

The Housing Affordability Crisis – Market Failure, Policy Failure or Moral Failure?

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With more and more people having difficulty affording to build a new house and similar troubles finding rental accommodation - affordable housing has become a major political issue. In this article I will discuss the five factors that are major contributors to this problem and a few possible solutions.

Firstly we need to review some basic concepts regarding markets and important truths about human nature particularly as it relates to money.

The solutions that most people and organizations put forward show that there is a poor understanding about what a market is and how it operates and interacts with people. Due to this misunderstanding the solutions that are proposed have little chance of working and will often make the problem worse.

Markets – what are they and how do they work?

Some people and organizations have an aversion to markets. What they fail to realise is that the markets aren't good or bad they just are. A market really is just a reflection of the sum total of the millions of decisions that people make on a daily basis when dealing with each other. You cannot control or abolish markets without damaging people in some way. Markets in fact are much like a natural law – like gravity. The power of markets exists no matter what people do or say about them. While ever people have goods or skills that others need or desire people will work out ways of trading.

One of the benefits of living in freedom is that people can interact with each other without interference. In a civilised society the law exists to ensure that these interactions are voluntary and free from the use of force, fraud or coercion.

The terms free trade and free markets are often bandied about – in our world there is no such thing as a totally free market. Government regulations - above and beyond those needed to keep the market honest - and taxes make sure of that.

Pricing in the market helps determine the best use of resources and the supply of and demand for resources helps to set the price. This feedback loop is very effective but distortions can sneak into the picture – crime or government regulation will change market conditions but the market adjusts to the new conditions and may bring negative results to people or in many cases results the exact opposite of what was intended by the manipulation.

Also there is no such thing as market failure – negative end results in a particular market are due to poor decisions and choices of the people involved. The market just reacts to the environment it is operating in.

For example if people demand to eat rubbish you will find places that supply rubbish on every street corner.

If people refuse to pay the price needed for clean production of goods they will live in polluted cities.

If people demand high wages without increasing their productivity and at the same time choose to purchase products supplied with the use of slave labour from authoritarian countries they will find their jobs harder to hold onto.

If governments make it hard for people to invest in housing you will find a shortage develop – as supply decreases and demand increases the price for housing will go up.

It is all quite simple really - isn't it?

People, Power and Money..!!

Most people understand that to really prosper and get ahead financially it is necessary to work hard and smart at making a living – this usually involves supplying goods or services to satisfy the needs and desires of others in the community. Unfortunately there is a large subgroup of able bodied people who will do almost anything for money – except work. This group can be described in many ways - parasites, conmen, criminals are just some of the terms commonly used.

Now there are the petty fraudsters and criminals who would steal \$50 from your grandmother or a teenager's new bike – but the colourful characters we are concerned with here are in a whole different league. Basically the way they operate is simple – any place where large amounts of money are concentrated in a savings or investment situation they will be there and any place where a large amount of money is to be spent they will be there. Many of these types are what we refer to as corporate criminals. These sociopaths will masquerade as business men, lawyers, book-keepers, bureaucrats and even politicians – but they are really just using their position to access other people's money – legally and illegally.

Several examples of the sorts of saved money these creatures congregate around include: superannuation funds, corporate profits, investor's funds and charities.

Money for spending that attracts these people includes private building projects, government infrastructure projects and military spending.

Another favourite way for unscrupulous “businesses” to increase their profits is to capitalise the profits and socialise the costs of production. Thus we see companies produce goods and make super profits because they are not held responsible for the social, economic and environmental consequences of their business practices. The classic examples include industries that pollute the air and water – they get the profits of production but the people bear the health and financial costs of disease and disability or the cost of cleaning up via government (taxpayer) funded solutions. Another example, particularly relevant to this discussion, will be discussed later - the banking industry.

Why is it so expensive in 2008 to build / buy / rent a place to live?

1. Government Fees, Taxes and Charges

If you add up the total impost of government fees, taxes and charges on the building industry plus the imposts on purchasers approximately 30% of the cost of a house and land package goes to the government – mostly the State Government. People will argue that the government needs money to run – this is true - but the government should raise the money it requires in a transparent and simple way which has the least possible effect on the market. The only reasonable fees to include in building costs are a contribution to infrastructure costs that will be used by the owner of the new home. In other words housing should not be used by governments as an “easy” way of gaining revenue. Nor should government restriction of land availability be used to artificially increase land costs to the government's benefit. In addition Land Tax as it is generally used in this country is a classic example of a hidden tax that works its way unseen through the housing sector affecting housing costs and rental pricing.

Also it is crucial to understand that Government taxation policy actually discourages savings. People are far better off living in bigger and better housing because all other savings mechanisms including superannuation are made unattractive by abusive, complicated and ever-changing rules, regulations and taxes. The result of this is artificially increased housing costs.

2. Banking Business Practices

If we look in detail at the history of the relationship between powerful business interests and governments we will find many unsavoury dealings that have resulted in hardship and often tragedy to the people. Probably the worst outcome of past practices is the privileges bestowed on the Banks by the Governments of the world.

As mentioned earlier where ever there is money being spent or saved by someone there will be found some sort of parasite plotting to get its cut. Banks have the legal backing of governments to siphon money away from the middle classes by a corrupt banking system. How is it done? – Book Entry Credit...!!! (Also known as - Fractional Reserve Banking)...!! For every dollar that is deposited into a bank the bank lends out a multiple – say 10 times this (the figures vary but the Government sanctions this business model). So if a bank has \$100,000 deposited it can lend out \$1 Million to you. If they charge you 10% interest they will expect to be paid \$100,000 per year. It's a great business – see how the banks make such profits. They are not really getting 10% interest they are getting 100%. But the worst bit is that they have your property mortgaged to guarantee the loan – the property will be valued at around \$1,250,000 (they lend you 80% of the mortgaged property's value). Now you may have been happily paying your debt and if you slip up even if you have already paid back say 400% (of the \$100,000 the bank really used to give you the loan) after 4 years – the bank can take your \$1,250,000 property.

Now everyone knows that if the government turns on the printing presses and puts lots of money into the economy it leads to inflation. The same thing happens when the banks create this money to lend you at the click of a mouse. Watch carefully – you have just seen how the profits are capitalised. Now look how the costs of bank business practices are socialised – the Government has the Reserve Bank intervene in the financial market to keep inflation low – under 3%. All the spending of the bank created money leads to inflationary pressures – the Reserve Bank puts up interest rates. The people are fleeced to support the racket. If the rates go too high people can't afford the payments – the banks either get the properties or they finance someone else's purchase of the properties. The resulting economic slow down also leads to unemployment. This racket is part of the reason for the accentuated cycles we see in the economy. In a nutshell when rates are low people are encouraged into debt. They appear to be building wealth and then the crunch comes and their wealth is transferred to the Banks and their allies.

The solution is reform – demanded by the people and implemented by Governments that want to preserve and grow prosperity in a Liberal Democracy.

Many of the World's reserve banks are actually private corporations. In reality this is not a major concern. It is the corrupt regulatory environment and the privilege granted to them and the banks by government that causes the problem. Money is just a convenient way of people exchanging goods and services. The key thing is that the people need sound money. They need to have confidence in the system.

The regulation of banking should be aimed at providing a stable currency not for enriching the manipulators of money. In reality the banking sector should not really be a very profitable industry. It is made profitable by the regulatory environment it operates in. Think about it like the illegal drug industry. If currently illicit drugs were legal they would be sold with normal mark-ups at the local pharmacy. Criminals prefer them to be illegal because that regulatory environment allows them to make super profits. Providing a sound monetary system is not very profitable - it is the government granted privileges and regulations that make banking as we endure it now profitable.

Another way to look at it – banking, as we have come to know it, is really a criminal operation. It is unfair, unconscionable and extremely damaging to people and their society. There are plenty of

examples of business practices that were once accepted by society later becoming unacceptable as a society matures – owning slaves; adding cocaine to soft drinks are two simple examples.

Banking in its current form should be made illegal. Reform is needed to come up with an alternative savings and loan model.

3. Dishonest Building Practices

Building houses involves a lot of money. Therefore people will try and cash in – often dishonestly.

The building industry has become notorious for criminal activity but most people think it only applies to massive multimillion dollar projects involving big business, big unions and big government. It is true that these big operations are subject to extortion, graft and corruption – all of which lead to higher costs for the end user of the project. But the same dishonest practices are used on a smaller scale when a person wants to build a home. Of course there are many honest builders but there are enough crooks who behave in the following ways -

- a) False claims regarding time on the job.
- b) False billing for labour costs.
- c) Kickbacks – People who bring a new supplier or tradesman on to the project often have arranged an undisclosed 5 -15% “commission” or “finders fee” for themselves – this inflates the price to the owner of the house.
- d) Purchasing extra materials which are then used on other jobs.
- e) Purchasing inferior and cheaper materials but billing for the quoted good stuff.
- f) Poor preparation of surfaces for painting and then using watered down poor quality paint.
- g) Incompetent or careless work which will lead to extra repair costs later.
- h) Petty theft on site – tools, materials etc

A rough estimate of impact of these practices on the cost of housing would be 5-15%. Obviously - the bigger the project the greater the scope for these sorts of rip-offs.

4. State and Local Government Corruption

As we have seen recently with the Wollongong Council and Morris Iemma’s NSW Labor Government there is a very unhealthy and dishonest relationship between many developers and the bureaucrats that have the power to approve projects. Once again we see the pattern - developers have gathered large amounts of money they want to invest to supply housing for people. The corrupt bureaucrats and politicians want a cut of this so they abuse their positions to feather their own nests. Developers are in a difficult position because if their projects are stalled or thwarted by corrupt officials they risk financial ruin – thus they are forced to go along with the corrupt payments. Note that there are also corrupt developers who will happily offer bribes to have suspect projects get the nod. It is impossible to estimate the cost of these practises but whatever it is it will be reflected in the price (and quality) of the properties that are affected. Reform is needed to bring more transparency to these sorts of projects and penalties for corrupt politicians and bureaucrats must be swift and hefty – for example: forfeiture of assets plus 10 year jail terms.

In addition the whole area of political donations needs radical reform. Firstly we need to be clear that no business or corporation gives money to a political party without expecting the gesture to be helpful in some way to their business. I propose that no individual can donate more than \$1,000 per year to the party of their choice – and they should only be able to donate to one party. Businesses and unions should not be able to donate at all. Fundraisers such as \$20,000 per plate dinners where a businessman can sit at a minister’s or shadow minister’s table are a no no. The beauty of this system is that the only way for parties to raise donations is by actually earning trust and respect from ordinary voters by displaying integrity, honesty and wise policy formulation – good for our democracy and good for our people.

Also good for our democracy would be reform of political advertising – Political Parties should not be permitted to use advertising companies. We don't want the party with the best ads on TV to govern us. We need the party with the best people and policies. Advertising should only consist of ministers discussing policies and facts – simple and clear. If a politician (and party) cannot do this without a slick marketer holding his or her hand they clearly are unsuited to the job.

5. Council Funding for Recurrent Expenditure and Infrastructure Maintenance

Local Government is funded in several ways. The main sources include – fees and charges, State Government grants and Rates. One of these – Rates – is worth analysing because it is another impost on the cost of housing that needs urgent reform.

Rates are used to fund services and facilities that the Local Government provides to residents. Charging different rates to people even though the service is the same is like a bread shop charging more for your bread based on the cost of the clothes you are wearing. Even worse – if the cost of the bread would be based on what someone else is willing to pay for the clothes that you are wearing at the time.

The issues to consider regarding how the current formula for calculating rates affects housing affordability include the following -

1. The services that are being paid for by rates are actually enjoyed by the residents of the property – yet it is the owner of the property that is expected to pay these charges - even if he or she doesn't live in the region.
2. Generally speaking once you own something you own it – end of story. The only recurrent expenditure you should have is maintenance of the item or property. The current rating system effectively is like paying rent to the government for the property that you already own – if you don't pay the “rent” they take your property.
3. There could be two identical houses in a street – right across the road from each other – both having access to the identical local services and facilities. The Government's Valuer sees that one has a better view so it is worth more. The owner of that house has no income – his property does not bring him any income – he may be a retired pensioner but because other people find his house attractive he is charged more for rates.

Once you think through these issues it is clear that the current system is illogical and discriminatory. It just doesn't make sense for property owners or investors to be paying rates that are calculated based on the value of the property and are raised to pay for services and facilities that are enjoyed by the people living in the house and the shire. The system is structured like this because it is easy for a government to abuse the law and coerce or force owners to pay in this way. It is like a mafia protection racket – “pay us these rates or we will take your property.” This feeds directly into the cost of housing for owner occupiers and availability of housing for renters thus it also is a disincentive for people to provide housing.

A perfect system will never be found but some simple guidelines should be looked at to help us get a much better system. A good tax system is transparent and should encourage honest government. The people need to easily see and feel the effect of the taxes so that the probity and efficiency of their government can be measured. This is good for Democracy because a corrupt and / or inefficient administration should be voted out as soon as possible.

What is a possible alternative way of raising money for Local Government?

Regional Authority Tax – RAT.

The RAT is probably the best way of raising money for Local Government, provided that an efficient collection system can be devised and implemented.

RAT is a charge paid by the residents of each household – house or apartment - in a particular Local Government region or Shire. The calculation is based on a formula that takes into account a flat fee per home plus a component that reflects the homes electricity and water consumption. If a house or apartment is empty then the property owner is responsible for the flat fee component. Apart from being a fair and realistic way of raising revenue the RAT will provide an additional incentive for people to be less wasteful of electricity and water.

Let me be clear – initially RAT will not be popular and it will take a good education campaign to explain its benefits. Generally speaking taxes are unpopular and one of the best ways to make people less upset or concerned by them is to have them hidden and even better if someone else pays them for you. But hidden taxes and charges are just trickery to conceal what the government takes and wastes. If you combine the introduction of the RAT with the other reforms discussed here people should be able to understand that they, their families and their communities will be far better off and housing will be more affordable and more available.

Summary

I would say that right now in Australia, there should not be a Housing Affordability crisis. As a society progresses, develops and becomes more prosperous its people should find it easier to have good quality housing. They should find it easier to have more free time. It should be easier to get the balance right between work and family.

Market based economies have delivered the goods – we all have the potential for better lives – far better than those our grandparents knew.

So why is housing becoming unaffordable? Simple – we have been robbed..!! The parasites have followed the money and are stealing it from right under our noses. Poor policy and incompetence from government has allowed it to happen. Governments look at housing as a cash cow to be milked till it drops dead. They abuse their power to get a cut during building and ongoing returns via a debauched rating and tax system. The banks are involved in a racket which is really legalized theft. Crooks in the building industry and government are inflating the price of house construction due to a widespread tendency to engage in corrupt, deceptive and fraudulent behaviour.

The more expensive new houses are to build and purchase the more expensive rental accommodation will be. The cost of housing is probably about 40 - 50% higher than it need be. Reform is required but it must be done very carefully to avoid a major crash in housing values. I would suggest that if house values go down the banks should bear the losses as part of the reform process – not the people who have been ripped off by the racket the banks have been running.

This is a tough job but it must be tackled and each of the five areas discussed above need to be addressed using wisdom, compassion and bravery. Has Australia got the leadership that can do this?