

## **A Submission to the Senate Select Committee on Housing Affordability in Australia**

This submission is drawn, with minor changes, from its author's book *Australia Fair* (UNSW Press, 2005). To our current stock and continuing output of public housing it suggests that public agents add a new flow of houses for purchase, rental purchase and rent, each one proofed against its real price rising (i.e. inflating any more than the national currency does) at any time between its first sale and its eventual demolition. Households who thought those conditions worthwhile could queue to occupy those houses. Households continuing to rent or buy in the private sector might expect some lower rents and prices and resale profits than prevail now, as some demand shifted to the new price-controlled public supply.

The proposal has two main purposes and a further possibility: (1) to sell or rent houses at fixed cost prices to households who can't afford them at prevailing market prices, and consequently (2) to lessen some of those market prices in order to increase the proportion of households who *can* afford them. And experience of the new supply might prompt some reconsideration of the justice and market effects of our current 'negative gearing' of private house purchase and sale.

### **Program**

The Australian government finances the States' housing agencies to do the work on five main conditions:

- The States introduce forms of contract that can require builders and their tradesmen to accept quotas of apprentices.
- At least half of each State's share of the new houses must be for sale, rental purchase or rent to households able to pay their cost prices or rents. (Each State can divide the remainder, as it thinks best, between more paying customers on those terms, and its waiting list for regular public housing.)
- Sales require deposits, which the states can vary or adapt to the buyers' means. The buyers owe the rest, with annual interest at the rate of inflation or at 2 per cent whichever is lower. Rental-purchasers own nothing for seven years, after which the rent they have paid becomes the deposit on a sale contract.
- The home-buyers' contracts allow them to sell their houses, but only back to the agency that supplied them. It will pay them the paid-up proportion of their original price, indexed to monetary inflation (i.e. the **real** price they have paid), adjusted only to any substantial physical improvement or deterioration of the house.
- The States' sole use of net revenue from this scheme must be to reinvest it in continuing the scheme. There is thus perpetual price and rent control of the new stock, by contract rather than regulation. And buyers or family inheritors of the houses can always sell them back to the scheme, but never to anyone else.

How – and how well or ill - might such a program work?

Subject to the Commonwealth conditions the State governments decide how they, their local governments, their housing agencies and any non-profit housing associations should share the task of locating and designing the new houses. Each State decides its land policies and procedures. Private builders construct most of the houses. They get the work by competitive tender. The tendering process needs to be managed by experienced people in the public housing agencies. They shape their contract programs to keep the workforce employed and to expand it, if necessary, by appropriate public training and apprenticeships.

The intention of the program is to develop a steadily expanding price-restrained housing supply alongside (and in amongst) the market-priced housing stock. It has three main purposes. (1) It aims to restore conditions for efficient pricing by supplying as many houses as there are households wanting to buy or rent them. (2) It enables more households earning below-average incomes to buy or rent productive housing space and capital like anyone else, without charity. They're getting no favors, they pay their way: they merely trade possible capital gains for lower interest and surer capital safety than the open market offers. (3) Part of the new supply cuts the waiting time for public housing for households whose members — unemployed, disabled, too young, too old — can't afford full-cost prices or rents.

To establish the scheme in an under-supplied and over-priced market, and with long public-housing waiting lists, there may need to be both income limits and waiting time for the paying customers. But when the open-market prices are down to efficient levels and the waiting times for the scheme's new houses are short, it may suffice to let buyers' choices distribute demand between the two kinds of ownership and capital risk. The public suppliers can then adapt their output accordingly.

There will be plenty of disagreement — among the providers, among the customers and among their neighbors — about the styles and locations of the new houses. Should households with similar incomes be housed together, as likeliest to get on with one another? (That has not usually been true for unemployed households.) Or should we try for some mix all over, for interesting variety, and to ensure that income doesn't determine the range of public and commercial services, or the quality of the schools, in people's reach?

A single public supplier might mix home-buyers, rental-purchasers, paying tenants and subsidized tenants as indistinguishably as possible, and also mix the publicly supplied houses with other houses, old and new, wherever possible. That has its risks and needs sensitive management. But I have lived in such mixtures for most of my life, helped to contrive some of them, and think their risks and rewards are better than most income-segregated housing can offer. If the rich monopolize some suburbs, or walled compounds, that may do no great harm to anyone else. But neither poverty nor policy should be allowed to segregate the poorest twenty or thirty per cent of households from the rest of the working and middle classes, or from the services and recreations that they enjoy.

The proposed national agreement allows the States to allocate up to half of the new houses to tenants unable to pay cost rent. Whatever proportion they choose, it should diminish as the stock of houses increases, and as rising employment shifts home-seekers from the welfare waiting lists to queue for the new price-restrained and rent-restrained houses, or to the open market. Between reasonable guesses at fast or slow corrections of the housing and labor markets, it could take between twelve and twenty years for the new public supply to become fully self-financing with no further public cost.

In the light of experience, the scheme might then take new directions. Having fulfilled its purpose, should it stop building and merely continue the price and rent restraint of the existing houses as they're sold back and re-sold, vacated and re-let? Or continue building to increase the price-restrained stock if there's political and market demand for it? Or start buying some existing houses into the stock to give it more variety of style and location? (Or, of course, return to neoliberal principles, call off the price restraints, sell off the rented houses as they're vacated, and free the fixed-price home-buyers to sell their houses at market prices?)

### **History as progress**

Education has long been accepted as a citizen's right and a social as well as an individual good. Rich countries make it available to all their people, much of it at public expense. Health services likewise. Public wards and medical services may not be as comfortable as their privately -paid alternatives, but it is accepted as uncivilized, and deserving reform, if the public patients' care does less for their health than private care could do.

People also need what used to be called shelter when that was its main function. Houses with standard equipment, including piped and wired and wireless connections to services from local to global, now equip their occupants to make and do all sorts of goods and services for themselves and others and for the quality and productivity of their societies. Australia Fair is productive enough now to offer all its people what most of them already regard as the necessary space and capital to live well, sociably, productively, and bring up versatile children. It's time for adequate housing to rank with health and education as citizens' rights. All three call for varieties of good feeling and behavior, but in rich democracies they should no longer depend on capacity to pay. Housing is necessary *material* capital for developing *human* capital.

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Submission signed by Hugh Stretton AC