Our House-But Who's Rent

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Some views on Housing

Average pay won't buy standard home[1].

Strategic home investment can generate more wealth than could possibly be earned through employment[2],

A bad end to the boom would mark the failure of the separation between monetary policy and prudential regulation introduced after the report of the Wallis committee. The whole program of financial deregulation would be called into question[3].

So we know that the present housing boom in Australia will - almost certainly - be followed by a housing bust. After that bust, the smart league - including most of the banks - will soldier on with their pockets stuffed but many, especially in the middle-income and poorer brigade, will be in thrall to the banks through crippling mortgage payments for years to come[4].

Introduction

There is a housing boom in Australia in the early 2000s. In brief, and in economist-speak, 'housing activity' is at high levels but the affordability of housing, as assessed by the share of average weekly household income required to purchase a home, is at the lowest point for more than twenty years. In the 1980s, housing was unaffordable because of high interest rates and borrowing costs; in the 2000s, affordability comes from the increase in property prices. These "market facts" indicate that homebuyers are likely to be finding economic life harder but that established home owners are gaining windfall returns. This is part of a wider concern about the economic and social effects of a less fettered housing and property market on the distribution of aggregate income and wealth. Housing, of course, is the most significant economic asset for the vast majority of people.

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[1] Courier-Mail 3/3/1992 p7 citing Urban Development Institute of Australia.

[2] Badcock, B & Beer, (2000), Home Truths: Property Ownership & Housing Wealth in Australia, Melbourne University Press, Melbourne cited in Labor Council of New South Wales' Submission to The Productivity Commissions Inquiry Into "First Home Ownership

[3] John Quiggin, 'Bubble, Bubble' However it ends will spell trouble for someone. Australian Financial Review 25/9/03

[4] James Cumes The Housing Bust: not a question of 'if' but 'when?' and 'how bad?' http://www.onlineopinion.com.au/view.asp?article=818 accessed 1 November 03

The state of the housing market has led the Reserve Bank to warn of "asset bubbles"[5] with comparisons between the housing market in the 2000's with C17th "Tulip mania" and the C19th "Railway Mania"[6]. The most recent statistics show that housing credit in the June Quarter 2003 was 34% up on an annual basis. Even the Federal Treasurer has urged caution and warned "*housing prices don't always rise*".

This paper is an initial and speculative essay into the questions of who is benefiting from the housing boom and who is paying. This seeks to go beneath market truisms and illuminate the distribution of material wealth – in other words ask who is getting the economic rent and who is paying it. The analysis will draw on political economy and treat rent as an outcome of the pursuit of interests in real economies and real political circumstances. As such, my major concern is to demonstrate that the current housing situation is inherent within the way in which the housing market in Australia has been allowed to operate.

Housing Prices

I will use the term "housing situation" to refer variously to prices, values, lending and borrowings. The starting point is to recognise the rapid inflation in house prices over recent years; this is shown in the following table from the Reserve Bank[7].

Table 1: House Prices
Percentage change over five years

	Nominal		Real[a]	
	Five years to:		Five years to:	
	March 1989	March 2002	March 1989	March 2002[c]
Sydney	140.4	45.2	68.0	30.7
Melbourne	122.2	89.3	55.3	70.5
Brisbane	47.9	62.0	3.4	45.8
Perth	142.0	37.1	69.1	23.5
Adelaide	43.9	42.3	0.6	28.1
Canberra	42.8	49.8	–0.2	34.8
Darwin	na	14.0	na	2.7
Hobart	na	27.3	na	14.6
Australia[b]	**114.1**	**56.9**	**49.6**	**41.2**

Source: REIA
(a) Deflated by the CPI excluding interest charges, adjusted for tax changes and the introduction of Medicare
(b) Chain-weighted by number of capital-city households
(c) House price data for March 1997 interpolated

House prices have increased at a rate of over 9 per cent per annum nationally over the past five years and by 17 per cent over the year to 2002. In the five years to 2002, the real increase was 41.2%. This is an uncompounded real increase of 8.2% per annum.

[5] As quoted in the Australian Financial Review, "*The Reserve Bank of Australia yesterday used the term "bubble" for the first time to describe the dangers associated with the overheated housing market*". Australian Financial Review 14 November 2003
[6] See for example John Simon, Three Australian Asset Price Bubbles, Reserve Bank of Australia 2003, http://www.rba.gov.au/PublicationsAndResearch/Conferences/2003/three_australian_asset_price_bubbles.pdf
[7] Reserve Bank of Australia Bulletin ,July 2002 Recent Developments in Housing: Prices, Finance and Investor Attitudes

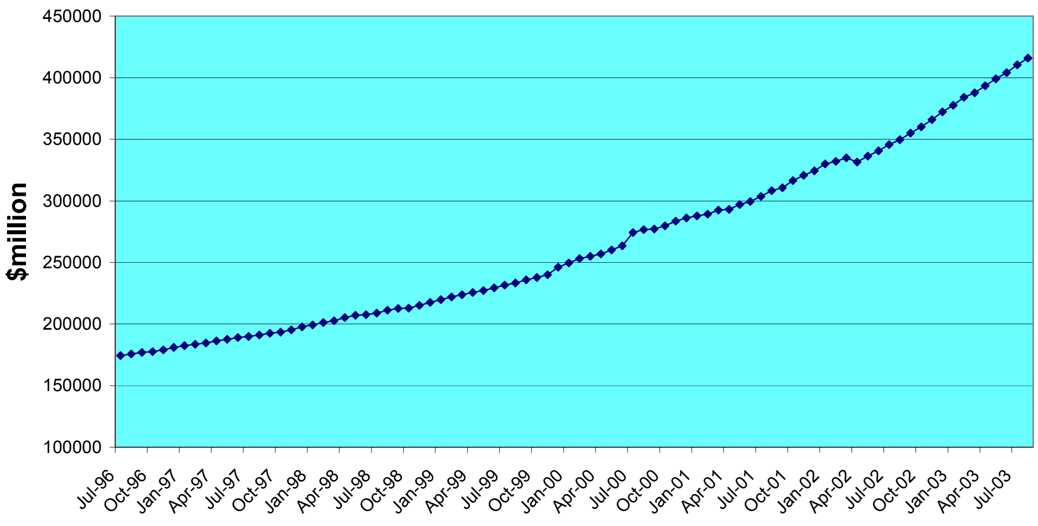
As shown in Table 1, the rate of real increase has been slightly less than in the last boom of 1985-1989 and has been concentrated in Melbourne and Brisbane rather than Sydney and Perth. Notably, though, the recent increases in house prices have occurred in a period of low inflation and low interest rates; this is unlike the circumstances of 1985-89 that were marked by high rates of inflation and high interest rates.

On conventional measures such increases have been "profitable"; the Real Estate Institute of Australia publishes the Residential Investment Property Index and data on Returns to Residential Property[8]. The index measures for each capital city the 'total' investment return before tax. Between June 1997 and June 2002, the index was assessed as increasing by 203% in Sydney, 228% in Melbourne and 173% in Brisbane. The annual return on "capital" was assessed for 2001-2002 as ranging from 15.6% in Melbourne to 33.1% in Brisbane compared to a twenty-year average figure of 15%. These are substantial returns; in comparison, over the same period, the average return on five-year Treasury Bonds was 5.7%.

House Lending

Mortgage borrowing for housing has also increased so that "*the household sector is carrying considerably more housing debt now than it was a decade ago*"[9]. The total value of loan commitments to housing has increased in real terms by almost 2.5 times between 1996 and 2003. This is shown in figure 1[10].

Figure 1
Lending For Housing



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8 Australian Property Market Indicators July 2001 - June 2002 Issued March 2003. "*The index measures the 'total' investment return before tax. The index incorporates the percentage movement (growth) in the capital value of an indicative investment property, together with the percentage returns derived from net rental income*."

9 Recent Developments in Housing Prices, Finance and Investor Attitudes, Reserve Bank of Australia Bulletin July 2002.

10 Calculated from Reserve Bank of Australia, *Statistics Housing Finance Commitments by Lender* , April 2003

Housing debt began to increase in the late 1990s and n 1997, the Deputy Governor of the Reserve Bank summarised the reasons for the increase in housing debt whch had been accr

> *a household sector with low debt compared with their international peers, a dramatic increase in the affordability of housing finance, a weaker appetite for borrowing by companies and financial intermediaries looking for growth opportunities, has combined to produce a very substantial lift in household debt*[11].

The reference to both the cost and the availability of finance is instructive. The orthodox explanation is that the actions of buyers (the demand-side) determine the total level of lending. However, the quote suggests that part of the increase in housing debt has been led by the availability of mortgage funds (the supply-side). Hence, account must be made of lenders looking for homes for their finance as well as buyers looking for finance for their homes.

In 1997 the Reserve Bank seemed certain that the increase in housing debt was a positive good for people and the economy; thus:

> *one could state without much fear of contradiction that the combination of affordability and availability of finance for housing seen today has not been bettered at any time in our modern economic history*[12].

Moreover, the Reserve Bank argued that this favoured lower income groups; writing that

> *the advent of low inflation and low interest rates has made it a lot easier for those in the lower parts of the income distribution to get access to housing finance and home ownership*[13].

The statement by the Deputy Governor was part of a paean to deregulation of the financial system that may have been persuasive in 1997 but seems less clear-cut in 2003. The most obvious cause for doubt is that housing loans have increased at an average annual rate of 14 1/2 per cent over the five years to 2003 which has been one and half times faster than the increase in house prices.

There is a double effect; homebuyers are paying more than a few years ago and borrowing a higher proportion of the price that they have paid. This is especially so for the purchase of existing houses. Total building investment (that is spending on new housing) has been relatively constant at 6% of gross domestic product, but loans secured over housing have risen to be equal to 9.5% of annual gross domestic product[14]. As will be discussed below, this divergence illustrates two aspects of housing-what might be called a use value for shelter and an exchange value for speculation.

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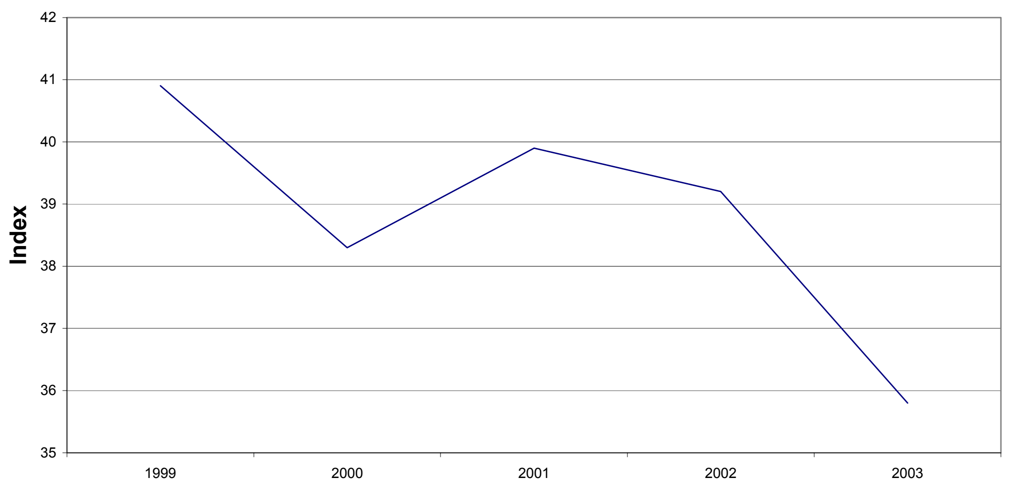
[11] G.R.Stevens, "Some Observations on Low Inflation and Household Finances" *Reserve Bank of Australia Bulletin* October 1997
[12] *ibid*
[13] *ibid*
[14] Statistics, *Reserve Bank of Australia Bulletin* Feb 2003

Conventional economists denote situations in which housing loans increase faster than house prices as examples of "equity withdrawal"[15]. More colloquially this might be termed 'urban prospecting'. The effect is that, in the aggregate, homebuyers and homeowners have been borrowing a larger proportion of the equity value of their home. This might be at the time of original purchase or through a range of re-financing arrangements both during the term of an initial mortgage and after initial loans have been fully discharged. Put another away, and slightly technically, homeowners, as a group, are liquidating some of the equity in their property that has been created by increasing house prices. Importantly as will be explained below, there are social and political aspects to this since the rich are spending (or investing) their new found housing wealth while those who are poorer are either paying more of their income for housing or being pushed out of the housing market.

House Affordability

A central issue for many analysts and commentators is that housing has become less affordable because of price rises and despite reduced interest rates. The usual measure of housing affordability is the relationship between median weekly family income and average monthly home loan repayments[16]. This is calculated as an index and a decrease implies a reduction in affordability. Figure 2 shows that a substantial reduction in the index of affordability occurred between 1999 and 2003.

Figure 2
Home Loan Affordability Index
June years



Put plainly, this means that more people are unable to buy homes either because their incomes are too low or house prices are too high. Statistically, such a reduction means that home prices are increasing faster than median incomes. For actual people, it means that potential purchasers must either pay a higher proportion of their income on housing or buy a home at a lower price-which, of course, means either smaller and

[15] *ibid*
[16] Home Loan Affordability Report, Real Estate Institute of Australia and AMP Banking, http://www.reiaustralia.com.au/market_reports/pub_details.asp?id=6

lower quality or in a less favoured area. In addition, some people will just be excluded. The situation is well-summarised by Berry,

> *Housing prices and rents have risen faster than the incomes of low-income households, especially in the last two years in Sydney and Melbourne, where the pressures and problems associated with declining housing affordability are greatest*[17]

As such, "*by mid-2000, low income households could not afford to rent or buy the standard three-bedroom house in virtually any area of Sydney or Melbourne*"[18]

As housing becomes less affordable, those who buy homes incur a larger debt. Accordingly, the ratio of household debt to household income has increased from 56 per cent in 1992 to 125 per cent in 2002[19]. This is a consequence and combination of three factors: increased house prices, increased borrowing relative to price and home prices increasing faster than incomes. Even these figures involve statistical artifice since only 30% of households have outstanding mortgages[20] and it is only this part of the population who carry the load of increased housing debt. Moreover, as Macfarlane discusses, the debt-servicing ratio for borrowers in the current low inflation economy is at a high level for a longer period because of the limited increase in nominal incomes.[21].

The previous paragraphs show that housing affordability rests on household income, house prices, the level of borrowing and the cost of finance (including interest rates). It is important to realise that each of these elements is 'independent' in both economic and political terms. Moreover, there is some evidence that the housing situation in Australia is rather unique with a medium term trend for increases in house prices to outstrip incomes. The ratio of house prices to household income has increased much faster in Australia than in all comparable countries except perhaps New Zealand. The changes in Australia, United States and United Kingdom are shown in figure 3. [22]

There have been three different patterns of change in the ratio of prices to incomes on the three countries. In Australia, the ratio has increased consistently from 1985 to 1998 with an overall rate of increase of 43%. The ratio has been almost constant throughout the period in the United States where as there was a sharp fall in the ratio (from 361 to 252) in the 1990-95 period in the United Kingdom

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[17] M.Berry, Affordable Housing Project: Background Paper, Brotherhood of St Laurence & Committee for Economic Development of Australia, December 2002

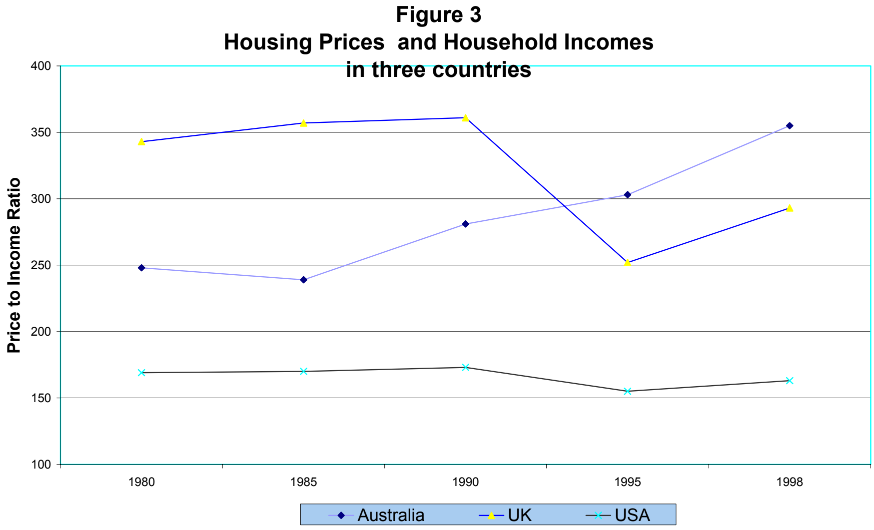
[18] *ibid*

[19] I.J.MacFarlane, Do Australian Households Borrow Too Much?, Reserve Bank of Australia Bulletin April 2003 p7

[20] See Australian Bureau of Statistics, Housing Occupancy and Costs, Cat No 4130.0. Of just over 7m households, 2.76 million are owner-occupiers without a mortgage and 2.13 million are owner-occupiers with a mortgage.

[21] *Op cit* pp 9-10. Paradoxically, in periods of higher inflation, such as the 1980s, increases in nominal incomes meant that fixed mortgages could both be paid of faster in 'devalued' dollars and the level of the mortgage became a smaller multiple of cash income. Macfarlane also points out that higher level of debts are maintained and even encouraged by home equity loans and redraw facilities which are innovations of financial deregulation.

[22] Calculated from Luci Ellis & Dan Andrews, City Sizes, Housing Costs and Wealth, Economic Research Department, Reserve Bank of Australia Research Discussion Paper 2001-08 October 2001.



The different patterns seem more explicable by reference to changes in prices than to changes in household incomes. In particular, there were sharp falls in house prices in the United Kingdom in the early 1990s and the occurrence of so-called 'negative equity' which could be a precursor of what some expect to be the bursting of the housing asset bubble in Australia. Yet, to date, house prices have continued to rise. Ellis & Andrews suggest that the rise in house and land prices relative to incomes in Australia is simply the market indicating that these were held down by regulation and high inflation. As such, financial deregulation and low inflation have enabled national average dwelling wealth to rise to the long-run level desired by the market[23]. They do not readily explain why this level seems considerably greater than that in other Anglophone OECD countries

Home owners and buyers

In trying to understand the housing situation it is useful to distinguish between homeowners, homebuyers, home renters and home investors. A given house can, at any one point in time, be owned outright, being purchased with a mortgage for owner-occupation or being rented or being purchased with an intention to sell for capital gain[24]. Nonetheless and with the possible exception of inner-city apartments, the valuation of any given house, that is the potential market price, is independent of the type of tenure or the state of the mortgage. Put another way, the price or valuation is independent of the way the house is used. This is not the case with other goods where purpose or function assists in partially or fully determining the market- for example, to use a close analogy industrial land, commercial land, housing land.

For home owners, who own their home outright and constitute 43 per cent of Australian households[25], any increase in house prices that is in advance of the inflation rate means, other things being equal, that they become wealthier. The increase in wealth occurs without the homeowner doing productive work or making

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[23] Ellis & Andrews p 25-26 *op cit*. They also note that mortgage interest deductibility in the UK and US ameliorated the burden of inflation on housing prices.
[24] It is perhaps worth drawing a distinction between a 'second-home' as an investment and a first home bought with a view to sell to move up the scale of housing.
[25] Reserve Bank of Australia Bulletin March 2003 p5 citing the 2001 Census

investments. On the other hand, the increase in wealth can only be liquidated by either selling the home and trading down or borrowing using the home as a security. More likely, the wealth will not be used by the current homeowner but will be passed on through inheritance to family members.

Homebuyers are owners with a mortgage[26]. As the Reserve Bank states the group of homebuyers (28.6 per cent of households) "*has accounted for the growth of owner-occupied housing debt and, by extension, for much of the growth of total household debt*"[27]. More critically perhaps, the proportion of homebuyers has been almost constant between 1991 and 2001. This shows that there has not been a trickle-down of home ownership to lower income groups despite the period of lower interest rates and more available loans. There are two implications; first that the availability of borrowing can be treated as a stimulant of higher housing prices. Second, that "*the increased availability of credit was largely capitalised into housing prices rather than generating a wider spread of owner-occupation*"[28].

As this is a different matter to that of landlord-tenant relations, there will be little discussion of the circumstances of home renters. But it needs to be emphasised that homeowners and homebuyers are much better off then home renters. Indeed, low-income tenants are in the worst possible position in the current housing market. As Berry writes "*a quarter of a million low-income tenant households pay more than 30 per cent of their household incomes for housing"* and*, "if this trend continues at the same rate as for the past decade, this figure will rise to one million households by 2020*"[29]. A complex set of factors is reducing the capacity of young people to move from renting to buying with a substantial reduction in the proportion of households buying a first home by the median age[30]. These include house prices increase faster than incomes, casual instead of full-time employment, gentrification of inner city locations and increasing debts from education including HECS and PELS.[31]

While the situation of home renters lies outside my current topic, that of home investors is central to understanding the current housing situation. As Macfarlane states "*the biggest single change over the past decade is the rapid increase in borrowing in order to purchase a dwelling for investment purposes*". This is "*a pure investment decision, not a lifestyle decision*"[32]. Indeed, "*borrowing for investment ...had risen from 18 per cent of housing debt in 1992 to 30 per cent in 2002*[33]. The rate of growth of such investment has been over 20 per cent per annum compared with 13 per cent for loans to owner-occupiers[34]. This is supported by the Australian Consumers Association who argue to the Productivity Commission that "*the growth in housing as an investment in Australia has been spectacular. In 1991, more than 80 percent of housing finance was for owner-occupied housing; now it is just over 50*

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26 For detailed definitions see ABS Housing Occupancy and Cat No 4130.0 1997-98 p 61
27 *ibid* p5
28 *ibid* p5
29 Berry p2
30 See for example, W.Stone, Chasing The Great Australian Dream; Young people's access to home ownership, *Family Matters* No.49 Autumn 1998 *Family Matters No.49 Autumn 1998*
31 *ibid* p3
32 Macfarlane op cit p10-11
33 Reserve Bank of Australia Bulletin March 2003 p1
34 *ibid*

percent[35]. Moreover, the level of home investment is another aspect of the housing situation relatively unique to Australia. As the Reserve Bank states "*The high proportion of housing finance accounted for by investors in the Australian housing market stands out as quite different from the experience of other countries*"[36].

Housing investment is aimed at capital gains with the potential returns compared with the share-market and the vast array of financial trading. As the ACA states, *A collapse in equity markets … has caused investors to switch in funding to the "safe" haven of housing*[37] In turn, this has been supported and even initiated by new forms of financial instruments and new lenders such as "Investment Seminars". Yet, as argued earlier, because house prices are in a sense indivisible, this is to put house prices for owner-occupiers as well as for investment, in motion with shares, financial futures and the range of market instruments.

Growth in investment housing and the various other aspects of the current housing situation both stem from, and contribute to, wider structural changes as well as the temptations and short-termism of markets. This is most evident in links between the housing affordability and the distribution of income, wealth, employment and other life chances. For example the Sydney Housing Affordability Review demonstrates how spatial inequalities are a consequence of the interactions between the housing market and income distribution.[38]. The Labor Council of New South Wales has raised similar concerns stating that

> *Although the complexities hinder firm conclusions, the concern is that the housing market is reinforcing, rather than ameliorating, the nature and character of the inequity in employment markets and income levels*[39]

Home wealth and property

In political economic terms, housing is integral to discourse about property, wealth and wealth distribution. The chain is simple, homes and land are private property and property is wealth. Nonetheless, the market value of land and home is primarily determined by communal not private activity- for example demand for particular homes and pieces of land increases because of population growth, or zoning changes or even the building of better public transport. As such, increased wealth in home and land rests on extrinsic rent stemming from its relative location and/or scarcity. As Henry George wrote, "*until its ownership will confer some advantage, land has no value*"[40]. In writing about rents, George was concerned with three matters; the first

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[35] Australian Consumers Association Submission to the Productivity Commission Inquiry into First Home Ownership, October 2003, p10

[36] Reserve Bank of Australia, Submission to the Productivity Commission Inquiry on First Home Ownership, November 2003 p18.

[37] *Op cit p10*

[38] Quoted by the Joint Industry Housing Group Submission to the Productivity Commission Inquiry On First Home Ownership October 2003 p7

[39] Labor Council of New South Wales Submission to The Productivity Commission Inquiry Into First Home Ownership. The submission cites Winter & Stone, (1999), as cited in Reed, R., Greenhalgh, E. (November 2002), *The Changing Rent vs. Buy Decision in the Housing Market*, The Annual University of Melbourne Property Conference, Melbourne

[40] Henry George, *Progress & Poverty*, Appleton, New York 1880, ch8.

was whether land and some parts of capital should be treated as public resources, the second was how to achieve an equitable distribution of rent and third how to ensure that unearned incomes did not escape taxation[41]. I have deliberately drawn on Henry George for two reasons. One is that I share his sympathy for taxation on land and the second is to draw parallels between the latter part of the C19th and the latter part of the C20th. In the late C19th the Georgist Land Leagues were a very substantial influence on the early Australian Labor Party and Trade Unions.

One consideration of this paper is who is benefiting from the increases in home prices and in the level of mortgages. Clearly, there is a complex interplay between home purchasers and banks and other mortgage providers. But underlying this, a more systematic account of how cash and paper profits from housing are being divided needs to go to questions of who is appropriating the economic rents from homes and land. One starting point is that wealth, including land and property ownership is highly concentrated in Australia. Further, over the C20th, wealth distribution first became more equal and then more concentrated. Table 2 sets out the share of total wealth held by the top 20% in each of the only three surveys undertaken in Australia in the Twentieth Century.

Table 2	
Share of total wealth by top 20% of wealth owners[42]	
Year	Share
1915	89.7
1967	53.5
1998	62.8

In 1915 the top twenty per cent of wealth owners (the fifth quintile) had 89.7% of all wealth; by 1967 this had fallen to 53.5% but in the succeeding 31 years, matters reversed and the top group regained some of its lost wealth. The changes were much ado about land and homes. Land was the main form of wealth in 1915 and the pastoral and sugar estates were still extant. A combination of the depression and Labor social reformism in the 1930s-50s reduced the importance of rural land and increased the importance of urban and manufacturing industries. This was the period of active government with state intervention to support full employment, industrialisation and expanded social services. In contrast, the Hawke/Keating ALP Governments of 1983-96 was the first determined effort to expose both the private and public sectors to the market arrangements so that the level and pace of deregulation and adoption of neo-classical economic policies was among the fastest in the OECD. The Howard Coalition Government has intensified the process since 1996.

The move to the market has been accompanied by a widening distribution of both income and wealth. In consequence Australia is close to the US situation where, in absolute terms, it is one of the best places to be rich and one of the worst places to be

[41] See for example, Peter Barnes, Reconsiderations: Progress and Poverty, *New Republic* 11 December 1971

[42] S.Kelly, Simulating Future Trends in Wealth Inequality, NATSEM, Paper to 2002 Australian Conference of Economists, October 2002 p12.

poor[43]. There is a clear link between housing and income as shown by the data in table 3.

Table 3 Home ownership by Household Income					
	Income Quintile				
% of households with	Lowest	Second	Third	Fourth	Highest
Home Fully owned	53.2	48.3	35.4	30.0	34.1
Home with mortgage	8.7	17.2	33.7	46.9	48.5
Owning and buying	61.9	65.5	69.1	76.9	82.6
With high housing costs (>30% hsehld income	27.5	23.7	13.0	8.1	2.1

Source; From ABS Housing Occupancy & Costs 4130.0 1997-98 Table 8

The proportion of households owning or buying a home increases from 61.9% in the lowest income quintile to 82.6% in the highest quintile. The proportion buying homes is a more significant indicator of recent house prices and household incomes. Over five times as many households (48.5%) in the highest income quintile are buying homes than in the lowest (8.7%). Perhaps as dramatically, 27.5% of households in the lowest income quintile had housing costs greater than 30% of disposable income; this is almost thirteen times the proportion in the highest quintile (2.1%). Since the 1997-98 statistics are the most recent available, the situation in 2003 may well be even wider given the rate of increase in home prices.

The data used in table 3 is a "snapshot' at a point in time. Data from Percival, summarised in Table 4, shows that the proportion of households purchasing homes

Table 4 Change in Home Ownership by Income 1975-6 to 1997-98 Percentage point change			
Quintile	Owners	Purchasers	Total
1st	-2.1	-4.5	-6.6
2nd	14.8	-17.3	-2.5
3rd	8.4	-16.1	-7.7
4th	10.5	-12.3	-1.8
5th	10.9	-10.4	0.5

Source; calculated from Percival

has fallen most in lower income groups[44]. As can be seen, the proportion of households purchasing a home fell by 17 percentage points among households in the

[43] Timothy M. Smeeding and Lee Rainwater, Comparing Living Standards Across Nations: Real Incomes At The Top, The Bottom, And The Middle, Social Policy Research Centre (UNSW) Discussion Paper No. 120, December 2002

[44] Richard Percival, Changing Housing Expenditure, Tenure Trends And Household Incomes

second income quintile but by only 10 percentage points in the highest. Moreover, the proportion either fully owning or buying had increased only in the highest income quintile.

Although data on wealth distribution is limited, there clear grounds to expect that if incomes are becoming more unequal, ownership of wealth will become more concentrated. Kelly has used the available statistical data (summarised in Table 2 of this paper) to simulate the future distribution of wealth. One conclusion is that the poor will do less well;

> *In total, over the thirty years until 2030, the wealth of the poorest half is projected to fall by one-third, from 7.0% in 2000 to 4.9% in 2030. Given the extremely small proportion owned by this half at the start of the period, the reduction by one-third will make a significant difference to this group. It will also greatly magnify the significant differences between the rich and poor*[45]*.*

The quote needs no explication and stands by itself. However, and pertinently for this paper, Kelly goes on to identify changes in home ownership and the extant "*downward trend in homeownership"*[46] as substantial reasons for the predicted widening of wealth distribution.

> *In summary, home ownership levels are forecast to drop over the next 30 years, particularly for younger families. As housing and mortgage reduction have been the prime form of saving for Australians, changes to the ownership levels may well be the cause of increased wealth inequality*[47]*.*

All of this reinforces the sense that a double process is operating wherein the rich find it easier to buy a house and, in turn, the purchase makes them richer.

Housing and Taxation

Increased inequality might be defensible in the lexicon of market economists if it were the sole outcome of informed and freely chosen market relations. But, this is patently not the case in Australia where there is considerable state and government intervention into housing. Thus, as Yates writes[48],

> *Home ownership in Australia is amongst the highest in the Western world. One factor that has contributed to this has been generous direct and indirect assistance provided by the Commonwealth government.*

The indirect assistance to homeowners and buyers are part of what Treasury terms "tax expenditures". Following Yates, these, " *provide an implicit subsidy to owner-occupiers and reflect a loss of potential tax revenue in the Commonwealth budget*."[49]

In Australia, 1975-76 To 1997, NATSEM Discussion Paper No. 28

[45] S.Kelly, Simulating Future Trends in Wealth Inequality, NATSEM, Paper to 2002 Australian Conference of Economists, October 2002 p12.

[46] *ibid* p18

[47] *Ibid* p19

[48] J.Yates, A Distributional Analysis of the Impact of Indirect Housing Assistance, AHURI, April 2003, p1 available at http://www.ahuri.edu.au/attachments/60098_final_distributanalysis.pdf

[49] *ibid p10*

The two most substantial tax expenditures are the exemption of private homes from capital gains tax and non-inclusion of the imputed rental value. Yates is convincing in arguing that

> *The existence of tax concessions to owner-occupation most probably has encouraged home ownership, particularly amongst high wealth, high-income households and possibly has resulted in higher marginal and average tax rates than would otherwise have been the case because of the narrower income base on which taxes are imposed*[50].

The total indirect assistance to homeowners and home-buyers is estimated at $21 billion in 2001. This is made up of $13 billion associated with exempting first homes from capital gains tax and $8 billion from the exemption from imputed rent after allowing for non-deductibility of interest.[51]. The total indirect assistance to home owners is equivalent to 3 per cent of Gross Domestic Product and is more than the total tax expenditures associated with superannuation. The exemption from imputed rent is equal the estimates of the tax saving gained by those who salary package employee superannuation contributions.

Assistance via tax expenditures always favours higher income earners because they have more potential tax to avoid paying. Yates provides a very considerable analysis of the distribution of indirect assistance to homeowners according to income group, age and region. The conclusion is aptly summarised by the following two quotations

> *..in virtually every region, almost half the total value of tax expenditures is distributed to households in the top income quintile, with none going to those in the lowest income quintile*[52]
>
> *The greatest benefits go to those outright owners who are in the top income bracket on the highest incomes and who own dwellings with the highest capital values…. The least benefits go to households in the lowest income quintiles and to those who still have significant mortgages on their properties*[53]

These quotes can stand without embellishment and I turn, in summary, to some theoretical considerations and policy implications.

Implications and Considerations

The first matter is the obvious one that the supply and purchase of housing in Australia has become subject to the financial market since deregulation. Housing has become 'securitised' and the forms, amounts and costs and finance are, as stated earlier, in motion with shares, financial futures and the range of market instruments. The distribution of housing has long been seen as an aspect of social and material inequality- that is differences between housing classes and tenure types. I want to suggest that a more comprehensive view would treat the operation of an unregulated

[50] *ibid* p10
[51] *ibid* p12. Note this after the reduction in the marginal tax rates on average incomes in 2001,
[52] *ibid* p21
[53] *ibid* p23

housing market that is fully integrated into the finance more in terms of a generator of inequality.

A second matter is that the form of changes in the housing situation which have occurred in Australia over the last two decades are relatively unique in the OECD. One aspect is the rapid increase in house purchases for speculative purposes and another is what seems to be a structural shift in the ratio of the value of homes relative to household income. Speculation in housing affects the price of all housing and hence all actual and potential house owners and buyers. This is not only by a direct market effect on house prices but also through altering the costs and availability of finance. Moreover, in political economy terms, the profits made in speculation need to be seen as a direct charge against the incomes of labour and capital in the productive sectors of the economy.

This moves to a third consideration which is who have been the beneficiaries of the changes in housing. The structural shift in the ratio of the value of homes relative to household income suggests that the providers of fiance to housing have been major beneficiaries. This, of course, is the financial sector generally and the shareholders of banks mortgage providers and wholesale lenders more specifically. They have been advantaged by their ability to convince borrowers to take larger loans relative to increased prices. A more detailed examination of the source of profits of banks and of the distribution income from housing transactions between banks and the newer forms of lenders would be instructive.

There has also been an inter-generational shift in wealth from the young as a whole to the older-rich. One factor has been through unearned increase in housing values as increasing prices have been capitalised into existing property. A second is that the older-rich are the principal owners of corporate shares. In turn, higher home prices, higher levels of housing debt and higher rents are charges against wage incomes. Almost self-evidently a greater share of household incomes is required to pay mortgage or rental costs and for other than the lowest income groups, the predominant source of income is through employment. Again almost self-evidently, the main way of gaining the extra household income has been through the increased participation of women in the labour market including delays in having children and more rapid returns to the labour market. Paradoxically perhaps, and something deserving discussion, is the question of at what point will the increasingly insecure employment in deregulated labour markets undermine the level of security required by housing financiers. Alternatively, how will the financiers innovate products that are adjusted to increasing employment insecurity?

The tax treatment of housing is a final consideration. Two aspects are noteworthy; one is that housing is a very developed example of what might be termed the new tax economy of credits, allowances and tax expenditures. This has replaced the old idea that citizens were entitled to housing, health or eduction through public provision according to criteria of need. At one level the new tax economy provides public subsidies for customers and clients to use private services allocated through markets. The subsidies may be in cash allowances or, and increasingly, through various form of tax or income credits. Starting on the right of politics and economics, such schemes are becoming attractive to the 'soft-left' and the Third Way. Yet the tax treatment of housing also illustrates the inequality of the taxation system with estimated tax expenditures of $21 billion per annum in Australia. To say the least, a review of the treatment of capital gains and the distribution of the rents being gained from housing might be in order for those who wish to increase social investment.