

“HOUSE” OR “LAND” DOES IT MATTER?

Since August, 2003, the Productivity Commission has been conducting an inquiry whose final report is expected in March, 2004. In December it issued a draft or interim report for comment.

The intent of the inquiry is to answer three questions. These questions may be put as

- 1. Has housing affordability got worse?*
- 2. If so, what caused it to grow worse? and*
- 3. What policies can remedy this worsening affordability?*

What policies can remedy this worsening affordability?

The high point of the Commission's inquiry are remedial changes to economic policy: changes to “taxation of housing”; to infrastructure charges; to development approval procedures and building regulations; to assistance to home buyers; and to the supply of land. All these changes are the result of demand and supply analysis.

The difficulty with this approach is that so-called *housing affordability* is not an economic problem at all. It is simply one effect of a community mindset. No government can implement any remedy that fundamentally disturbs or challenges this mindset. So: if the mindset persists the problem called *housing affordability* will recur.

That is, the inquiry is likely to conclude either by proposing appropriate policies which are unacceptable, or by recommending inappropriate policies that may or may not be acceptable.

The real benefit of the inquiry lies in the extent to which it will *educate* the public; that is, the extent to which the inquiry clarifies the causes of worsening “housing” affordability. The public will then be more aware of its own mindset. It was because the problem is one of education and not economic policy that the Association's original submission to the inquiry talked little about economic policy initiatives.

What caused (so-called) housing affordability to grow worse?

Thus, what is all-important is correctly to analyse the problem. What prevents the Commission from doing this at the moment is its terminology. The interim report continually speaks about *home buyers*, and worsening *housing affordability* and *house prices*. It has done this despite on the one hand acknowledging (p.130) views that “the Australian (housing) industry was close to world's best productivity” and, on the other, stating that “Most of the change in house prices reflects changes in the value of the land” (p.6).

Very clearly the problem of housing affordability does not exist. The prices of building materials and building construction behave little differently to the prices of bread, motor cars, white goods or other commodity. Like them, *house prices* have trended downwards in real terms as, ironically, *land prices* have trended upwards. It would be useful for the public to know this.

Thus, instead of

“average house prices have doubled in nominal terms and risen by nearly 70 per cent in real terms – about half in the last two years” (p. xii).

it would be useful to the public to say

“average land prices have doubled in nominal terms and risen by nearly 70 per cent in real terms – about half in the last two years”.

And, instead of the statement

“House (land) prices fluctuate considerably over time ...” (ibidem)

it could be useful to point out that while the cost of constructing a house does not “fluctuate considerably” over time it is quite possible for land to do so due to speculation or rent-seeking.

To speak about the destructive effects of patently selfish activity is an unpleasant truth which neither the public nor the government want to hear. Indeed there is much about this problem of *land unaffordability* that the public or the government do not want to know about. (One is reminded in this regard of the court jester charged with putting unpleasant truths to the king in a way he could accept.) At least the inquiry would be taking a step in the right direction if its wording recognised the undeniable truth that it is the price of *land*, or better still *sites* or *locations*, which is rising and not the price of houses.

What we want and what comes with it

The Australian public delight in making money out of appreciating rents and land prices. Statistics for the period 1987-90 and 1997- 2003 show that its capacity for rent-seeking is extraordinary. Australians also delight in the sense of land ownership (“my land”) and will often fight viciously over claims to a few centimetres when fences are being replaced. The public would perhaps examine this mindset more closely if it were linked to a host of social problems, one of which is the difficulty which young persons have in buying a home and starting a family in the midst of accumulating land prices and mortgage debt.

Naturally enough the public (not to mention ‘powerful vested interests’) may not want to know that what it thinks of as windfall gains from land are in fact revenues due to the activities of the community as a whole. (The Discussion Paper hints at this when it says at p.3 “the value of (homeowners’) assets is directly affected by what happens in the surrounding community”.) Any useful analysis of so-called *housing affordability* would leave the public facing a *choice* between keeping such unearned incomes and resolving the growing social problems caused by *land unaffordability*.

Certainly, at the moment, no one wants to hear that *land*

“... the most valuable asset that most people will acquire in their lifetime” (ibidem)

can never be owned (as a motor car or refrigerator can be owned), and that in fact they have no right at all to claim the value of this “asset”.

Any effective analysis of so-called housing affordability must end in this unpleasantness, in this serious questioning of *private property in land*. Who will risk a career to raise such unwelcome considerations?

Nonetheless, anyone who is even partially aware of the damage which ignorance about this institution causes to our society must try to correct this ignorance.

Conclusion

This inquiry is a forum where anyone with a concern about the growing disproportionality between wages and land prices has a duty to see the problem raised. To reiterate: the use of terms like *housing affordability*, *house prices*, and *housing assets* is a fatal impediment to revealing the nature of the problem the Commission is addressing.

This weakness shows itself most poignantly in the term *demand for housing*. This cosmetic term completely conceals the fact that is at the seat of the problem. The demand for housing is not a problem at all. The problem is that many do not seek housing but appreciating land values. While terms like *demand for housing* persist the darker side of the so-called housing problem escapes attention. This point is well illustrated by the dilemma about Stamp Duties. The removal of Stamp Duties will certainly assist genuine home buyers by bringing more established housing onto the market, but it will also just as certainly fuel land speculation.

It is to be hoped that in the final report the land question will be given the attention it deserves. Only in this way can it become clear how to encourage the homebuyer but at the same time discourage the land speculator.

