HOUSING ADDICTS?: HOW THE 'AUSTRALIAN DREAM' BECAME A NATIONAL NIGHTMARE

MISHA ZELINSKY

John Curtin Research Centre Essay Series:
No. 1, 2017

Labor ideas for a better Australia

With housing affordability looming as one of the political hot topics of 2017, Misha Zelinsky's *Housing Addicts? How the 'Australian Dream' became a national nightmare* provides a timely critique of the Australian housing market. In this lively and thoughtful inaugural John Curtin Research Centre essay, Zelinsky argues that the present housing market reflects a dangerous public policy failure where a worthwhile national aspiration – the so-called 'Australian dream' of owning your own home – has combined with generous tax concessions, poor government planning and a lack of investment imagination to pose a serious threat to our 'fair go' economy and society. *Housing Addicts?* is an impassioned case for saving the great Australian dream.

About the author

Misha Zelinsky is the Assistant National Secretary of the Australian Workers' Union, Australia's largest blue-collar union with nearly 100,000 members. Misha is a graduate of the University of Wollongong, graduating in 2007 with a Bachelor of Laws and Bachelor of Commerce (Economics). He began his working life as a criminal defence lawyer with the Aboriginal Legal Service, an indigenous legal aid service, and has also worked as a ministerial advisor. Misha joined the AWU's national office as lead economics and policy advisor, before being elected National Vice-President. In 2016, Misha was elected as Assistant National Secretary and in 2017 he was re-elected unopposed. He has been responsible for many national campaigns and has successfully coordinated union and government efforts in promoting gas reservation, climate change responses, manufacturing policy, co-investment schemes and anti-dumping. Misha is a director of Cbus Super and is a member of the Committee of Management of the John Curtin Research Centre.

Housing Addicts: How the 'Australian Dream' became a national nightmare by Misha Zelinsky, John Curtin Research Centre Essay Series: No. 1, 2017. ISBN: 978-0-646-97094-3

Editor: Nick Dyrenfurth nickd@curtinrc.org

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INTRODUCTION

Housing – it's personal

"I think we might lose the house."

If you have ever heard or spoken these seven words then you know the power they can exert.

Housing speaks to a core human need for shelter and protection. A stable, secure home and home life can be the difference between a good childhood and a lousy one – the foundation of what we do and hope to achieve as adults. Housing is one of the yardsticks in measuring how well our society is functioning, and of its cohesiveness, but at an individual level having a roof over one's head is deeply personal – it's about our self-respect, dignity and the ability to stand on one's own two feet and provide for those closest to us.

On face value a house is a piece of built environment – whether bricks and mortar or fibro. Yet the family home is so much more, something intangible. Even those of us who have moved away from the suburbs and country towns which we grew up in know that special feeling of 'coming home'. A home is the glue that provides us with stability, comfort, safety and love.

Throughout my childhood, mum, a talented and capable woman with - by her own admission - a inability to manage money, was frequently battling to 'save' our home. The spectre of the dreaded mortgage loomed large over our family as a constant menace. Thanks to oversized mortgages, so-called 'housing distress' is something that more and more Australians are now experiencing.

As a boy growing up and then as a teenager and young adult, I was acutely aware of the impact it had on mum. Kids, even if we don't know it at the time, are perceptive. We can feel that anxiety in our bones. "I think we might lose the house." Those words, first heard as a child growing up in the 'Gong, have stayed with me. Mum would be waging an infinite war against the mortgage, while juggling the stress of work and raising two boys. But save it from what? The bank? Another owner-occupier or investor? I didn't exactly know. But her mission was clear-cut and it could not fail at any cost. None of this is to say that mum's ambitions weren't admirable or that her mission was pointless.

To be clear, I am not suggesting home ownership is silly. It is one of the most important investments any of us will make and is central to our national ethos. Buying a home is a good, solid investment. It's practical. It provides certainty in an uncertain world. And you've got to live somewhere, so you might as well own it. There are large benefits to the individual investor, families and society from high levels of home ownership. I hope to buy my own someday.

But over time I grew to resent 'The House'.

Not for the memories, which were mostly great – except for the time that I almost burned it down trying to make a 'camp-fire' in the backyard.

No, there was nothing wrong with the physical property or the some 20 years I spent there. It was a beautiful, quaint and quirky home in the northern suburbs of Wollongong. It was a safe, secure, and homely place to grow up.

No, I resented the constant feeling that it owned us, rather than us owning it. I detested it for the stress. For the obsession. For the *addiction.*

My mum's entire existence rotated around this proud stack of bricks. It was her little part of the world. But as it became more and more central to her entire existence, this devotion spoke to a broader problem. I'm not suggesting that had my mum lost this battle, we would have been homeless or destitute. My mum could have provided for us. Yet that refusal to downsize or sell up, or rent, spoke to a deeper pathology that was bigger than just our little family in a small corner of the Illawarra, and that had come to afflict an entire nation. Abandoning the dream was, to borrow a phrase, almost un-Australian.

As an adult I now reflect on my mother's motivations as part of the broader national story. Any student of our increasingly frenzied property market should be wondering if the problem is a little bigger than a lot of overly eager Aussies willing to pay any price for their own little slice of Australia.

Home ownership is central to an economic agenda of inclusive prosperity where any Aussie can expect to have a good job, access to affordable health care, the opportunity of a great education and a chance to better themselves in life - something we would all rightly recognise as the 'Fair Go'.

How did we create a policy situation where our housing market resembles a casino, except it's one where everyone who sat down before you has the benefit of a huge stack of chips and a loaded deck?

How is it that one of the richest countries in the world, which can lay claim to some of the most dynamic, hard-working and innovative people on earth, create a situation in which much of our national wealth is locked into unproductive quarter acre blocks? And where much of our nation's debate turns on the questions of 'how many bedrooms and does it have a backyard'?

How have bricks and mortar come to utterly dominate the economic debate?

When and why did we allow the honourable Australian dream of owning a home to morph into a tax dodging vehicle for multi-property owning investors?

How in an expansive land of plenty can we have priced our own kids out of living here? Why would we let taxpayers, including young workers, underwrite such poor policy? Perhaps that in our love affair with our own homes, we have accidently locked the next generation of Aussies out of theirs.

This essay aims to explore how we got here and, most importantly, how we can save the dream and release ourselves from this nightmare.

PART ONE | WHAT IS A HOUSING ADDICTION?

Australians love their homes. Next to the cricket, property speculation is our national sport. Our homes are our collective pride and joy. They're our biggest national asset at $6.4 trillion – yes trillion – dollars.

We spend our lives paying for them and countless hours of sweat equity maintaining them, improving them, cleaning them and showcasing them. When you think about how much time we spend at home, raising our families, enjoying those special unguarded moments with loved ones that last a lifetime, this is not a pursuit without merit. When you look at how much more stable the lives of children are, and the beneficial outcomes for individuals, families and communities that flow from high rates of home ownership, wanting to pursue the Australian Dream only makes more sense.

But is it possible to have too much of a good thing? Even the things that are the best for us in life can become bad when we binge on them. The same goes with our housing addiction. As a result of our collective property love affair, it might just be possible that we have broken the very thing that started it all – the Aussie dream of owning your home. The problem is not, by necessity, that we love the homes we live in. The problem is we also love our holiday homes. And our investment property. And the self-managed super property. And the one we've bought for the kids. And you know, they say Townsville is value now, what with the gas boom being over.

Aussies love nothing more than talking about how much their house is worth, the houses they want to buy, last night's episode of the TV show *The Block,* and what sort of renovations at home would add the most value. Sometimes we love these properties so much we often put more time into the physical asset, than those loved ones who actually live in them. Is it possible that we love these stacks of bricks and mortar just a little too much?

Because unpacking the numbers, we might contemplate how the great Australian dream has become something else. It has become an obsession – an addiction in other words. And a nightmare for too many Australians.

We now have a situation where instead of helping an average Australian worker and family enter the property market, our policy settings help those who already own multiple properties purchase more. This isn't fair, sustainable or desirable.

It's an addiction that is now the single biggest reason for our budget deficit. It's an addiction that means we are literally paying for other people to buy properties. It's an addiction that has locked the next generation out from owning a home. And it's an addiction that is actually unstitching the Fair Go.

Doesn't sound so Aussie now, does it?

Australia, we've got a problem. And we need to talk about it.

PART TWO | TOO MUCH OF A GOOD THING CAN BE BAD

Until relatively recently the average family could expect to buy a house and live out the Australian dream. They worked hard, played by the rules and got ahead or got by. That was the deal – the Australian way. It was a compact between generations and between we the people and our elected representatives. This was one of the reasons that made Australia the world leading society. But then we decided to mess with the compact. As a result of government policy, the dream of entering Australia's property market has become a nightmare. It's a status quo which, if maintained, threatens to rewrite our compact and transform our egalitarian national identity.

We got too hooked on a good thing and took away the very thing that we wanted to promote – home ownership for young families. Today the average price for a Sydney home is now well over a million dollars. Say that again to yourself – one million dollars. In the last three years, prices have doubled in Australia's major city. The sticker price on an average house in Sydney is about 12.2 times the income of an average Sydney family. Buying an average home for an average family in Sydney is effectively impossible. In the last three months of 2016 prices in Australia went up 4.1 per cent. In Melbourne and Sydney they grew out 6 per cent. So over the course of a half a football season, Sydney homes added $60,000 to their sticker prices.[1]

If you love to follow the market, you'll know that the most recent data shows annual housing growth at 19 per cent in Sydney and 16 per cent in Melbourne. For those who don't own a home already this means the end of the Australian dream before it began. But for Australia, it represents a social and economic disaster waiting to happen. Unless you got a 19 per cent pay rise – and based on the national increase of 1.9 per cent, you didn't – if you don't own a home you're going backwards, fast. This is madness.

Economists will tell you that once you get housing prices above three to five times household income, you've got an affordability problem. But you don't need to be an economist to understand that if prices are rising faster than average wages you have the makings of a public policy disaster zone.

A century ago, a family could buy a home on one wage, with prices three times the median household income. Over time, this made us one of the great home ownership societies in the world. This ratio more or less held until the 1970s. But because of successive government missteps, Australia is now two to three times above that range. This is neither sustainable nor fair. Sydney is now the second most unaffordable city in the world. The rest of our major cities are in the top 20. Unsurprisingly, home ownership in Australia has fallen significantly in the last 15 years from 71 per cent to 67 per cent. Since 1990 – the period when housing prices started to tick up – home ownership for 25-34 year olds has fallen from 60 per cent to 48 per cent over. This all sounds like a huge problem. Only thing is – it's actually much, much worse.

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[1] Australian Bureau of Statistics, 'Media release: Property prices up 4.1% in the December quarter 2016', 21 March 2017, http://www.abs.gov.au/ausstats/abs%40.nsf/mediareleasesbyCatalogue/BE672733C84ECBD0CA257F1B001B1853?OpenDocument

PART THREE | ADDICTION BY THE NUMBERS

A lot of us instinctively understand just how bad our housing affordability problem is but the numbers are worth looking at. As I've been writing this essay, it seems a day has not gone past without a new set of troubling numbers. It's hard to keep up. The takeout is that within these numbers we have become world leaders, and while Aussies are usually proud to top the charts globally these are rankings that should fill all of us with concern.

Australia is now rated globally as severely unaffordable.

A 2016 report published by Demographia assessed Australia's five major housing markets as 'severely unaffordable'. Measuring our segmented housing markets, 33 out of 54 were found to be 'severely unaffordable'; only four rated as 'affordable'. Perth, Adelaide and Brisbane were each listed the global top 20 for unaffordable housing. It's not a list we should be proud to find ourselves on.

Wages can't keep up with prices

Do you know how many times you currently would you need to earn your annual salary to buy a home for cash? The income to price multiple is at record levels and this gap is growing every day as runaway prices pull away from sluggish wages. In Sydney, for instance, you need now to earn your annual household income 12.2 times to afford the average million-dollar sticker price. In Melbourne, you'll require 9.5 times your income.

If you're a wage earner, the problem is getting worse

With wages growing at 1.9 per cent it won't matter how many smashed avocados you forgo on a Sunday, unless you triple your salary, forget about owning a home given price growth over the last five years (see Figure 1).

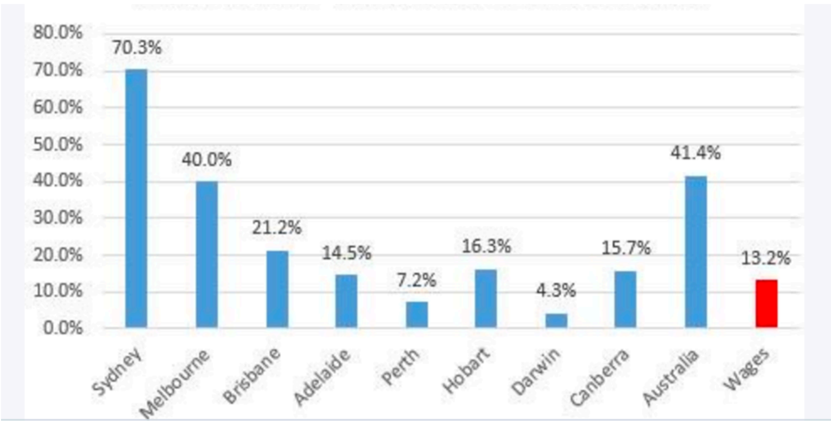

Figure 1 – House price growth over the five years to December 2016[2]

A debt binge is fuelling our addiction

If our ability to pay for something isn't keeping up with prices, the question becomes how are we still buying more housing? With more debt, of course!

[2] Chart originally sourced from Twitter @BenPhillips_ANU, 21 March 2017.

Like addicts at the casino, we are now borrowing from others which only serves to fuelling our addiction - a problem that is growing by the day.

Australians are the world champions of debt

Our collective debt is well above what we earn. At just under 190 per cent our household income to debt ratio is the highest on record (Figure 2). Households now owe $1.90 for every $1 they earn. According to the Organisation for Economic Co-operation and Development, we have just overtaken Denmark to become the most indebted households in the world.

Despite record low interest rates, we're spending more on mortgages

Because of slow wages growth, mortgage payments are historically quite high. The only reason they have fallen in recent times is because interest rates are at record lows – for now. Yet many of us focus on how high interest rates are or are set to move, rather than our gross level repayments.

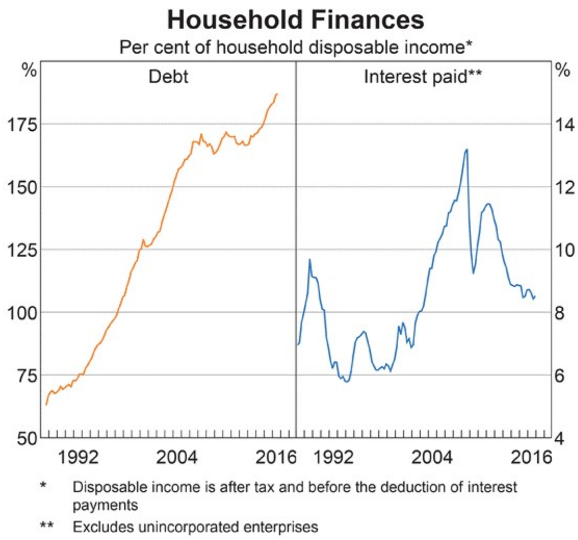

Figure 2. Household Finances: per cent of household disposable income[3]

Believe it or not, we are paying roughly the same as a percentage of our incomes for our home loans as we were during the peak of interest rates in the late 1980s – right before our last recession. That's how much debt we have collectively accumulated. Most worryingly this debt binge has been accelerating just as wages growth has fallen to historic lows – suggesting loans have shot up exactly at a time when servicing them has become harder.

With all of this debt borrowed at historically low interest rates, it would only take a slight increase in the official cash rate to see this line start to climb steeply again and put a lot of people into housing distress and or default.

Housing, it's all that we own

Housing and land holding now makes up over half (52 per cent) of all of our household assets. To put this into perspective, just prior to the Global Financial Crisis, US households had 33 per cent of their assets locked up in housing just as their economy collapsed under the weight of bad

[3] 'Household Finances: per cent of household disposable income'. Sources: Australian Bureau of Statistics and Reserve Bank of Australia, 2017.

mortgage debt. Investors are now crowding out the property market in search of the supposedly amazing returns on offer.

We're betting everything on black

For every $10 a banking institution lends in the economy, over $6 goes towards housing. An international comparison is instructive – Norway lends $4 towards housing while the United States lends $3. What are those countries doing with the extra money? Small matters like investing in jobs, education and training, manufacturing – the things we should worry about. A huge amount of this lending is going to investors in the form of interest free loans. This is something the *Australian Prudential Regulation Authority* is desperately – and unsuccessfully – trying to slow down.

This crisis is also generational.

More young people don't own a home than those that do – less than one in two Australians under the age of 35. Investors are crowding out homeowners, with their share of loans jumping from 15 per cent in the early 1990s to over 50 per cent. With youth unemployment rising and wages stagnant intergenerational housing inequity is only set to get worse. Sales to first homebuyers have fallen to record lows – sitting at 13.2 per cent. Too many young people are abandoning the dream of home ownership.

A Legoland Republic?

During the 1980s, Labor Treasurer Paul Keating worried that Australia was on the verge of becoming a 'Banana Republic', along the lines of a politically-unstable, resource-dependent Latin American economy. Today, our nation resembles what I call a Legoland Republic. Australia's total housing debt to GDP ratio stands at 123 per cent, the third highest in the world, most off which is made up of foreign debt. Australia's huge external private debt would potentially lead to a financial crisis in the event of a housing market correction, one perhaps triggered by exogenous shocks overseas.[4] Indeed, our top two industries are housing related. The biggest contributors to Australian GDP are property ownership ($182.5 billion) and ownership of dwellings ($147.1 billion). The mining industry comes in third at $140.9 billion.

It's costing all of us billions

Like any addiction, there is a hidden cost. Housing tax deductions are now the single biggest budgetary cost. The tax concession on the family home equates to $61.5 billion[5] –even larger than generous superannuation offsets. Add this to the effects of negative gearing and capital gains (just under $12 billion). That's serious cash.

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[4] Leith Van Onselen, 'Australian household debt "out of control"', *Macro Business*, 8 February 2017, https://www.macrobusiness.com.au/2017/02/australian-household-debt-control/

[5] 'Tax Expenditures Statement', Commonwealth Treasury, January 2016, http://www.treasury.gov.au/PublicationsAndMedia/Publications/2017/Tax-Expenditures-Statement-2016

PART FOUR | WHY OUR HOUSING ADDICTION IS DUMB ECONOMICS

Now that we've seen the numbers, let's unpack what they actually mean for each of us – our families, local communities and our nation's economy.

Lots of debt, no jobs

What sort of government policy would allow excessive borrowing to be subsidised by the taxpayer without creating or sustaining good jobs? Australia's. Most unfortunately, Australia's national debt binge hasn't led to new jobs, larger growth or greater investment but given us more expensive housing, funded by overseas loans. Conventional economic thinking tells us that low borrowing costs should stimulate business investment, jobs and growth. Currently we have record low interest rates in Australia. Ordinarily we would expect such rates to create new jobs as businesses expand and spur investment as people start new businesses. This isn't occurring. Despite low interest rates we have sclerotic growth, a stubbornly high unemployment rate and record low wages growth. And, of course, exploding housing prices. This leaves Australia incredibly exposed to global economic shocks, especially China, which would only exacerbate our inability to pay our debts. In fact, there is only one constant in our debt addiction – housing prices march ever upward.

We've stopped making and decided to sell houses to one another

As a result of the investor focus on housing, capital formation – the amount of new economic inputs introduced into Australia's economy such as factory equipment – is at a record low (Figure 3). The percentage of loans for mortgages in Australia is now far greater than all other types of finance –over 60 per cent. This shows just how skewed our economy has become towards the housing market. Unlike a factory or a mine, which employs perhaps hundreds of people and produces a tangible good, existing housing stock performs little economic function, employs almost no one and creates no real value other than on paper. And yet because of surging prices investors still want to cash in on the strong returns while ignoring other more productive parts of the economy. Because of the returns, banks are only too happy to lend it to them. Unfortunately buying a house from someone does little for the wider economy, apart from the real estate agent who clips the ticket on the way through – you can't export a house as you would a manufactured product, food or other goods and services.

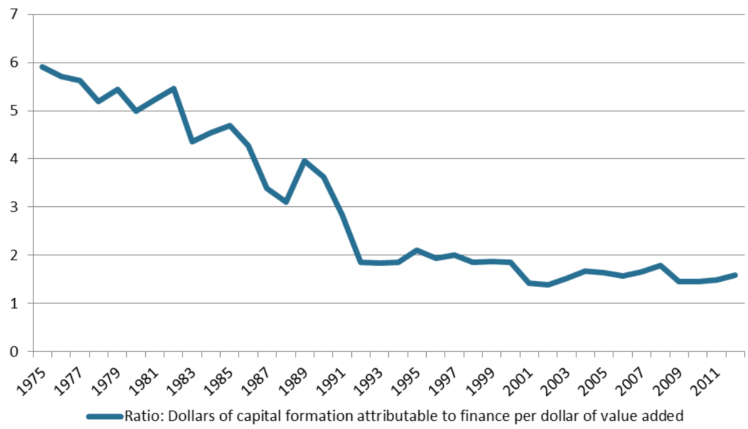

Figure 3. Capital formation attributable to finance per $ of financial services [6]

Not only are houses not exportable, they don't improve productivity. It is one of the least desirable forms of economic activity – and yet, as discussed earlier, property related industries fill the top two spots on our contribution index. In the early 1990s for every dollar borrowed, we could expect to see $3.50 of real economic activity generated. That figure is now barely $1.50. Money from new loans is increasingly finding its way into existing housing that only serves to bid up asset prices without creating a solitary new job.

This means that job-creating investments are being forsaken as loans flow into existing houses. Ask a small businessperson just how hard it is to get a loan or launch a startup with a Series A investment without having to go overseas. But a home loan for a house in Western Sydney? No problems.

It's costing taxpayers – and workers – a fortune

The Grattan Institute has calculated the annual cost of the property investment concessions is $11.7 billion. To put that into perspective, as a country we spend $9.5 billion on higher education. Leaving aside issues of equity inherent to accessing education, think about what this says about our national investment priorities. It's both scary and dumb. Scary because we're overinvesting in something that is effectively worthless to the rest of the world. Dumb because we could be so much wealthier if we spent more on the next generation of scientists, researchers and teachers, rather than just homes.

Australia is playing macro-economic monopoly while the rest of the world is investing in the knowledge economy. And here is the kicker – it's younger and working Australians who are underwriting this unproductive investment and speculation. Not only is the housing market draining the public purse daily but in a manner that is completely opposed to rational public policy outcomes.

For a number of reasons, the commonwealth budget is presently under enormous stress. Australians from all walks of life are being asked to tighten their belts, accept lower payments

[6] 'Finance and Capital Formation in Australia', Industry Super Australia, November 2013, http://www.industrysuperaustralia.com/assets/Reports/Finance-and-capital-formation-in-Australia-Nov-2013.pdf, p. 3

and wages or enjoy inferior services. Except for housing tax credits. Those are supposedly untouchable.

From a public policy point of view if you and I are going to underwrite the losses of investors, then they damn well better be out there making the economy bigger and more efficient and employing more people. If not, then from a simple 'pub test' point of view we must have bricks in our heads.

Thanks to our tax system, younger and poorer workers are subsidising older and richer Australians to buy more and more investment properties – properties that they might once have hoped to raise their families in.

The nightmare scenario

The best-case scenario is that Australia never experiences a housing price collapse. We would much rather see a slower, orderly easing of prices.

But if the worst were to happen – heaven forbid – it's worth thinking about the fact that our banking sector is the most highly exposed to household mortgages in the world. And we largely owe this money to creditors overseas.

The people of Spain experienced a similar situation, where easy money from other countries was channeled into speculative property investment. It was fun while the party lasted. With the party now well and truly over, the resultant hangover has been very damaging for the working people of Spain. Ask the Spanish, as they deal with 25 per cent unemployment and youth unemployment over 50 per cent, whether they might have preferred more of the money borrowed to have found its way into some job creating capital.

In Australia, during the Global Financial Crisis, the government underwrote the banks using taxpayer money. Fortunately, those monies were never called upon in any real sense. Next time we all might not be so lucky.

PART FIVE | ADMITTING WE'VE GOT A PROBLEM

Australia we've got a problem. So what are we going to do about it?

Like any good Australian we can blame someone, anyone – and there are a string of successive governments responsible for the situation we find ourselves in – or we can collectively take ownership of this problem and demand better. After all, we cheered those governments on at the ballot box as housing prices soared ever higher and interest rates sank ever lower.

The truth is the present housing market reflects our peculiarly narrow set of ideals that, when combined with generous tax concessions, ill-thought out first home owner incentives and poor planning, has created a perfect policy storm.

Together, we have helped create a huge bubble of speculative wealth and spiralling levels of household debt. Our entire country is built on it.

The chorus for action has become deafening with the OECD, APRA, the RBA joining the ongoing concerns from just about every major economist in the country that something be done about Australia's runaway property market.

Much of our national debate focusses on the sustainability of rising house prices. Are we in a bubble? If so, when will the bubble burst? Like punters, we fret over losing our 'hot streak'. Unfortunately we look at the symptoms, rather than the underlying problems. Indeed, a national debate that focuses on the *price* of housing rather than on its *affordability* is inherently flawed.

Of course, whether the market is a 'bubble' or whether it will or won't burst is incredibly important. As discussed, it represents an existential risk to our financial system and our economy. Yet, even assuming that the bubble never bursts, what is more important is the *impact* of these prices on affordability for everyday Australians. The fact is even if the 'bubble' doesn't burst we are still facing the first generation of Australians that will never own a home.

At this rate if you are having a child today, that child will never own a home unless you buy it for them. We will have the first generation of Australian wage earners that will not be able to work hard, play by the rules and get ahead in life. But as this essay suggests, we also risk creating an Australia that none of us wants or recognises: with a national underclass of tenants and massive social dislocation. Our housing addiction is shredding our social compact. The first step to salvation is admitting to the problem.

As a starting point, it's important to examine how Australia turned a dream into the mainstream reality of most of our citizens. Australian home ownership wasn't an accident. It was the active decision of governments to make homes affordable. After World War Two, home ownership boomed. Australia was remade into a homeowners' paradise. According to the economist Saul Eastlake, between 1947 and 1961 – the year my mum was born – the Australian home ownership rate rose by just under 17 per cent, from a little over half of the population to 70.3 per cent.[7]

How did this happen? Government policy designed to help working people. The Commonwealth and state governments took an active role in shaping the housing market and tilted it in favour of the average punter. It made finance available through building societies and state banks – but most importantly it got down to the nitty gritty and actually built houses. Lots of them.

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[7] Mike Seccomb, 'The truth about house prices', *The Saturday Paper*, 11 March 2017, https://www.thesaturdaypaper.com.au/news/politics/2017/03/11/the-truth-about-house-prices/14891508004341

During this period the government was actually responsible for building one in five houses, boosting supply at a time when the nation's population was increasing on account of a program of mass migration – one million migrants arrived to our shores between 1945 and 1955 - and a post-war baby boom. Those blaming migrants for our current woes need to look elsewhere.

So how did we turn a dream into a nightmare? Was it by design or accident?

The answer is a bit of both, but much of our present malaise was avoidable: poor planning laws, short-term orientated first homeowner grants, a failure to develop new amenities and transport in our outer suburbs and regions and declarations along the lines of Sydney is 'full' all contributed to the problem.

Admittedly some of the increase was beyond the control of Australia's policy makers. It was the inevitable consequence of economic growth and deregulation that occurred in successive waves over two to three decades.

Australia's property market began to change as a result of shifts in economic policy that began in the Hawke-Keating era of the 1980s and 90s.

Australia and Australians got very rich, very fast over this period. As we got richer, we wanted bigger, more expensive homes. We got richer faster than we could build new properties, so prices steadily rose over this period.

At the same time as we were getting richer, the cost of borrowing became cheaper. The extremely painful early 1990s recession effectively reset interest rates and inflation at a time of rising real incomes. But as we grew richer and borrowed more for less in the recession's aftermath it was hardly a surprise that this 'new normal' shifted the cost of homes upward.

It was then that the really dumb stuff set in.

Negative gearing, the death and resurrection

The Hawke Labor government first tried to get rid of negative gearing – the practice of writing off your property losses against personal taxable income – in the mid-1980s. Unfortunately the government reversed the decision after a few short years in response to furious lobbying from the property sector.

The central argument at the time by the property rent seekers was that the policy was driving up rents by reducing supply in the market. Most economists now agree that the 'rising rents' thesis was a complete furphy, but despite evidence showing otherwise, the government reinstated the concession.

Until the turn of the century housing investors made money in more years than they didn't. But as you can see from the chart below (Figure 4) around the year 2000 something changed.

Enter the Twin Gorillas

In 2001 Liberal Prime Minister John Howard only worsened the problem of forcing taxpayers to underwrite the losses of landlords. He did this by halving the rate of tax housing investors would pay on their profits. In doing this, Howard gave us what I like to term the 'Twin Tax Gorillas' of negative gearing and capital gains deductions, working as a team to destroy housing affordability in this country.

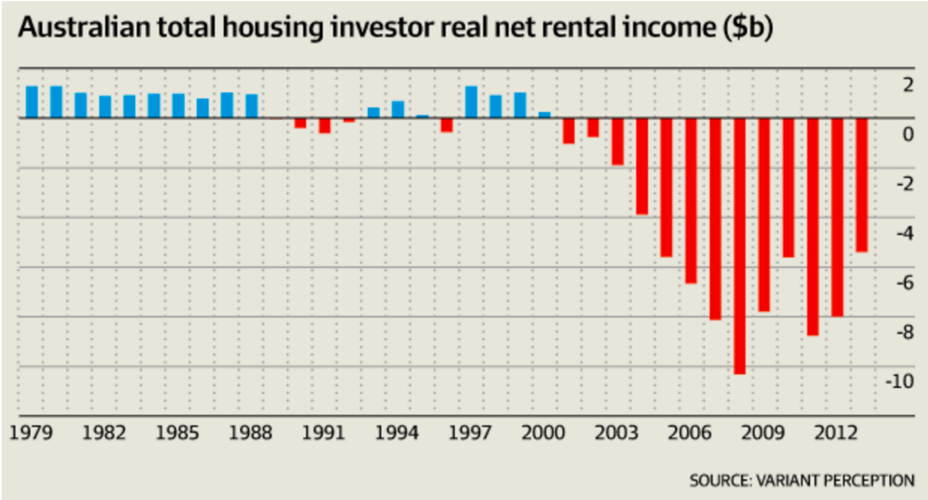

Figure 4. Australian total housing investor real net rental income ($b)[8]

As a result of this regressive tweak to the system, what was a tax deferral became a tax minimisation rort that particularly advantaged those already in the market and with bigger incomes.

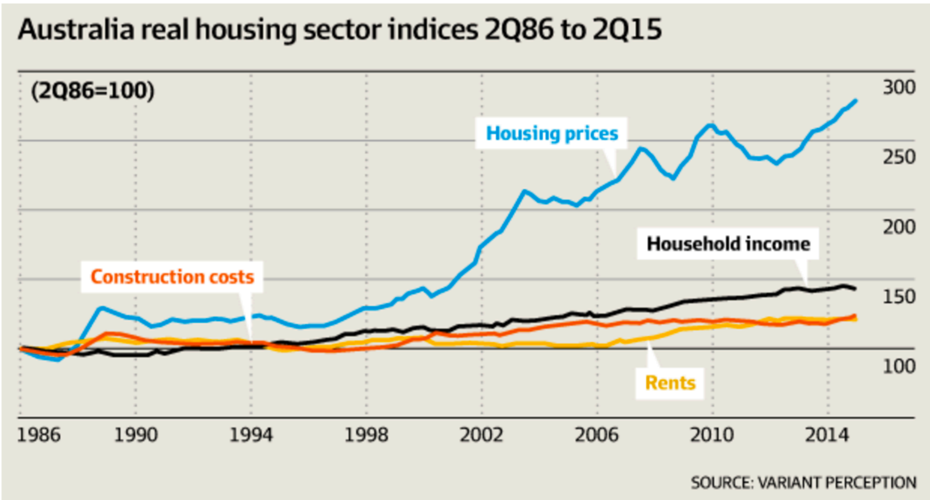

Figure 5. Australia real housing sector indices 2Q86 to 2Q15[9]

So what happened? Housing prices, which had already been ticking up gradually over the decade, exploded under these incredibly favorable economic conditions – consult the stark numbers in Figure 5. Thanks to John Howard and his Treasurer Peter Costello, Australia no longer has a solo 600 pound gorilla in the housing market – it has unleashed two, working in tandem. And the rest, as they say, is history, or not, in the case of the hundreds of thousands of Australians living through this national nightmare.

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[8] John McDulling, 'These charts suggest Australia's housing bubble is out of control', *The Australian Financial Review*, 24 February 2016, http://www.afr.com/real-estate/these-charts-suggest-the-housing-bubble-is-out-of-control-20160223-gn20y0

[9] ibid

PART SIX | THE COMMUNITY COSTS OF ADDICTION

There are both economic and social consequences as a result of our housing addiction that at a very minimum must be discussed. Looking at the social consequences specifically should disturb every serious policy maker.

We will lose the glue that holds society together.

According to *The Economist*, scarcely some left-wing publication, home ownership "benefits society because it encourages stable, more law-abiding communities; it makes people more likely to vote in local elections and join clubs; and it benefits future generations because, it turns out, the children of homeowners do better at school and have fewer behavioural problems than children of renters."[10] Whether one votes Labor, Liberal, or thinks of themselves as progressive or conservative or anywhere on the political spectrum, these are compelling reasons for governments to ensure a family owning its first home rather than an investor having a fifth, sixth or seventh.

Our 'fair go' ethos flows from home ownership.

Our high level of home ownership has created an incredibly wealthy middle class and is what has made Australia unique amongst social democratic nations. If we continue on the same path, social immobility will destroy this achievement. We can already see young people giving up on buying homes having been locked out of one of the great income generating assets. The rate of ownership amongst the young is at historic lows, with Baby Boomers and investors now owning the vast majority of available property. Wealth accumulation for young people is central to a prosperous life, family happiness and a comfortable retirement. Without action, we risk creating a generation or more of working poor locked out of their own cities – away from job centres and places of amenities – producing an underclass on our urban fringe. It will affect all Australians and if not addressed now will require large amounts of public money to address or manage.

It's not just the young at threat, but the elderly too.

Pensioners might be become prisoners in their homes. Pensioners are presently sitting on large, paper assets but are cash and lifestyle poor, with many living in effective poverty. The elderly are not encouraged to downsize during their later years as they become empty nesters. This is reducing quality of life for the elderly and also reducing the supply of large, family friendly housing in desirable locations for families. Again, this is a trend which affects all Australians and represents a massive waste of economic resources given that capital is locked up in an unproductive manner. Left unattended, we will all work longer or retire in more debt – with wages growth stagnant its likely those of us still lucky enough to enter the property market will be working longer to pay off enormous and unaffordable mortgages, retire with outstanding debts, or lose our homes mid careers.

We are at risk of creating cradle to grave inequality.

Our kids will do worse at school and in life. An American study found that 'mathematics scores of the children of homeowners were 9% higher than those of renters' children; reading levels were 7% higher. This had nothing to do with income: the research controlled for that. In another study

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[10] Briefing note, 'Shelter, or burden?', *The Economist*, 16 April 2009, http://www.economist.com/node/13491933

homeowners' children were 25% more likely to graduate from high school and more than twice as likely to go to university. Their teenage daughters were also less likely to become pregnant.'[11]

Social cohesiveness is also being threatened.

We will be a nation of suspicious strangers where communities will be less sociable and more stratified in terms of income status and educational attainment. It goes without saying that the less we speak to those who are different to us, the less we understand them. This will only serve to reduce social cohesion and lead to a further polarisation of our politics.

According to the Productivity Commission: "Access to affordable and quality housing is central to community wellbeing. Apart from meeting the basic need for shelter, it provides a foundation for family and social stability, and contributes to improved health and educational outcomes and a productive workforce. Thus it enhances both economic performance and 'social capital'"[12]

Do we really want to create a series of 'no-go' zones common to Europe and America?

A famous study of crime rates in New York City found that after income, home-ownership was the best predictor of the difference in crime rates. Australians pride ourselves on our liveability and how cohesive our communities are. Yet the evidence shows those who don't own a home become less invested in their communities. Declining home ownership may create an urban fringe of inequality spurring anti-social behavior unprecedented in our history. Moreover, if we don't rethink our urban design and simply expand our cities to the fringe we risk destroying urban amenity.

Studies show that a community is thriving when people can work, live and play within 30 minutes of everything they need. In order to thrive, cities must be walkable and liveable. This is a threat to all, rich and poor. A more unequal, unlivable Australia won't attract the best and brightest. If we don't have cities that people actually want to work and live in, our economy will suffer as people emigrate elsewhere.

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[11] ibid

[12] Productivity Commission Inquiry Report 'First Home Ownership', Productivity Commission, March 2004 http://www.pc.gov.au/inquiries/completed/first-home-ownership/report/housing.pdf

PART SEVEN | HOW DO WE FIX IT?

Despite what some commentators may wish, a housing price collapse would be economically disastrous for Australia. None of us should ever hope or advocate for one. As discussed earlier, property ownership and investment are our two top net economic contributors to our economic growth. If they were to fall over our economy would likely experience a financial crisis and potentially a currency crisis. Going cold turkey on housing is not an option.

While many market watchers tend to focus on the macroeconomic impacts of a housing price collapse and the potential exposure of our banking sector, as a unionist I would be most concerned about the likely effects on working Australians – a sudden collapse would wipe out their wealth.

Some economists have become so obsessed with the overvaluation in our property market that they seem to have almost cavalier disregard for what the impact of a 'correction' would have on our society. You have to wonder what these 'experts' would say to ordinary Aussies – in their now much cheaper homes – if they were ever to see their doomsday prediction realised.

You're welcome?

One only has to look to America to see the impact on working people. While the banks were bailed out and quickly returned to profitability, ordinary Americans have seen their wealth collapse by 40 per cent since the GFC. This loss of wealth has left deep and enduring economic scars that may never heal and in part led to the 2016 election of US President Donald Trump.

In an ideal world we would firstly stop the runaway growth in property prices and ensure that prices flatten out for a period to allow wages to catch up. At the very least we need to ensure annual price gains are *below* annual wages growth. This is the only way to improve affordability in the medium and long term – wages need to catch up to prices. There's no silver bullet here of course, but there are definitely some policies we *should avoid at all costs*.

Don't fight fire with petrol

A lack of housing supply has contributed to this mess without doubt, but it is runaway demand side incentives that are the real culprits. Therefore any 'reform' that puts more money in the hands of buyers is the equivalent of throwing petrol on a bush fire. This should be our starting point when assessing any potential government 'solution'. We've already seen the impact of more and more demand measures in the form of cash or tax incentives over the years. The evidence is in – the fire rages even more fiercely.

So, my humble advice to government is stop. Stop fighting fire with petrol.

And my advice to voters is to view any attempt to 'fix' the housing market with these types of one-off measures with the cynicism that they deserve. They are easy, lazy, and imprecise solutions to thorny policy dilemmas.

This includes short term fixes like removing stamp duty (unless part of a broader tax reform) for first homeowners or first homeowners grants, to say nothing of the economic and social vandalism that would result from allowing superannuation to be used by anyone to buy property. Pouring $2 trillion dollars of savings onto a $6.4 trillion dollar fire won't help matters, unless the intention is to double the price of homes overnight! These initiatives might provide a sugar hit, but the money provided by governments very quickly ends up in the hands of the seller or agents and we end up right back where we started, only with a housing unaffordability problem that is worse than before.

The same goes for the idea of government 'co-investing' in a home with a first homebuyer. While this might allow short-term relief, prices across the market would be bid up as buying power – now with extra government help – increases. Furthermore there is no way of knowing whether the buyer the government intends to help would simply buy a four bedroom home thanks to the taxpayer chipping in, instead of the three bedroom home they originally intended. Those advocating this system point to the benefit that governments would receive when the home was sold at a profit. But contemplate what would happen to potential revenue in the event that the house lost value!

Until we address the petrol being poured onto the fires via our tax and subsidy system, there is simply no hope of addressing the affordability crisis.

So what are the big changes we need?

We have to deal with John Howard's Twin Gorillas. This is ground zero for reform. There is no way of addressing the affordability crisis without winding back excessive negative gearing and capital gains tax deductions. Full stop.

Every serious economist knows this truth. Every politician – at least historically – fears it. However, a purist position of ending those policies tomorrow won't work. For the economic reasons discussed earlier and the obvious political reasons that flow from this, these policy problems will need to be unwound slowly. We should be sympathetic to those ordinary Aussies who have invested in property and made their family wealth in the process. Of the 1.2 million people enjoying the benefits of negative gearing, many of these people are good, working class people that are likely members of a union or vote Labor. They should not be penalised for working hard and playing by the rules to get ahead. This has been smart investing on their part and, like all good investors; they have followed the lead of governments that have pushed in that direction. However analysis of the data shows that many of the individuals who benefit are high-income earners that are buying their fifth, sixth and seventh properties. Seven out of 10 beneficiaries are in the top two tax brackets. When you break down the numbers, every taxpaying Australian is subsiding the housing market to the tune of roughly $1000 a year. This is over and above assistance provided to jobseekers and indigenous.[13]

But what makes sense for individual investors does not make sense for an economy or a society as a whole. We have now reached a tipping point where the benefit to individual investors is harming the broader economy and society. Those labour leaning economists amongst us are forced to balance off a narrow personal benefit against a broader national disaster. Our aim should be that all working people, including those born today or kids just entering the workforce, to be able to work hard, play by the rules and, most importantly, get ahead. We must maintain our traditional social compact.

It's the 'getting ahead' part that we risk breaking if we don't act now to stop this. After all, working hard and playing by the rules isn't so fun without the promise of a better life. It's clear we've reached the point where this Ponzi scheme underwritten by the taxpayer needs to end. It's certainly not fair to change the rules of the game at half time and no fair policy person would ever advocate for that. Likewise, I'm sure that no civic-minded Australian wants to leave their kids or the next generation worse off. That's why the last election showed us that 'negative gearing' is not the sacred and untouchable political cow it has always been held out to be – the debate has finally moved on.

[13] Calculated on the basis of Grattan institute figures and total taxpayers in Australia.

I was in the audience at NSW Labor's 2016 Conference when federal Labor leader Bill Shorten announced his policy to remove negative gearing and capital gains deductions on existing dwellings. Afterwards I had a few ding-dong conversations with some true believers who were convinced Labor had just made one of those 'courageous' *Yes Minister* decisions. Yet the election proved Shorten and Chris Bowen had got the politics and policy right.

Amongst the commentariat, it is common to divide the electorate into three – those who own their home, those who are paying off their home, and those who want to buy one – when considering our housing market problem. The conventional political arithmetic assumes that two out of three of those groups (owners and mortgage holders) benefit from housing prices, so why – in a game of electoral math – side with the smallest part? This thinking underpinned then Prime Minister John Howard's confident assertion during 2003 that 'nobody had complained to him about rising house prices'. It's a statement of its time which overlooks one very important element of those two owner class groups that are being artificially pitted against the so-called outsider group that want to own a home – they are grandparents and parents. Talk to a parent or a grandparent today – they're concerned about their kids and grandkids buying a home. That's the missing element in our national debate and one of the hidden lessons of the 2016 election – we must appeal to the better angels of Australian ethos to when fixing our housing mess.

Federal Labor's policy of removing negative gearing over time and reducing Howard's capital gains tax cuts is a good policy and good politics – it's time to get the Twin Gorrillas back in the cage. Allowing those who have invested to keep their investments without penalty is smart and fair, and helps address this problem over time. Labor's policy also makes sure that we keep downward pressure on supply and don't risk shrinking the rental market by allowing negative gearing to continue for newly built properties. Those who want to continue to build wealth via the housing market can do so, but the incentives will finally be in the right spot. Most importantly, Labor's current policy stops more petrol of public subsidy being poured onto the housing fire and ends the incentive of bidding up housing prices to make a quick buck.

If you need evidence of how far this debate has shifted, just take a look at the long list of people and organisations previously opposed to intervention that are now calling for changes in this area. The RBA, The Property Council, The Business Council of Australia, the International Monetary Fund, the Institute of Company Directors are all calling for some form of action on this mess of tax incentives. Even former Liberal Treasurer, Joe Hockey, talked about doing something – once he left Parliament, of course. It seems everyone bar Malcolm Turnbull's government is convinced of the need for action.

As an economist, as a young person under the age of 35, as a unionist, it would be fantastic to see some old fashioned pragmatic bipartisanship on this issue. It's hard to imagine that Treasurer Scott Morrison isn't getting briefings telling him the problem facing us is too much heat in the housing market from too many tax concessions. It's difficult to think he isn't tempted to bank the billions in savings he'd gain from this change, allowing him to reduce the size of our deficit. Our Prime Minister is a smart guy who understands investing. He made a career out of it. That's why he's previously supported removing negative gearing – because he knows such a policy will work. Hopefully the close result at the 2016 election encourages our politicians on both sides to be a little braver on the housing front. The national interest demands it.

Stamp duty and land tax

The role of the taxation system in preventing people from selling and moving was discussed at length in the Australia's Future Tax System Review of 2010, popularly known as the Henry Review. Stamp duty is a state-based land tax that is bundled into one massive front loaded transaction. It is rated by Treasury as the worst tax in the country – one that destroys 72 cents for every 1 dollar it raises. Because of when you pay it, stamp duty is a 'sticky' tax that stops people moving to where jobs are and stops the elderly from appropriately downsizing to suit their needs. Australians, particularly our elderly, not selling up and moving is a sleeper issue in our housing market. Ideally we'd like to free up these big houses for young families while allowing the elderly to downsize to properties close to the services they need and don't require lawns to be mowed. We'd also prefer it if people moved closer to work rather than driving and clogging up roads and other forms of transport.

In a supply-constrained market where there just aren't enough houses, we want to remove measures that prevent the most efficient use of land. Policy makers ideally want the right people living in the right house at the right time of their lives. The theory says that if you know you'll be paying land tax wherever you live, you're less likely to be worried about moving. In fact, you might want to move to a smaller, cheaper house to pay less land tax.

Economists will also tell you it makes sense to tax things that can't be moved or hidden things like land – and even the most creative accountants are yet to figure out a way to relocate Point Piper to the tax haven of the Cayman Islands. So what about a land tax? Land taxes – an annual tax payable based on the value of your property – are so efficient that they actually boost economic growth by 10 cents for every 1 dollar they raise. Land taxes actually make the use of land more productive. Given you can't 'make' any more land any time soon, this is a good thing for the economy. Importantly a land tax would also allow us to tax wealth, especially those who have done best out of the surging property market. So, a switch to a land tax is immediately attractive. Yet moving to a land tax is another 'economist solution' that doesn't fully take into account realpolitik. For instance: who on earth wants to start paying new land taxes when they've already paid it indirectly via stamp duty?

Like negative gearing, a tax switch like this would require phasing in. The ACT has experimented with a system that introduces land tax gradually over time. Another option would be to apply land taxes to those who haven't bought a new house for 20 years in order to avoid double taxing those who have bought one recently. We could lessen the burden on first-home buyers by introducing a 'HECS for Homes' style system. Such a system would allow buyers to choose whether to pay for their stamp duty up front or over a period of say ten years – after which their land tax liabilities would kick in.

Caps on investors

The data clearly shows that investors are crowding out the aspirational first homeowner from the market. Go to a property auction on any given Saturday and you will see the extent to which this is happening. Young people just can't compete with the hot money flooding in from investors eager to cash in on the rich gains available. The issue we have is that in this context is that having one property helps you acquire another. If you buy an additional property you're helping to bid up the overall price of houses in the market, which in turn gives you the increased housing wealth to buy another and another. This is a merry little system of Aussie wealth creation – unless of course you don't have that first property to lean on. We need to prevent this daisy-chaining.

Once you own your own home and a (new build) investment property, it would make sense to put a stricter limit on how much up-front cash you need to buy your third property. I'd suggest making that 50 per cent of the sale price, though this is a rough figure and would require rigorous testing. At a minimum requiring more cash up front would put a break on investors and stop the daisy-chaining of equity. Likewise caps on up-front cash and the number of properties sold to foreign investors should be put in place. Foreign investors should be subject to compulsory rental letting and higher taxes or duties.

Limiting interest only loans

APRA has recently been making noises about the amount of interest only mortgages being written. Interest only mortgages are particularly attractive when they can be combined with negative gearing and capital gains deductions. In a rising market, the net risk to an investor is completely minimised. Countries such as Britain place strict limits on interest only loans. Australia could even consider banning these kinds of loans all together.

Slowing rental yields

One way of reducing the attractiveness of property investing is reducing the amount of rent that the property will return. Australia is unique in how short our property leases are – typically 12 months at most. These short leases are likely a byproduct of the fact it has been so easy to buy your own home in Australia – we thought less about those who 'choose' to spend dead money on rent. Like Germany, Australia could introduce limits on how much rent can increase in a given year or 5 year period. A limit of 10% above a market average could be put in place. While 'rental control' mechanisms can have mixed results the purpose of this would be to cool not so much the rental market, but send signal to investors that returns will not be as strong. It would actually help us put the fire out. By reducing the primary income source of a property, namely rent, the market should be begin to realise that investment properties are not a gravy train. Investment dollars should begin to flow elsewhere. If we do that, along with reducing the expected capital returns to investors, we can tackle the scourge of property ownership leading to more capital return through an unvirtuous circle of higher and higher prices. These reforms would also give some certainty to the 30 per cent of people who rent.

Here's another idea: developing housing bonds for superannuation funds to invest in, offsetting any drop in investment. These new properties would provide predictable securitised rental returns to super account holders and expand supply in the market for affordable housing – a rare win-win.

Ending self-managed stupidity

As stated earlier, it would be economic vandalism to allow people to use superannuation to buy a property. Yet, of course, we already do.

John Howard – in all his wisdom on this issue – allowed those with self-managed superannuation to buy property. What's more, he allowed those people with self-managed superannuation to *borrow* money to buy property. That is, their super funds owe money to banks! This is a special kind of stupid.

Most wage and salary earners have money placed into a superfund we can't touch until we're retired. This makes sense as it forces us to save for our retirements. We also can't borrow against it, which again makes sense – that's too much risk. This system builds capital for individuals and has given Australia the fourth largest pool of retirement money in the world. At $2 trillion, it is now literally bigger than our economy and thanks to the magic of compound interest it's going to be much bigger in the very near future.

Self-managed superannuation funds, on the other hand, are not generally the domain of ordinary wage earners, but of the rich. So we have a super system that allows a privileged class to compete against younger and poorer people to buy properties. Even though these people are already richer and more likely to afford and already own an investment property, we think it's fair to give them access to money that the first homeowners they're snatching property from don't have. In the process we have exposed our previously insulated superannuation system to our property bubble. Bravo, John.

What about the supply side?

Of course, the supply side of the problem can't be ignored. It's just that, as argued earlier, it's not nearly as urgent as the demand side problem.

Many economists – and some politicians – will argue that we just need to get more housing stock into the market to meet demand. The reason why supply and demand operate differently in the case of housing is that the decision to buy a home and get it financed is much quicker and easier than building one. There is a lag effect that changes the dynamic of the market.

Even if we start approving and building a crazy amount of properties – like we have been with inner city apartments – we can never hope to keep up with those who are incentivised via the tax system to buy more properties and have banks ready to lend them money at the click of a button. The evidence and lived experience shows that our market will continue to bid those new houses up out of the reach of new buyers. This helps to explain that, despite record building, Sydney house prices have doubled in the last three years – quickly approved demand is easily meeting with lagging supply.

Creating more desirable suburbs not housing estates

A focus on new supply without addressing demand (namely our friends the Twin Gorillas) would just make matters worse. Nevertheless, it is true that we will need more housing. Most importantly we will need *good* housing in *desirable* locations. We can't make any more land, certainly not in desirable locations such as Brunswick or Coogee. It is the so-called 'middle ring' suburbs of Sydney and Melbourne that desperately need more supply.

What much of the analysis of the supply side fails to acknowledge is that the housing market is a positional good. People like to live in desirable locations, with good amenity and access to jobs – or what is colloquially known as the 30-minute city. We must reject those who advocate for more supply on the urban fringe of our city while simultaneously refusing to allow more density in their suburbs. Where do they expect people to work, live and play?

Part of the solution will be to make better, more liveable suburbs. We need to stop developers from squeezing as many people into a patch of land as possible and force them to create actual suburbs not more rows of McMansions. If we don't improve the quality of new suburbs, then people will continue to bid up the prices of 'good' suburbs that contain the things they want. Improving amenities in lower cost areas will create more 'good suburbs' and in turn contribute to the general wellbeing of Australians. Given how much time we spend in our homes, this is clearly a national policy priority.

Such a problem is arguably beyond the scope of government alone. Policies that encourage investment from superannuation funds and private investors into properly funded and planned infrastructure as well as developing msart urban and social amenities should be encouraged across the board.

Revisiting the humble terrace

Increasing density provides an obvious fix in desirable areas by creating more places for people to live. But politicians and local councils get jumpy when it comes to local residents arming up to kill developments in their local suburb. To avoid war in the suburbs, we could look at a proposal by the McKell Institute that advocated medium density in our inner city and middle ring suburbs via the construction of the humble Aussie terrace. Aussies in thriving suburbs love terrace housing. Let's give them more I say and let others enjoy the benefits of living in our inner cities and middle ring suburbs.

Building on top of train lines

We also need to start building on top of and around our train lines. The trains are there already – so why not bring the housing to them and utilise these assets that take a long, long time to build out. The public already owns the airspace above the train stations and lines – so the opportunity exists for the government to make money selling it off and investing in urban amenity.

A policy essay wouldn't be one without some out there ideas.

All the solutions advocated so far are difficult, but politically achievable within the current context. The problem may be that we have allowed this problem to get so far out of hand that more extreme – and politically scary – options may need to be considered. For that purpose I submit the following ideas for debate (but I retain the right to completely disown them!).

Estate levies (with discounts for downsizing)

If you bought a house in 1975, and it's now worth $5 million bucks, you've done pretty well without having done much. Surely you own form of payment for the very good life you've lived in Australia to the coming generation. Given the troubles they're experiencing, this only seems more than fair. Australia is on the verge of a mammoth transfer of wealth from the property wealthy, yet frugal, Greatest Generation to the incredibly wealthy Baby Boomers. An opportunity exists to redistribute some of that wealth and to give young people a chance and an honest start in life – even if they don't have wealthy grandparents. So, I ask you, dear Baby Boomer, do you *really* need more? Could a small portion possibly be redistributed a little more fairly?

We would need to calibrate such a policy very carefully to ensure it cuts in at the appropriate level, meaning the vast majority of housing wealth would still be passed on to our next of kin. To encourage downsizing, discounts could be applied for those prepared to sell up their empty nests and hand them on to a property hungry generation of families – which could deal with the earlier discussed problem of pensioners holding onto properties.

'Leg up' capital grants at 25 years old

One of the great lessons of the recent economic debate is that the rate of return to capital is increasing at a faster rate than wages. If you have money it is making you money faster. If you're working for money, you're stuffed. This is what is driving the inequality gap globally. Money is always working. Money makes money even when you sleep. You just can't beat money when it comes to around the clock efficiency, no matter how hard you work. This gives those with capital a huge advantage in the game of life.

It's time to level the field, just a little. Providing access to capital for young people is vital to ensure we retain equity within and between generations. I would propose giving every 25-year-old, on a means tested basis, $50,000 in public money on his or her birthday to invest. The inheritance taxes could partly pay for this, as could land taxes. Of course, I would also hope that the government might actively encourage people to put this money to entrepreneurial use rather than just buying a bloody house! But ultimately it should be up to the kids to decide (as I yell at them from my rented lawn.)

Enter the Baugruppen

Have you heard of the Baugruppen? I'm guessing not, but its German for 'building group'. It turns out that communes are back, with a 21st Century spin. They are effectively a self-made city where all the owners, who probably couldn't buy on their own in expensive markets, pitch in to get a large, affordable housing precinct built. They aren't Stalinist monstrosities either. Most are well-designed, efficient and well-served by amenities. This might all sound like hippy nonsense, until you realise that some of these properties sell for 20 per cent less than the average price of a home in that city. In Berlin, one in ten properties are now built using this model.

A 2015 study by Melbourne's Swinburne University of Technology found apartment buyers could save up to 30 per cent by collectively developing themselves. Wouldn’t work here? It is, in Fremantle. Mehr bitte!

CONCLUSION

Our nation has a housing addiction – we've enjoyed too much of a good thing. Like any addiction it's hurting those we love. So, as a country that prides itself on fairness and the 'fair go', I wish to pose some final questions.

Are we being true to our values?

Our approach to housing is on the verge of radically reshaping Australian society, wealth creation, social justice and the deal between young people and old people – that those in charge will leave something better behind than what they inherited. It's that simple. Make no mistake, left unchecked, Australia's property market with remake our country as we know it.

The sheer size of the housing sector, which is now four times our GDP, means that on a financial risk mitigation basis alone affordability needs to be addressed. Even the RBA is worried about this and we'd be imprudent to ignore the custodians of our financial system and economy. Housing debt-led financial crashes leave deep economic scars that are sometimes never overcome. If you need proof of that, you need only look to the Japanese who are still recovering from the collapse of their housing market in 1991.

Is the country getting ahead?

This is the crucial question we must collectively ask ourselves – because we, as taxpayers, are actively subsidising this massive economic program. We need to ask ourselves – what is the purpose of our housing market? Is it to help every Aussie own their own home? Is it a wealth creation vehicle for investors? Both? Because we have never considered these questions properly, we have created a situation where our collective national household 'wealth' - those assets we have spent so much time working for, so much time striving are unproductive and stranded – all $6.4 trillion of it.

They are unproductive because we use all of the borrowing to buy new properties that don't create jobs. They are stranded because we never exit the property market. We either live in these houses until we die, or we use them to buy new ones. The money never flows into job creation – or even sustains what should be an enjoyable retirement! Put simply, Australians never cash out of the property market. We keep holding and accumulating more chips at the world's greatest casino. What's the point of getting rich if you can't use it? That's a lot of money to have locked up as country in one non-productive asset class. It's stopping the country from getting ahead and providing a productive economy with strong wages growth and good jobs.

Australia needs to ask itself whether we want to be a big sandpit of iron ore, coal and gas with some nice harbor-side property? Is this really the extent of our national vision in the twenty-first century?

In a world where jobs are disappearing faster than they are being created, in a country where wages are flat and youth unemployment is at historic highs – are we happy with our present allocation of scare capital? For every housing loan written that is one job creating, export business that disappears.

The truth is that our housing market is reflective of an intellectual laziness when it comes to wealth creation and distribution in Australia. Selling each other bricks and mortar isn't exactly an innovative economy. Up until now, there has been no need to change. Everyone has managed to get rich doing the same thing and our policy settings have actively encouraged it. However, subsidising this process to the point where it starts to hurt young people is nothing short of disastrous and represents the irrational behavior of an addict.

We are a smart people. We pride ourselves on how hard we work and our innovative minds. But we are also a society that sticks together and doesn't leave people behind. We can do better than this. In fact, based on all available evidence and predictions, we need to do better – before it's too late.

What we've got here isn't a dream; it's a stupor.

The final word can go to former Labor PM Gough Whitlam.

In his famous 1972 'It's Time' campaign launch speech, Gough explained to the "Men and Women of Australia": "The land is the basic property of the Australian people. It is the people's land, and we will fight for the right of all Australian people to have access to it at fair prices". True then. Truer now.

Oh, and my mum? She sold her house, cleared her debts and is travelling the world teaching English. There are answers to each of the questions I've posed if you look hard enough. And if we are up for an honest, robust debate on the future direction of our nation's housing affordability, we can excise the nightmare shadowing the modern version of the great Australian dream.

The **John Curtin Research Centre** is a new social democratic think-tank dedicated to developing ideas and policies for a better, fairer Australia. We draw inspiration from the enduring relevance of our nation's trade union movement and the Australian Labor Party's rich 126 year old tradition: a party of government; a movement in touch with the basic concerns, needs and aspirations of Australians whether they reside in our suburbs, cities, regions or remote areas; one informed by traditionalist and progressive values; and both patriotic and internationalist. With growing disillusionment towards mainstream parties the world over, and the core vote of centre-left and labour movement-based parties in particular fracturing, there has never been a more important time for social democrats to win the battle of ideas. To that end, our aim is to bring together Labor parliamentarians and activists from across the breadth of the party, experts and leaders from our diverse local communities, likeminded think-tanks, unionists and best of the academy, in order to meet the large social and economic challenges facing Australia and help shape the direction of Labor ideas in the twenty-first century. In the words of Labor's great wartime Prime Minister John Curtin, it is only through the ideas and actions of working people 'that a better and more decent way of life can be given to all.'

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'The nation looked to Labor, and it did not look in vain.'

- John Curtin, 26 July 1943

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