

Housing affordability and land management – a natural principle

by James Webster

The Australian Labor Party's policy to remove tax breaks for land holders has sparked a healthy public debate. The approach a society takes to housing access and affordability is central to equality, justice and the everyday economic experience and prospects of current and future generations. Regardless of the angle from which this issue is viewed - when the fundamentals are examined, the conclusion is the same.

Land is essential for life - we cannot go without it. Anything that makes secure access to land unmanageable interferes with the quality of our lives.

In a free and undistorted market, the price of land would reflect the incomes of those who wished to use it; the price could not exceed what citizens could afford. Today, those wishing to buy find the average wage is not enough to pay a mortgage and live a balanced life.

Not too long ago, one income was sufficient. Now, two incomes can barely keep up.

Distortions in the market for land make it unaffordable for those who wish to use it. Any policy that interferes with access to essential requirements for living is an attack on the experience of living; it is not possible to avoid the negative impacts of that policy, everyone is dependant on land.

Ever increasing land prices simply take away resources from other elements of life. Mortgage repayments or rent are taking up an ever-greater proportion of family incomes. Families must spend less on other items or work more. If a market distortion causes people to go without or reduce their leisure time, then unless that distortion adequately compensates the community in some other way, it is an unjustified imposition on quality of life – it should not be tolerated.

A real challenge for any generation in their prime is to consider the legacy they leave. How far does your legacy stretch? Your family, neighborhood, state, nation, world? And, what form does your legacy take? Environmental legacy is often discussed, but what about economic legacy?

Go forward twenty years and we are likely to see a split society: those whose parents have used negative gearing to set them up in comfortable financial security and those not so fortunate, forced to pay rent

to their fellow citizens, locked-in by intergenerational inequality. The next generation might have the same education and make the same efforts, but if one of them already owns property and the other can never afford it, separate classes will be solidified. Those classes have always reflected land-control disparity. Negative gearing and capital gains taxes concessions perpetuate such land disparity.

In the debate around removing negative gearing we often hear The Australian Dream to eventually own one's own home is an unrealistic relic. We are told the next generation should accept their status as renters and find other, less ambitious dreams than their forebears. This is a ridiculous argument. There is plenty of land to go around, if we only take what we need. All the earth's resources work that way. The issue is not nature, it's the way we handle her.

There is a lot of talk about how negative gearing helps participants build up wealth for retirement. Having a housing market where a greater portion of the population can afford to pay off a house, which then becomes an asset for them too in retirement, would also be a good thing; in fact, a better outcome.

The existence of a State requires contributions from its members; we happily know that contribution as 'tax'. Belonging to a community instead of living in isolation provides benefits that far outweigh this cost. The contribution provides infrastructure, governance, protection, education, health care and support for those who need it. Land prices reflect (among other things) the quality of the community. Everyone who can do so makes a contribution. When economic policies such as negative gearing and tax discounts on specific classes of income ie capital gains tax (where currently only 50% of the income is taxed) reduce the tax some people pay, then either the people paying full tax (in our case, wage earners) have to be taxed more, or the community is short-changed. If those tax breaks do not add to total income in some other way, they are biased, myopic and unfair.

In defence of the current tax regime, those who wish to retain it (for example the Property Council of Australia) advise that the real issue is supply; apparently the need for housing is not being met by current supply. Yet the issue is not that some people who wish buy a house have literally no place to live (ie there is no supply), it's

that due to very high land prices they cannot afford to buy, they can only afford to rent.

There are enough dwellings, but demand is boosted by encouraging investors to own places they do not wish to inhabit. The demand created by investors distorts the market, imposing higher land prices on all.

The insanely high mortgages now prevailing also have the unintended consequence of slowing the economy. Those with very large loans make it a priority to pay them off, surplus cash goes to reduce debt levels. Thus, events that would normally stimulate the economy (such as lowering interest rates or increasing government spending) have little effect. We are being hoist on our own petard of high land costs – the speculation economy undermines the real economy.

It is quite easy to see the true place of land: it provides us with somewhere to live, security and means of income and sustenance. Like air and water, land is an essential element of life. Land appropriated for monetary gain is land used in a distorted way - denying its natural and unique place and denying the contribution the community makes to the value of the land.

Tax breaks such as negative gearing and capital gains tax concessions artificially exacerbate the inappropriate treatment of land. They cement inequality and unjustly and unnecessarily reward the hoarding of an essential natural resource. It's time for them to go.