
PARTIES LAWYER;
- EXCHANGE THE  
AGREEMENT;
- NEGOTIATE WITH  
YOUR LENDER TO  
ESTABLISH OR  
DISCHARGE YOUR  
LOAN;
- OBTAIN ALL  
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- ORGANISE  
STAMPING,  
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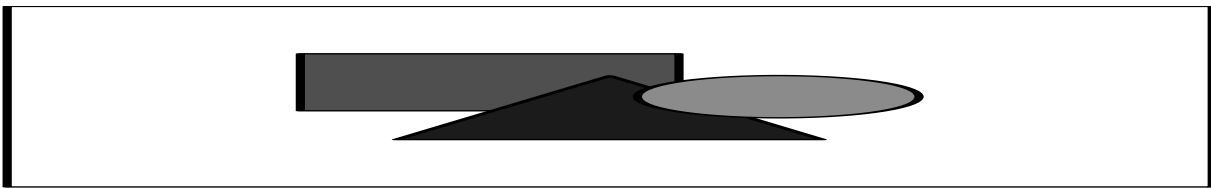
REGISTERING OF  
TRANSFER  
DOCUMENTS;

- ARRANGE SETTLEMENT OF THE SALE INCLUDING ADJUSTING ALL OUTGOINGS;
- ATTEND TO SETTLEMENT OF THE MATTER;
- FOLLOWING SETTLEMENT OF THE SALE WE ACCOUNT TO YOU FOR ALL MONEY RECEIVED OR PAID;
- SEND NOTICES OF SALE TO THE AGENT AND DIRECTIONS TO THE LESSEE/TENANT;
- TROUBLESHOOT ALL THE MIRIAD OF LARGE AND SMALL PROBLEMS THAT OCCUR IN MOST MATTERS;
- TAKE ALL RESPONSIBILITY!

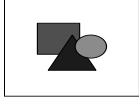
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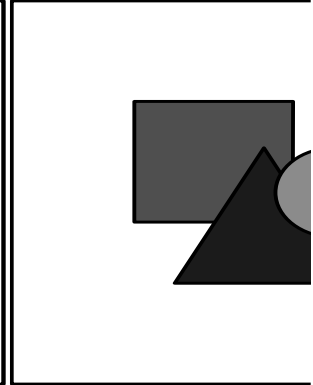
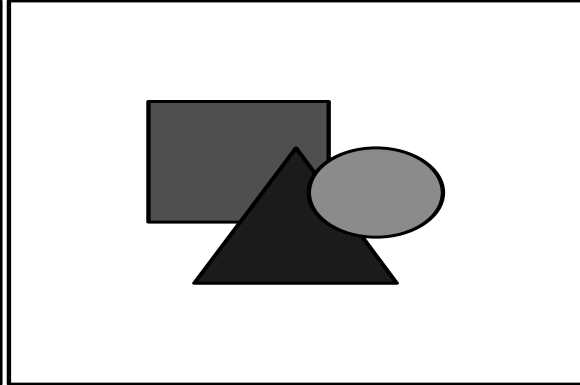
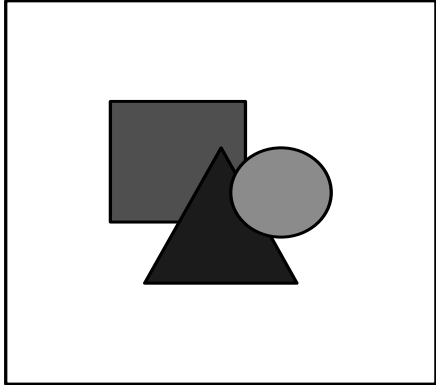
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## Planning, land use policies and building controls

Yes, land owners do withhold ‘banked’ land to maximise their returns. They also succeed in getting agricultural land rezoned inappropriately. Our state governments prioritise almost any kind of commercial activity involving infrastructure expansion over the democratic ecological and social concerns of householders. This is causing our local bush and agricultural land to be covered by houses in this water-poor country where climate change is already substantially reducing rainfall. Displaced agriculture then moves out to clear marginal land and destroys remaining natural habitat.

The term ‘Delays’ (cited from the issues paper in the “NIMBY” section below) is indicative of the property development mentality which assumes the right of the industry to grow and profit over any other community value or need.

Objections to land re-zoning and development from people concerned about loss of amenity are more and more valid as we lose more and more amenity.

There has been a reduction in the rate of land release, at the urban fringe and in in-fill areas because of concerns about urban, rural and environmental amenity. This is a social reflection of increasing number of activities competing for limited space. Naturally, with the constant increase in infrastructure spread over the past couple of hundred years, it is getting harder to find land to use for housing when so much is already dedicated to other uses or natural amenities. We are running out of land and competition for what is available is increasingly conflictual and the processes for handling this are becoming increasingly undemocratic. This competition also exacerbates financial costs and housing prices.

State and territory government land release policies are failing to constrain local government decisions to approve land for development and are failing to uphold those local government decisions to protect land from development and are failing to democratically represent the incumbent populations.

### **The NIMBY factor**

**“Do local planning schemes create unnecessary costs? Do external or third-party appeal mechanisms unnecessarily delay planning approvals? Is the ‘not in my backyard’ issue being managed effectively?”**

Regarding the so-called ‘NIMBY’ factor, one notes that the Land development and housing industries have a different perspective on this from most householders. The quote below is from the Menzies Research Centre Report, *Innovative Approaches to Reducing the Costs of Home Ownership*, June 2003, p.23. The report was sponsored by Wizard Home Loans, RAM’s Home Loans, Aussie, Homestart, Resi, Home Australia, AC Neilson Consultants, Ebsworth Consultants, HIA, JB Were, Clayton UTZ, Phillips Fox.

“Viewed differently, these constraints on the construction of new dwellings and the release of greenfield and brownfield sites act as a burdensome tax on building, which in turn leads to a mismatch between the accommodation needs of Australian households and the stock of available homes. This brings us to a more general point, which is that many local and State Governments have failed to come to the affordable housing party. To a certain extent, this is an upshot of their deep-seated aversion to instituting changes *that are likely to be perceived as disruptive to incumbent residents.*”

For most householders their home is their chief asset, if they are lucky enough to own it. It is one of the few things that they have much control over, yet they have lost a great deal of this control in recent times. State policies, funded, written, and promoted in large part by property industry professionals and technicians and their allies, have increasingly favoured new developments over the rights of incumbent householders. In Victoria the main avenue of appeal, VCAT, has tended to railroad all Planning and Environment Act cases under a few clauses known as ResCode, whereby a person may only raise objections about proposed developments as far as the immediately affect that person’s property and a few adjacent properties. And then the grounds for objection are limited to superficialities. In effect the average citizen has no formal avenue to comment on the over-riding policies which drive development and may only react to local threats *in their own backyard.*

Australians should be educated about planning and have far greater input to controlling the drivers of infrastructure and housing expansion.

The industries typically chant the mantra of change as though it were a moral imperative. Ironically, to this effect the *Menzies Center Report* even quotes Dickens, whose father finished up in debtors’ prison:

“Change begets change. Nothing propagates so fast. If a man habituated to a narrow circle of cares and pleasures, out of which he seldom travels, steps beyond it, though for never so brief a space, his departure from the monotonous scene on which he has been an actor of importance would seem to be the signal for instant confusion...The mine which Time has slowly dug beneath familiar objects is sprung in an instant; and what was rock before, becomes but sand and dust.”

**Charles Dickens (1844)**”

Another quote from Dickens comes to my mind:

“It was the best of times, it was the worst of times, it was the age of wisdom, it was the age of foolishness, it was the epoch of belief, it was the epoch of incredulity, it was the season of Light, it was the season of Darkness, it was the spring of hope, it was the winter of despair, we had everything before us, we had nothing before us, we were all going direct to Heaven, we were all going direct the other way.” (From *A Tale of Two Cities* (1859))

*A Tale of Two Cities* was about London and Paris at the time of the approach of the French Revolution. The wildly conflicting attributes of the age were that it was the Age of Enlightenment, and of the riches of the New World, and yet also a time of great poverty and inequality. In both cities the bulk of people had lost access to land for food and

housing through a variety of political processes, from feudalism to enclosure.<sup>172</sup> Many convicts and indentured servants in Australia were the product of this situation. But the other thing that came out of it was, of course, the French Revolution, where the people seized land ownership from royalty and nobles because they had simply had enough of being told that they should put up with anything for the good of the king. Where the United Kingdom perhaps managed to export its reformers, resisters and potential revolutionaries, France retained hers. Thus Australia, like America, profited from new lands and fossil fuel but kept the semi-feudal basis of its old structures and policies. The French, on the other hand, eventually got the *Napoleonic Code*.

Modern French land-use planning and housing law derives some of its anti-speculative components, its ‘civil rights’ basis, and its structural resistance to population boosting, from the ideals of the *Commune*, which put an end to feudal land distribution in France – at least for the time being. What the Menzies Research Centre Report seems to be proposing is a return to feudalism, but on a global level. In effect it would extend the amount of land held by banks and other transnational corporations. These corporations have their first loyalty to the rich and powerful and constantly seek to influence governments to increase the advantage of the rich and powerful, attempting to override the obligation of the State to its citizens. This is the natural habit of dominant powerful human beings and their associations. But it is not in the interests of democracy to give these corporations even more power over land, which is the initial source of all wealth. Where their champions condemn State governments for being reluctant to run head-on into their constituents, as in the Menzies Research Centre’s comments relayed above, one would argue especial caution.

### **Performance of the building and land development industries**

**“For example, in a building boom it has been known for bricklaying costs to increase threefold so as to induce contractors and their teams to work longer hours. The cost of construction services also may rise over time due to underlying skill shortages in particular areas.”**

The idea should be to avoid booms and busts which exacerbate shortages of labor, gluts of housing, high prices, and impinge on democracy through pressure from groups seeking to maximise economic gain.

The underlying skills shortages are an artefact of our tendency to import skilled labour rather than to skill it up and of the structure and organisation of the land-production and construction industries.

### **Importation of Construction Industry Workers : France and Australia**

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<sup>172</sup> Even though the land potentially available to Europeans was vastly increased by the colonisation of America and Australia.

Once again a comparison between Australia and France can be enlightening. There are important differences between the building industries in France and Australia. In Australia the industry has a high reliance on *skilled* immigrant labor. This seems not to be the case in France. In France the industry is strongly associated with the employment of *illegal* and *unskilled* labor,<sup>173</sup> the promotion of which neither impacts on France's formal immigration intake, nor on the provision of housing to legal residents. Legitimate needs for skilled labor seem generally to be considered to be quite adequately met from the resident French workforce or the EEC, with some difficulties in exceptional circumstances or where rare and disappearing trades are required.<sup>174</sup> In fact industry reluctance to take legally resident trainees of apparently foreign stock has become the subject of a French government campaign against discrimination.<sup>175</sup>

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<sup>173</sup> This situation has been written about quite candidly by Catherine Wihtol de Wenden, "Pour une ouverture selective des frontières", *Le Nouvel Observateur*, 20 June –5 July, 2000, p.83, from an interview by Isabelle Monnin. Wihtol de Wenden is a Director of Research at the National Centre for Scientific Studies (CNRS) and author of numerous academic works. Another source on this is Mark J Miller, "Employer Sanctions in France", US Commission of Immigration Reform, 2430 E Street, NW, South Building, Washington DC, 1995, p.10, 17, "Roughly one third of all legal infractions and complaints concern the building sector alone (p.18) This situation was alluded to in correspondence with sources mentioned in the note below and by Prof Francis Ronsin *Histoire Contemporaine*, Univ. Bourgogne in Dijon and author of *La Population de la France de 1789 à nos jours*, Seuil, 1977.

<sup>174</sup> For instance, at times of sudden heavy demand for building work, such as that generated by the unusual storm damage at the end of 1999, it is difficult to find the necessary skilled workers. Unsurprisingly, small building enterprises that are unable or unwilling to offer competitive conditions and wages suffer most from difficulty in attracting skilled workers. The need for rare skilled trades could arise especially where restoration of ancient buildings was required.

<sup>175</sup> For France: Extracts from the following articles were provided to me by Catherine Comet of the Confederation de l'artisanat et des petites entreprises du batiment (CAPEB) via Agnès Thibault: [agnes.thibault@wanadoo.fr](mailto:agnes.thibault@wanadoo.fr) : INSEE, "Difficultés de recrutement insee 94-00", 2000, contains the results of monthly INSEE questionnaires to Heads of Enterprises concerning their recruitment problems. *CAPEB Cellule Etudes Economiques*, AT: "Les Problèmes de recrutement dans les entreprises artisanales du batiment" is an article that appeared in the monthly CAPEB journal (18/11/1999) on problems of recruitment in small building firms. It presents results of a study done in 1999 for CAPEB on problems of recruitment by small building firms. INSEE, "Principaux indicateurs conj 0900" presents the results of a study by INSEE on difficulties of recruitment in the building sector during the period 1994-2000. I also obtained assistance from Christine Salvat, [salvat@apcm.fr](mailto:salvat@apcm.fr) of the Assemblée permanente des chambres de metiers (The permanent assembly of Chambers of Trades) <http://www.apcm.com/>. Replying to my request for information on the situation in France, in an email dated 28 Sept. 2000 suggested that keeping up the supply of apprenticeships is a permanent struggle, especially in regard to some outmoded or rarified trades, [which are of course in demand in the widespread restoration of ancient buildings in France], however she did not believe that this had given rise to seeking foreign tradesmen (from outside the EEC) since there were many French eager to take up such training and there is a strong government initiative to attract people to train for these trades. There are indications that the industry is actually resistive to the employment of immigrants since part of the government initiative is to combat rejection for racial reasons as well as to encourage the employment of women in these areas. See the above site regarding this. It is also possible to obtain more information by doing a search under "artisan" on the site of the Ministry for Employment and Solidarity: <http://www.travail.gouv.fr> Under the *Code du Travail*, Chapitre II, S.2, Art 43, L.115-1; Art 44, L.118-2-2, Art. 45, L.118-2-3,4, L.119-1-1 etc. there are sections dealing with collection of money from employers to subsidise apprenticeship courses, although the State remains in control of these courses nationally as with all education, and undertakes much of their subsidy. The financing of apprenticeships is currently under review to maximize funding and support for students to make the system more effective in taking up unemployed persons in France.

For Australia: Birrell & Birrell, *An Issue of People*, 1987, *op.cit.*, p.68.

An efficient, skilled labor force is a basic condition for keeping housing costs down, E. Jay Howenstein argues as he describes measures taken in Europe to reduce housing costs.<sup>176</sup> He also suggests that the focus of the Fifth Plan in France (1976-1980) on the value of manual labor was an attempt to address the issue of inefficient use of immigrant labor in the housing construction industries. Seventy apprenticeship centers for workers in the housing industry were established in 1980. Cooperative training programs involving government, contractors and trade unions were instituted and have become commonplace.<sup>177</sup>

In Australia, the reason for the reliance of employers on imported skilled labor is that employers and the State combine to offer very few apprenticeships, apparently preferring the cheaper option of imported fully trained skilled labor. This is a very long standing practice.<sup>178</sup> The low profit margin and the boom and bust cycle that characterises the Australian building industry to this day has prevented the industry from investing in training and this is likely to have reinforced the need for immigrants, since work available depends on the boom and bust cycle as well. The effect of this is that building workers have tended to seek other kinds of employment and become unavailable to the industry.<sup>179</sup>

### **The Boom and Bust Character of the Australian Housing Industry Contrasted with France's and the importation of skilled and unskilled labour**

The Australian building industry's importation of skilled labour is significant for the arguments advanced in this submission because the practice of relying on importing skilled tradespersons whenever a building boom was underway, rather than investing in a stable, educated and sophisticated pool of local skilled labour, would have contributed to the industry being poorly equipped to reorganise and modernise.

In France the industry has never been reliant on the boom and bust of immigration induced population growth. However, up until 1974, it had been able to rely on quite a steady demand for housing in all sectors, and this had been buoyed up by the State through a range of low interest loans and subsidies for a variety of housing options, including renovations, rentals and middle class home purchase. Immediately after the war public housing had been a strong middle class option, but as the economy and housing availability

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<sup>176</sup> E. Jay Howenstein, *Attacking Housing Costs, Foreign Policies and Strategies*, Center for Urban Policy Research, Rutgers University, P.O. Box 489, Piscataway, N.J. 08854, 1983, p.29. The author states this premise.

<sup>177</sup> *Ibid.*, pp30-33.

<sup>178</sup> Birrell & Birrell, *An Issue of People*, 1987, *op.cit.*, pp.67-68 and Terry Burke, *The Australian Housing System*, Module 7, "The Land Development and House Building Industries," *op.cit.*, p.22. Whitlam attempted to change it but his innovatory policies were dismantled following his displacement. See *The Growth Lobby and its Absence*, Chapter 7.

<sup>179</sup> *Ibid.*



improved for the French, the upwardly mobile began to seek alternatives. This increased opportunities for the building industry to cater for a growing private sector.<sup>180</sup>

Through the late 1960s to the early 1970s, household formation accelerated in France.<sup>181</sup> This was to do with the increasing independence of young adults from families, higher incomes, high immigration and the recent baby-boom. However after 1973 the rate of new household formation dropped. In France 1974 and 1975 had the lowest total population growth (natural increase and net immigration combined) since the second world war. Similar demographic situations prevailed throughout Western Europe. The absence of interventionist populationist policies, either pronatalist or immigrationist, proved enduring and indicates a massive revision of the growthist post war population policy.<sup>182</sup> In the long term this revision seems to have amounted to a demographic policy to stabilise population growth and it also had the impact of reducing rate of growth in national energy consumption. Today Western Europe has a substantially slower rate of household formation than Australia.<sup>183</sup>

### **Australia and France contrasted with regard to industry structure**

**“The structure of an industry — including the number, relative size and location of businesses operating within it — influences its competitiveness and responsiveness to changing market conditions... market power ... barriers etc”**

The material below addresses a number of the items of discussion raised in the issues paper.

Following the first oil-shock in 1973, the French building industry adapted to the slowing pace of local demand, rather than trying to artificially generate it. Specialist literature indicates that residential construction costs were cut down through organisational restructuring and technological change. This led to a greater need of skilled workers but

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<sup>180</sup> 1995 Encyclopaedia Universalis France S.A., "Logement (Politique du)" and Claudie Louvot, Division Comptes et études de l'industrie, "Le BTP depuis 1945", *Insee Première*, No. 472, July 1996. (4 pages).

<sup>181</sup> Claudie Louvot, Division Comptes et études de l'industrie, "Le BTP depuis 1945", *Insee Première*, No. 472, July 1996.

<sup>182</sup> French Population Data, from 1946-1990: Roselyne Kerjosse, Irène Tamby: "La situation démographique en 1994: mouvement de la population", Institution national des études économiques (INSEE) Paris, 1996, 264P.: carte, graph, Tableau; 30 cm, Tableau 3, "Evolution de la population totale depuis 1946, Evaluation fondée sur les résultats des recensements de 1946 à 1990." Data source for 1987-1997 was INSEE: "France Métropolitaine. Indicateurs démographiques 1987 à 1997" Note that recent employer desires (over the years 2000-2001) for more liberal immigration apply to special skills and are not related to populationism.

<sup>183</sup> Household formation and homebuilding finance: Claudie Louvot, Division Comptes et études de l'industrie, "Le BTP depuis 1945", *Insee Première*, No. 472, July 1996. (4 pages), and Terry Burke, *The Australian Housing System*, "The Australian and International Housing Systems", *op.cit.*, p.18, "The European countries have had a much lower rate of household growth, and therefore housing demand, than Australia, Canada, New Zealand and the United States."

left more money to finance research and training. These structural and organisational changes to the French (and other western European) building methods and practices are important differences between Australia and France.<sup>184</sup>

In France the housing industry adapted by greater energy efficiency of housing design, by refurbishing old buildings and, most of all, by adapting to customer demand and factory construction with major pre-payments, rather than borrowing to build speculative estates. The Government also reduced its annual commitments to public housing construction. Inflation, which affected the public's ability to purchase houses, caused many in the building industry to go broke.<sup>185</sup>

In contrast, Australia's development and housing policies changed very little. Developers in Australia merely slowed their release of land until population growth was relaunched. They continued to promote the fragmentation of the building industry by inviting numerous builders to compete with each other on the building estates. This practice presents a severe limitation to the ability of the building industry to fund, and organise to implement, more industrialised and educated production and design techniques.<sup>186</sup>

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<sup>184</sup> See *The Growth Lobby and its Absence*, Chapter 7.

<sup>185</sup> See *The Growth Lobby and its Absence*, Chapter 7, for which the sources were "Le BTP depuis 1945", *Insee Première*, No. 472, July 1996. (4 pages). Terry Burke, *The Australian Housing System*, Module 2, "The Australian and International Housing Systems," *op.cit.*, p.18, which refers to the different systems in Europe and the English speaking settler countries, including Australia. See also Gavin McCrone and Mark Stephens, *Housing Policy in Britain and Europe*, UCL Press, 1995, p.23, Chapter 3, "Housing Policy in France", "French housing policy has undergone considerable changes in recent years, but the process has been more evolutionary than the abrupt changes of direction that have characterised the UK. ... As in other countries, the impetus for many of the changes since the mid-1970s has been the need to contain costs and to target the measures more effectively...".

The French government subsidises apprenticeships as it does all other education and this would have facilitated the capacity of the French industry to radically reappraise its mode of operation, technology and training needs. Much of the financing for apprenticeships comes from an employer tax for apprenticeships (*Code du travail* and Article L.118-2 and subclauses cited on <http://www.apcm.com/> which is the net address of the Assemblée permanente des chambres des métiers, consacré à l'artisanat, à l'apprentissage et à la formation (Permanent Assembly of Chambers of occupations, dedicated to trades, to apprenticeships and to training).

<sup>186</sup> See *The Growth Lobby and its Absence*, Chapter 7, for which the sources were Terry Burke, *The Australian Housing System*, Module 2, "The Australian and International Housing Systems," *op.cit.*, p.18, which refers to the different systems in Europe and the English speaking settler countries, including Australia. On p.32 Burke comments that developers in Australia frequently employ a strategy of "inviting as many builders as possible to set up display houses. Some have up to 60 different builders working on their estate at any one time. This fragmentation not only limits the degree to which the builders can appropriate development gains, but also further restricts their ability to embark on more industrialised forms of production techniques that might occur on site."

During the depressed period in housing in the mid-seventies in Australia private land developers wound back their release of land until demand returned - Terry Burke, *The Australian Housing System*, Module 7: "The Land development and House Building Industries", *op.cit.*, p.31 Note that this increased demand coincided with with the return to high immigration. Other sources of Australian material on this period: Tom Uren, *Straight left*, Random House, Milsons Point, New South Wales, 1994, Leonie Sandercock, *Land racket*, *op.cit.*, Paul Kelly, *The Unmaking of Gough*, Allen and Unwin, St. Leonards, New South Wales, 1994; Brian Buckley, *Lynched : the life of Sir Phillip Lynch, mastermind of the ambush that ended Gough's run*, ,

The second half of the 1970s announced a period of major reorganisation of how the housing, building and private developer industries operated in France. After a rash of (largely British inspired) investment in speculative office blocks and housing estates, <sup>187</sup> which, in the absence of high population growth and high economic growth do not pay, the private industry adapted to customer demand and factory construction and introduced a requirement for major prepayments. Factory construction meant that less building was done on sites. The major components of dwellings could be built in factories and assembled later on sites. In effect, rather than purchasing a site and erecting dwellings, then awaiting buyers, the builder waited instead for orders for houses from home buyers who already had a site. Materials could then be ordered as necessary, components of the house could be constructed in the factory and later transported and assembled on site. Up front and total costs to the builder were minimised.<sup>188</sup>

"Through better trained workers, long term planning and methods that overcome seasonal and climate problems and other factors which had plagued the building industry with a stop-go character, in France the number of person-hours required for an average size dwelling decreased from 3,600 in the early post war period to around

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Salzbury Publishing, Toorak, Victoria, 1991; Leonie Sandercock, *Property, politics, and urban planning, op.cit.*; Gough Whitlam, *The Whitlam Government, 1972-1975, op.cit.*

<sup>187</sup> In 1967 "ZACs" (Zone d'aménagement concertés) came into being in France. Barry Simpson, *Planning and Public Transport in Great Britain, France and West Germany*, Longman, 1987, pp.73-74 describes these as if they were facilitators for private developers. A ZAC was a zone where considerable changes were envisaged over a short period of time under the *loi d'orientation foncière 1967*, which authorised public authority land requisitioning. With the ZACs such land was passed on to private developers, who were supposed to build schools and amenities in conformity with the needs of the future community. However the ZACs were full of tax loops and dodges and the developers were exempt from the general requirement for industry to contribute taxes for local infrastructure including internal roads, open space and parking. Burtenshaw, Bateman and Ashworth, *The City in West Europe*, John Wiley and Sons, 1981, write, pp 68-69 that there was "no established tradition of speculative office development prior to British involvement in the French property market. Indeed, in the mid-1960s, 80 per cent of new office space was for owner-occupancy. The situation changed rapidly in the 1970s, however, as British companies turned their attention to property development in Europe, and the balance in new office provision was reversed so that approximately 80 per cent of new office space was built speculatively. In much of Europe from the late 1960s onwards, British property companies became very active as promoters of new urban development. Their somewhat voracious methods were not always welcomed. In some cases, and notably in the case of Brussels, they were totally insensitive to the pre-existing urban fabric. In this case, controls were imposed somewhat belatedly to prevent further transformation of sensitive parts of the city." Burtenshaw, Bateman and Ashworth cite Goodall, B., *The Economics of Urban Areas*, Pergamon, Oxford, 1972, for an explanation of the rise of speculative office building .as mostly due to "the massive flow of funds available for property investment in the postwar period via insurance companies and pension funds. Further, the restrictions on the increasing of capital in post-war Britain could be circumvented by the so-called leaseback transaction. This enabled a company to sell its interest in a property, but to lease it back from the purchaser. In the process, the company raised much-needed capital and the purchaser, often an insurance company, had found in property a secure investment for part of its funds. Property companies themselves were often funded by insurance companies with pension funds. All of this activity meant that property, seen as an investment with a very high return, in comparison with other investment and the added advantage of being at that time virtually inflation-proof, was being actively developed."

<sup>188</sup> Australia's failure to adapt these new practices is explored in Terry Burke, Module 7 of *The Australian Housing System*, "The Land Development and House Building Industries", *op.cit.*.

1,000 hours in 1980. This was primarily due to industrialisation of the building process."<sup>189</sup>

Changes to the residential construction industry in France after 1973 show that where there is economic contraction, and finance for public and private sector housing depends importantly on public subsidies, then there will be very little expansion if government is not prepared to borrow finance. Because the Australian government post 1975 has institutionalised high immigration and facilitated the industries' access to foreign funding, the Australian land-production and housing industries have been able to rely on continued largely foreign debt-financed expansion of infrastructure for population growth.

The building industry in France adapted to decreasing household formation after 1973 but the Australian industry had no need to and continues to use very inefficient methods of production. There has been some improvement amongst large corporations which deal with all the aspects of land production, sales, financing and housing construction, where these corporations produce housing in factories and employ regular workers. But since these big players are also the main financial beneficiaries of our faulty system, these reductions in construction costs fail to benefit the wider society. Instead they dig us deeper into a hole. This is because the dominant organisations also control the price of land through a number of mechanisms available to them and because they are organised to engineer and profit from the very booms and busts that keep smaller independent construction firms from establishing themselves and from affecting local education and technology in a manner which would benefit the stock of local skilled construction industry participants. As alluded to earlier, this tying of construction to land bank based corporations presents an obstacle to housing affordability.

### **Resistance to Change in the Residential Construction Industry in Australia after 1973**

Australia has been unable or unwilling to educate and train enough skilled tradespeople, nor to keep them between booms. Greater funding and access to education and training are particularly important if the building industry is to change its boom and bust approach to business. The Whitlam Government's policies to improve access to training, combined with urban planning innovation, might have improved this situation by producing skilled building workers for Australia. As the French still do, Australians had for a short time access to free tertiary education and technical and further education and training. This was a revolutionary policy adopted by the Whitlam government. That government, which identified immigration as a driver for property price inflation and land speculation also planned for reducing immigration and for the Commonwealth to fund the States to buy up land cheaply, which would have reduced the opportunities for private speculation. These changes would have created pressure on the industry to change. With better skilled workers, however, the building industry would have had a greater chance of achieving modern restructuring, which would have assisted its adaptation to new conditions. It is this

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<sup>189</sup> E. Jay Howenstine, *Attacking Housing Costs, Foreign Policies and Strategies*, op.cit., pp30-33.

submission's contention that the Enquiry should consider these strategies together with consideration of reducing demand by lowering immigration.

### **Are rising land prices the main contributor to reduced affordability?**

Yes, the price of land has risen due to the increase in demand which is related to the size of the population and its activities, and the location of suitable land, which is limited by climate and soil fertility and concentrated mainly near the South, South-East and South-West coasts. These are also the areas of greatest biodiversity. The only densely peopled inner region is that supplied by the underground and above ground Murray Darling River system. Economic activity and organisation and infrastructure location reflect climate and soil fertility. It is more convenient and less costly for housing to be built close to infrastructure and those areas of economic activity which engender most employment nearby. However because of the nature of our land-use planning, land production and housing system, efficient organisation of housing according to infrastructure, employment and climate is increasingly hampered by inexorably ratcheting prices for land. This is due to our failure to tax profits on land or to otherwise (for instance through public price tribunals) control ratcheting values for unimproved land associated with serendipitous proximity to human population and infrastructure growth. The land-bankers (mostly professional developers) have only to purchase land in agricultural areas, lobby for high population growth, and then wait for demand to catch up with their holdings and then agitate for rezoning. We have abundant evidence that this is what happens. These professionals and their allies and dependents, such as town planners, are also often active in local and state government and departments of infrastructure and civil tribunals and they influence policy and planning and, ultimately, rezoning.

The fact that prices have risen faster for land on which established houses are compared to the land where project homes are built is a reflection of the tendency for land-banks to be in outlying areas and the (sensible) resistance of ordinary people to building on inner urban green spaces, despite massive pressure to allow this. This means that the land furthest from city centres and transport infrastructure is cheaper. As the city sprawls outwards such land becomes increasingly viable for urban settlement although the first generation of home owners in such areas face many problems, which include distance from employment, schools and hospitals, and the need to rely on private transport. In our system, the wider community always ends up paying for better services to these outlying communities as their residents demand more from the government. The land-banker, developer, builders and financiers are not held responsible morally or financially.<sup>190</sup> Governments have lost power over this many times but are invariably seduced up front, much like the desperate first home buyer, by access to easy funding and promises of long-term support.

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<sup>190</sup> With the exception of recent changes in NSW. However the rest of Australia still pays the cost of accommodating economic flight from Sydney. This is a good reason to make Sydney the standard model for charges to developers, especially since Sydney is the gateway to overseas immigration and massive property prices.

## Infrastructure charges

The infrastructure charges have rarely been appropriately capitalised into the land in our system. Instead they have been charged to the new community and the greater community several times over and are paid for through charges at local government level and by State government using Commonwealth funds. However the developer has made their profit largely whilst avoiding most and possibly any responsibility for costs arising from his development in the long term.

By treating human population growth as a commodity we let ourselves in for this difficult situation because it does not permit us to treat development as a cost to the community. It is seen as a profitable transaction here in contrast to being seen as a cost in Europe.

In this case 'User Pays' is unfair. The community pays over and over again for the infrastructure and services, whilst the land-bank owner and developer of a greenfields site, especially a leapfrogging one profits by these.

Developers will avoid any costs they possibly can. We cannot expect them to do otherwise, since this is part of their highly competitive business. The fact that they may attempt to blame government and the community for costs arising from developments which they initiate, carry out and profit from is just an example of how illogical our dialogue is here.<sup>191</sup> If a developer purchases farmland on the Mornington Peninsula the 1970s and holds onto it until such time as his industry body manages to browbeat or con a government into dramatically raising population growth and forcing rezoning of that farmland, then the developer will find that his land, as he expected, greatly gains in value. Now, without being a person who greatly overvalues the work ethic, it must be said that that land-bank owner has done absolutely nothing to raise the value of that land. However he will (unless we have a system that taxes such windfalls) benefit enormously from reselling this land. Since he is a developer and not just a land-bank owner, he is likely to develop the land as far as the most basic infrastructure is concerned, because this will also increase the value of the land for resale and the local government may require some minimal standard of development. However he will not take any responsibility for further development and services like schools and hospitals. The community will have to wear these. But the community will have to wear these plus the price of the land which has gone up simply because the community has overflowed down the Peninsula to that point. We find that charges are levied by local government and state government and that the state government expects commonwealth funding for infrastructure and services as well.

State governments also privatise or otherwise impose development and service costs for new suburbs on the wider communities in a number of ways infrequently discussed in this context. For example, the privatisation of power permits governments to sheet blame home to private power companies but costs are transferred to the community for population related increases in demand on power production and infrastructure.

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<sup>191</sup> It is also an indication that developers are dictating the terms to the government and the rest of the population.

Another example is the current Victorian drive to raise charges for water. Non-irrigated dryland farmers are being hit especially hard, partly because there are more voters in irrigated areas and currently irrigated crops bring in more cash, but also because the dryland farmers are not so numerous and find it very hard to get heard by the urban communities which rarely relate cut-throat rural competition for water to urban demand to maintain high standards of living for larger urban populations. But urban users will also be made to pay for upgrades in their household and community infrastructure and technology in order to minimise and secure water-use, as well as paying more for less water. Even less well understood by the public is that the current high level corporate/media/government (State and Federal) interest in water as a commodity and in raising its cost has much to do with the interest of the corporate sector in speculating on water assets, in the same way as it does on land.

The irony is that the Victorian government has caused the community these problems by insisting on a drive to raise the population size considerably. As mentioned already, this drive has been led by a coalition of developers and allied industries

All these costs have finished up alienating government from its constituents by allying government with those who profit from the costs. This is eroding our democratic system. To recap; the essential dialogue is illogical: we have finished up growing the population in order to feed the land-production industry's desire for more infrastructure than the incumbent community needs, but we charge the long suffering incumbent community for this process that benefits the developer and penalises the incumbent community. This is the commodification of human beings like a crop.

This scenario may be avoided by:

1. Government purchase and development of land before the land price has gone up
2. Gauging the value of the land minus the added value provided by the community and deducting this from the land-bank owner's profit through taxes
3. Using these taxes to fund public infrastructure and services such as public transport and universities, which could then be much cheaper
4. Not permitting rezoning in areas where the local community has not naturally grown to require it
5. Not artificially stimulating demand for outlying land by raising immigration levels or making on-shore services, such as universities, dependent for finance on importing customers
6. Not charging foreign students more than the fees that Australian students pay and limiting foreign students to a modest quota, whilst prioritizing places for local students
7. Recovering all costs from the developer as they come up
8. Treating land production as a cost to the community which is only justified if it profits the community by more than merely increasing the community's size
9. Finalising zones and stabilising population
10. Finalising zones and adapting democratically to the population's demonstrated natural tendency to reduce its growth in response to increased costs of living.

**“Have rising construction costs contributed to rising housing prices? Have construction costs increased because the level of building activity has risen more rapidly than supply capability? What other factors are relevant?”**

The Enquiry’s Figure 4 makes it look that way, although logically it should not be the case, since project homes cut expenses in many different ways. Corporations producing and marketing projects have the political and financial power, however, to engineer large profit margins and this may be what is happening. Some of this may also be due to the size of houses currently constructed, which is increasing in some cases. Although these houses may be relatively cheap to construct, many are designed to appeal to grandiosity in the buyer, and perhaps therefore, they may command much more than they are intrinsically worth.

**“Have skill shortages in the dwelling construction industry contributed to rising housing prices and reduced affordability? Are such shortages temporary or are there long-term issues? Have the costs of skills shortages been more significant in particular regions?”**

As I have discussed above, these skill shortages are a long term feature of our economy and they contribute, not only to construction price rises, but to high costs in renovating established dwellings. However the cost of land is a problem that makes the costs of construction merely the straw that breaks the camel’s back that is already overburdened by overcommitment on finance.

## **Recommendations**

On behalf of SPA Victoria, I would suggest

- charging developers the full cost of infrastructure provision, from water to sewerage to arterial roadways, as in Sydney, and
- taxing unearned improvements in value to fund public infrastructure, transport;
- developing and using public tribunals to determine values before infrastructure and population movement improved these (possibly using French method)
- launching a healthy system of public land-production and public housing to undercut an extremely expensive private sector; (the Victorian State government policy of privatizing even further the provision of public housing and land production is not a good example to follow)
- employing and training skilled and professional labor to staff the public land-production and housing sector in order to build up a stable high-tech workforce that is independent of the private sector and/or independent of the private land-bank holders and which would not need to borrow extensively to fund most of its activities
- divert activities into renovations, upgrading, and innovative design for energy conservation and to benefit from available flow energies, like sunlight, wind, water, tide, and geothermals
- gear for a future of modest stable turnover



- develop protective strategies towards agricultural land and plan to reclaim for agriculture and high rainfall areas currently turned over to housing
- develop strategies to gradually reclaim marginal agricultural land for indigenous species
- copy Western Continental Europe. Don't follow the example of the UK, USA and Canada

These reforms should be the responsibility of Federal, State and Local government working together. I would be keen to participate in the design of a workable inter-government structure for redesigning the system. I am aware that this would be difficult since individuals and institutions, including charitable, religious and tertiary education ones, as well as corporations, profit at all levels of society from the extant system. Obviously such a program would not preclude consultation with all sectors.

Both left and right political parties should be able to accept the notion which is widely accepted in Europe that basic shelter is a fundamental right that civilized society should ensure for citizens. The government and the public needs to be educated to see the benefit in this. The financial and social benefit to the wider public is a potentially huge reduction in onerous housing expense which currently haunts most Australians. Population growth needs to slow right down and population to stabilize if we are to move on beyond the real-estate economy (and for many other reasons). Although direct interventions in population policy for restraint is a hard call politically for English-speaking settler state governments, like Australia's, decline in population growth would result, I believe, if government were to apply brakes on the extension of development and housing by undertaking the above reforms.

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For

SPA

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