

October 27, 2009

THE 15<sup>TH</sup> ANNUAL OSWALD BARNETT ORATION 2009, Publication Version

THERE'S NO SUCH THING AS AFFORDABLE HOUSING:  
OPPORTUNITIES FOR NEW APPROACHES TO HOUSING OWNERSHIP, TENURE AND  
FINANCE IN THE 21<sup>ST</sup> CENTURY

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**A Personal Introduction**

I am most honored to be able to deliver this year's Oswald Barnett Oration. Although I was not acquainted with the life and work of Mr. Barnett before I came to Australia, as I have learned some things about him, I have found a resonance with my own values and path.

My academic background is in natural science, and religion has not been part of my experience – both of which are somewhat different from that of Mr. Barnett – but I grew up in an environment of progressive social values from my parents, together with some powerful, early, close up observations of racial injustice in the United States. I therefore expected to have a life as a socially-concerned scientist, as Mr. Barnett pursued a career as a socially-concerned public accountant.

However, in the late 1960s, the war in Southeast Asia and the riots in American cities led me to conclude that I could not be a scientist in my professional life and work for social justice on the side. And so, one week after completing my Ph.D. at Princeton, I began working for the Model Cities Program (the second iteration of the federal poverty program) in Trenton, N.J. – just a few miles down the road from Princeton, but a million miles away in social conditions. It is a decision and a journey that I have never regretted.

Like Mr. Barnett, the path I ultimately chose has been guided by the quest for social justice, but also infused by the rigor of my academic training. I therefore hope that, in this respect, I might approach the high standards and inspiring example provided by Oswald Barnett.

### **Purpose and Overview**

I shall be talking about housing affordability – an all-too-familiar subject – about which a vast amount has been said and written, in your country as well as mine. Nonetheless, I suspect that at least some of what I have to say may not be so familiar and indeed may be somewhat provocative.

I'll begin with a discussion of the nature of housing affordability. While data are essential for understanding phenomena, testing ideas and drawing sound conclusions, data must be viewed and analyzed through appropriate and finely honed concepts. So I will not bore you with a lot of numbers, but instead will focus primarily on concepts and insights.

I shall then argue that the nature, extent and persistence of housing affordability problems are such that tinkering with the existing mechanisms of housing provision is inadequate to resolving these problems. More money and reformed regulation are certainly necessary, but, I contend, are not sufficient to the challenges we face. There are deep structural sources to affordability problems. Just because Australia has escaped the housing crisis engulfing the United States does not mean that some of these structural sources are not present here.

My purpose, though, is not to preach doom and gloom. Ever since I began working in this field I have tried to formulate policies, programs and strategies that I believe can deal with the causes as well as the manifestations of the housing problem. So, I shall share with you some progressive proposals regarding housing ownership, tenure and finance. While I do not underestimate the political difficulties in trying to realise some of these notions, they would not,

in my view, constitute a revolutionary transformation of the existing housing system in Australia. Rather, they would open up opportunities and choices not currently available, and do so in ways that could begin to deal with the some of the deeper sources of the problem.

### **What is Housing Affordability?**

There's no such thing as affordable housing. Affordability is not a characteristic of housing: It a relationship between housing and people. For some people all housing is affordable no matter how expensive. For others no housing is affordable no matter how cheap. The term "affordable housing" first came into use in the U.S. in the 1980s as part of the retreat from public responsibility for the plight of the poor and as affordability problems moved up the income distribution. The term has since achieved international stature – including here in Australia – yet still lacks precise and consistent definition. Indeed, now it often encompasses not only social housing and low-income housing, but also housing that includes financial assistance to middle-income households who find it difficult to purchases houses in the private market. Yet the latter type of "affordable housing" is affordable only to a narrow spectrum of households, and frequently it is "affordable" only to the initial residents, after which it may sold into the speculative market where even a semblance of affordability is lost.

The term "affordable housing" is thus at best meaningless and at worst misleading. A far more accurate and honest term than "affordable housing" would be "below market housing," a term that properly denotes identifiable segments of the housing stock without making any unjustifiable general claim of affordability.

What then *is* housing affordability? Most fundamentally, it is an expression of the social and material experiences of people, constituted as households, in relation to their individual housing situations. Affordability expresses the challenge each household faces in balancing the

cost of its actual or potential housing, on the one hand, and its non-housing expenditures on the other, within the constraints of its income.

But why give primacy to housing? What about the affordability of healthcare, food and other necessities? Because of housing's distinctive physical attributes, its cost is the largest and least flexible expenditure in most families' budgets, and this cost usually makes the first claim on a household's disposable income, with other expenditures being adjusted to fit whatever income is left over. If the rent increases or interest rates rise, we can't offset this by using our bathroom less or sleeping in the kitchen. We pay the higher housing cost and cut back on other things. To be sure, in extreme emergencies we will feed our kids even if it means not paying the rent. But if this continues, eventually we will be evicted – lucky to find a cheaper place and endure the rigours of moving, but otherwise homeless. That is, it is not income alone but income in relation to the cost of housing that is decisive in determining our standard of living.

How, though, can it be determined whether a household has an affordability problem? Some might say – some do say – that it is purely subjective. This assertion rests on the assumption of *homo economicus* – the central tenet of neo-classical economics. Since households are presumably rational utility-maximisers, every household is by definition paying just what it can afford for housing. Some households may live in undesirable conditions; others may have low incomes that give them few choices; but they all make the choice that is best for them within their constraints. Thus, from this perspective, housing affordability per se has no generalisable meaning; it is neither rationally possible nor socially desirable to establish a normative standard of affordability other than individual choice.

However, while high-income households have considerable discretion about how to allocate their resources between housing and other items, and hence for them affordability may

be quite subjective, households at the lower end are not simply choosing freely between housing and other needs. Rather, because housing costs generally make the first claim on disposable income (as I reminded us a few moments ago), and because low-income households have few housing choices, those of low income only have “freedom to choose” which of their non-housing needs will *not* be met after paying for housing. Thus, the subjectivity of housing affordability is not only not universal; it is not even a continuum that increases with income. Instead, I would submit, there is a threshold or transition zone above which affordability could become increasingly subjective. The important questions are then: What is that threshold or transition zone below which affordability is not subjective? How can affordability below that threshold be defined and measured? These questions are not addressed within this perspective.

So let us return from the never, never land of economic theory to the real world, in which public policy and interpretation of individual experiences are mediated through analytical indicators and normative standards of affordability that transcend individual experience. Such indicators and standards make it possible to arrive at conclusions – potentially contentious to be sure – about the overall extent of affordability problems and needs, and their distribution socially and geographically. They also provide an important foundation for the (at least somewhat) rational formulation, implementation and evaluation of policies and practices – by governments, housing providers and mortgage lenders -- that deal with affordability.

#### Is 30 percent of income a reasonable amount for people to pay for housing?

In Australia, the US and the UK (and some other countries as well), there is widespread acceptance of the ratio of housing cost to income as the appropriate *indicator* of affordability and the simple “rule of thumb” ratio *standard* (25 to 30 percent). This approach continues to prevail for assessing affordability problems (housing stress), as well as for determining eligibility and

payment levels, explicitly for publicly subsidized social housing and rent assistance, and somewhat more loosely for other rental and ownership programs and financing.

However, there is simply no logical or theoretical foundation for the ratio concept of affordability and the particular ratio or ratios that are used. For all low-income families, and many moderate-income families, paying 30 percent (or even 25 percent) of their limited incomes for housing does not leave them with enough money to meet their other needs. On the other hand, many higher-income households actually have no hardship even if they pay considerably more than 30 percent of their incomes for housing.

This insight first struck me in the early 1970s and led me independently to conceptualise, operationalise and begin applying an alternative *residual income* approach to housing affordability. Some years later I learned that a number of others in the U.S. had come to similar conclusions during the same period, but no one else went as far as I did in operationalising and applying the new approach. Since then I have remained the principal proponent this approach. Interestingly, similar thinking also emerged at somewhat later points in the UK and Australia, so that it is now somewhat familiar in academic circles – if not yet in the world of policy and practice.

What we really mean when we say that a household is paying “more than they can afford” for shelter is that after paying for their housing they can’t meet their non-shelter needs adequately. So instead of taking some arbitrary percentage of income (like 25 or 30 percent), a better way to figure out how much a family realistically can afford for housing is to take the *difference* between their disposable income (i.e., after taxes) and the cost of meeting their *non-housing* needs at a basic level of adequacy.

Using this approach yields a sliding scale of how much people can afford for housing. Higher income families can afford to pay a higher percentage of their income than can lower income families of the same size and type. Smaller households can afford to pay a higher percentage than larger households with the same income. People paying more than they can afford on this sliding scale are what I call **SHELTER POOR** — the squeeze between their incomes and housing costs leaves them with not enough money to address their non-housing needs at a minimally adequate level

That is, shelter poverty is a form of poverty resulting not simply from low income, but from the squeeze between incomes on the one hand and housing costs on the other. Formally, it is similar to what is called “after-housing poverty” in the Australia and the UK. I do, however, think that the two terms have slightly different connotations: “after housing poverty” still places the causal emphasis primarily on income, while the term “shelter poverty” places equivalent emphasis on housing costs in causing a household to be unable to meet its non-shelter costs adequately.

What difference does it make whether one uses the conventional or shelter poverty approach in assessing housing stress? It turns out that the two approaches identify overlapping, but not identical, groups of households with housing stress. And even among the overlapping group who are in stress under both approaches, the gap between what people are paying for housing and what they can afford is somewhat different. The principal reason for these differences is that the shelter poverty approach is a much more finely honed instrument because it takes into account household size and type, while the ratio approach does not. Specifically, the shelter poverty approach points to a considerably more serious problem among larger households, many of whom cannot afford to pay 30 percent or even 25 percent for housing and

hence are shelter poor even if they are in social housing or receiving rent assistance. On the other side, the shelter poverty approach suggests a somewhat less extensive problem among smaller moderate-income households, many of whom can afford to spend more than 30 percent without hardship. Obviously, there are significant policy implications to such differences.

Demographically, shelter poverty is disproportionately borne by households headed by women – including both non-elderly, single-mother families and older women living alone. Also included are many immigrant families, as well as non-elderly single people with barriers to stable employment. And, of course, here in Australia shelter poverty is disparately borne by aboriginal families, both urban and rural.

In terms of tenure, renters are much more likely to be shelter poor, but homeowners are not exempt. There are lower-income families who have stretched far beyond their means to purchase a house. There are women whose marriages have broken up and are left with the kids, the house and the mortgage payments. There are elderly women whose meager pensions leave them house rich but cash poor.

Finally, by way of transition to the next phase of my talk, let me note the aggregate extent of housing stress on the shelter poverty standard. For the U.S., I have found that one-third of all households are shelter poor; this fraction has persisted for at least the past half century, fluctuating somewhat with the ups and downs of the overall economy. For Australia there is no comparable long time series, but a study by Judith Yates and Michelle Gabriel found that in 2002-3 almost 1.4 million lower-income households were in housing stress based on a residual income measure similar to my shelter poverty approach. This was nearly *one-fifth* of all Australian households and close to *half* of lower-income households. It does not include moderate income households in high cost areas, many of whom would also be shelter poor.

Furthermore, comparing the Yates-Gabriel figures for renters in 2002-3 with somewhat similar (though not perfectly equivalent) computations done by Terry Burke and Liss Ralston for 1997-8 suggests that over the five-year period the number of shelter poor *private* renters in Australia apparently increased by about 50 percent, while the number of shelter poor *public* renters increased by nearly 10 percent. Although we have no computations of how the numbers have changed since the early part of this decade, trends in incomes and housing costs certainly suggest that shelter poverty has continued to increase in Australia. Indeed, I think it would not be unreasonable to hypothesize that as many as one-quarter of Australian households may now be shelter poor.

Let me, though, follow Oswald Barnett's careful approach and not extrapolate beyond the hard data. Suppose that the share of Australian households shelter poor is still that found by Yates and Gabriel as of six years ago, ie., nearly one-fifth. What does a figure of this magnitude imply?

### **Structural Causes**

When one-fifth of a nation is shelter poor, it is impossible to claim that those affected are an unfortunate few left behind by pervasive and sustained prosperity. When the official unemployment rate is under 6 percent, yet several million Australians live in shelter poverty, it is impossible to claim that the labor market can provide "good" jobs for all who are willing to work. When a million and a half Australian households cannot afford the homes they are living in (not to speak of those who are literally homeless), it is impossible to claim that the housing market has the capacity to provide "affordable housing" for all who are shelter poor with just more subsidies and less regulation. Persistent and pervasive shelter poverty challenges us to search for structural flaws in some of our basic institutions of income determination and housing

provision. It is a challenge I have been posing to my fellow Americans for decades. And it is a challenge that – since you have given me a platform – I shall now presumptuously pose to you Australians.

From my very limited background reading and first-hand experience of Australia, my impression is that there are a number of ways in which Australia seems to be rather more progressive than the U.S. However, with respect to housing there are many striking similarities. To be sure, you have not had the same wild and woolly mortgage lending, which was the last card that precipitated the collapse of the global financial house of cards. In other respects, though, the evidence I have seen suggests that the longer and deeper roots of the affordability problems in our two countries are not so different. Let me identify four:

1. Wide and widening inequality of income and wealth;
2. Overdependence on debt and the capital markets to finance housing;
3. Treating housing increasingly as a speculative commodity;
4. Public policies that exacerbate problems in these other areas.

I will briefly discuss each of these and then offer a few proposals that I believe could begin dealing, in a limited way, with at least some of these causes.

#### Wide and Widening inequality of income and wealth

For a generation after World War II in most of the developed capitalist world, there was modest reduction in inequality. However, during the 1960s the fabric began to unravel; the 70s were a transition time, and by the 80s neo-liberal ideology and practice were well entrenched, leading to the drastic increase in inequality since then. While inequality in Australia appears to be not quite as great as in the U.S. and U.K., you have by no means been exempt from these trends, as documented in an array of studies and reports. [For example, an ABS report issued in

September of this year, comparing income inequality in the mid-1990s with last year acknowledges that “the income share going to first four income quintiles [the lowest 80 percent of households] fell, while the share for the fifth quintile [the richest 20 percent] rose.” The richest 20 percent of households received over 40 percent of the income pie.]

What are the consequences for housing of widening inequality? First, there has been reduced affordability and rising house prices. On the one hand, most people have experienced little if any increase in their real incomes and greater income volatility and insecurity. On the other hand, those at the top with more and more income have been driving up home prices, in both the owner-occupied and rental sectors, in existing housing and new. In the U.S., Australia and the U.K., almost everyone attributes rapid house price inflation to limited supply and high land costs, although in the U.S. there was finally recognition of a speculative bubble pushing up prices. I am one of only a few people, though, as far as I know, who has tried to direct attention to the structure of housing demand, specifically widening income inequality, in driving up house prices.

The second consequence for housing has been widening inequality of housing wealth. Data compiled by the RBA shows Australia with some of the greatest increases in average house prices anywhere in the world. What the RBA does not show is the wealth *inequality* embedded in that average. Widening wealth inequality is of course due in part to lower-income households being closed out of home buying. But there is another piece of the story as well: among those households who already are homeowners, price increases – and hence wealth increases – have generally been greatest in the highest-income areas and least in the lower-income areas. Furthermore, under current arrangements, widening wealth inequality will be exacerbated in future generations, as family wealth transfers decisively determine who has access to home

ownership and in which kinds of locations.

The third consequence of widening income inequality has been decreased ability for most households to save. This, in turn, has had two major results for housing:

(a) Most households have had reduced capacity to make a substantial down payment (deposit) to buy, and hence there has been a push for lower down payments, i.e, higher loan-to-value ratios in the mortgage market, with associated increases in risk; while lenders in Australia for the most part have remained more conservative than in other countries, a number of sources (including Mike Berry, Judith Yates and even the RBA) have shown prior to the financial crisis there was considerable growth of low-down-payment, high-risk lending here in Australia;

(b) Furthermore, because middle-income households have had less money to put into savings institutions, housing finance has had to become more dependent on the global capital markets – leading us to the second structural problem.

#### Over dependence on debt and the private capital markets to finance housing

Because housing is costly to produce and most producers are relatively small businesses, in capitalist economies housing development is very dependent on borrowed money. More significantly, though, because housing is a commodity, long-lasting and attached to land, the transfer of houses is financed almost entirely by borrowed money, with the property as collateral. For the same reasons, it is also the prime source of collateral for borrowing even without transfer, i.e., refinancing and home equity borrowing.

Taking these three elements together, no sector of the economy has been as dependent on debt as housing. Over the entire period since World War II, housing-related debt has been the fastest growing component of the entire financial system. Most particularly, over the past three

decades, housing finance became fully integrated into global capital markets, with the full fruition of mortgage-backed securities (MBSs) and their derivatives. Australia is among the countries that most extensively uses mortgage securitisation, according to the RBA, along with the U.S., Canada and the Netherlands. This means that the fate of the entire financial system has become dependent on the ability of households to pay for their housing – as I have been preaching since the 1970s and all of us are now painfully aware.

Combined with ever widening income inequality, and speculative increases in house prices, the dependency of housing on debt – and the dependence of consumption on debt, including housing-related borrowing – has been turned into addiction in the U.S, and apparently in Australia as well, creating debt junkies at all levels of the system, and pushers emerging at all levels because of enormous and growing opportunities for profit. A major consequence has been that household debt has grown faster than the overall economy and hence faster than the ability to repay it. According to data published by the RBA, since the mid 1980s the ratio of household debt to household disposable income has risen faster in Australia than in any developed country other than the Netherlands; indeed, much faster than in the U.S., Canada and the U.K. In the mid 80s, household debt in Australia was about 40 percent of disposable income; it is now about 160 percent of disposable income. During the current decade alone, Australian households have increased their interest payments on housing-related debt about three times as fast as disposable income, according to RBA data. As one Australian commentator recently put it: “While the USA may have had lower quality loans and lower lending standards, it appears Aussies have more debt, which is accelerating so fast it has left our US counterparts for dead.”

This debt addiction is coupled with the third structural problem.



### Treating housing increasingly as a speculative commodity

While treating housing as an object of speculation has a long and dishonorable history, it has become particularly pernicious in recent decades. Nearly everyone has come to believe that they are entitled to make a killing in residential real estate, up and down the food chain – not just distant investors, intermediate mortgage packagers, and nearby speculators and mortgage brokers – but including far too many homebuyers and homeowners.

This attitude has been coupled with an abundance of easy credit, as just mentioned, and the idealisation and over-promotion of speculative homeownership, based on a whole series of myths that have prevailed for most of the past century, if not longer, in Australia, the U.S., and Canada, viz:

- i. that you are always better off economically as a homeowner than a renter;
- ii. that homeownership assures you of free housing in your old age;
- iii. that homeownership is a sound and effective way to build assets/accumulate wealth;
- iv. that property values always go up, at least as long as you can keep undesirable activities and undesirable people out of your neighborhood;
- v. that homeowners are full citizens, but renters are not;
- vi. that the degree of societal development is correlated with the homeownership rate;
- vii. the illusion of ownership through the reality of DEBT.

In what sense are these myths? I will not attempt to provide a comprehensive analysis of each of these elements that I call myths, but will highlight several of them having to do with housing affordability and wealth accumulation.

First of all, while it certainly is true that over the long term property values have risen and

quite substantially in most of Australia, there has been enormous volatility in time and enormous variation in space, including periods and locations in which prices have fallen. Since the mid-1980s, the average annual increase of prices for established houses across the eight Australian capital cities has ranged from a high of 38 percent to a low of minus 6 percent, according to the ABS. In some locales, the variation undoubtedly has been even greater, on the low end as well as the high. This means that even though there have been many big winners, there have also been losers.

Second, even where house prices do rise steadily and substantially, home purchasers who sell within about the first five years of purchase will, on average, only break even and may actually have a net reduction in their wealth. How can this be? It depends upon the relationship between price increases, on the one hand, and mortgage interest payments, on the other, during the period of ownership. Since the mid 1980s, prices of established homes in the eight Australian capital cities have increased on average by 7.7 percent per year, not adjusted for inflation (according to the ABS); but over the same period mortgage interest rates have averaged 9.4 percent per annum (according to the RBA). In the early years of a mortgage nearly the entire payment is for interest, with very little build up of equity through principal repayment. The result is that the average Australian home purchaser, who borrows 90 percent of the price of their home, actually has the increase in the value of their home matched or exceeded by what they pay in mortgage interest during the early years of ownership. That is, rising property values do not necessarily lead to increasing wealth among home purchasers.

Third, in Australia about 85 percent of mortgage loans have adjustable interest rates – a far higher share than most other countries, exceeded only by the UK and Sweden (according to the RBA). Since rate adjustments can occur monthly, home purchasers' housing costs are quite

volatile, indeed more so than they are for renters. This means that affordability can go up and down suddenly. For lower-income purchasers the result can be unpredictable challenges in meeting their non-shelter needs after paying for housing, as well as risk of mortgage arrearage, default and foreclosure. Even prior to the financial crisis, between 2003 and 2007 mortgage arrears quadrupled in New South Wales and doubled in Victoria, according to data compiled by Mike Berry and his colleagues. Western Australia had an extremely low and steady rate through this period, but then mortgage arrears soared by 40 percent in the first half of this year.

Finally, fewer Australian (and American) homeowners are entering old age with low and stable housing costs in homes fully-owned debt-free. Between 2001 and 2006 there was a 30 percent increase in the number of Australian homeowners with debt on their houses, according to Australian Census data. Less than half of this increase consisted of first-time purchasers. The rest (more than 330,000 households) were established owners who had previously paid off their mortgages but then borrowed against their equity, taking on new debt burdens that will be carried into their later years.

This then leads to consideration of the role of public policies.

### Public Policies

Is it not the role of government, in part at least, to counter some of these tendencies toward greater inequality, insecurity and instability? Unfortunately, there are a number of ways in which public policies – certainly in the U.S. and apparently in some similar ways in Australia as well – have at best failed to ameliorate these tendencies and at worst contributed to and exacerbated the structural weaknesses, flaws and problems. There are at least five areas of public policy that are relevant. Two are categories of housing-specific policy, in which some similarities of concept and consequence between the U.S. and Australia can be identified and I

will comment on:

1. housing subsidy policy;
2. tax expenditures for housing.

There is a third area of housing-specific policy in both the U.S. and Australia that is also implicated, but which I will merely identify without further comment:

3. weak regulation of private rental housing with respect to security of tenure, rents and tenants rights.

There are two other aspects of public policy that are not housing specific, and are more global both literally and figuratively, but are deeply implicated in the problem areas I have identified, but about which I also won't be saying much:

4. financial deregulation;
5. expansive monetary policy.

1. Direct Housing Subsidy Policies:

In the U.S. and Australia there are a number of supply-side policies aimed at producing below-market housing for lower income households. In both countries this type of housing represents only about five percent of the total stock – very modest in comparison with many other countries and exceedingly modest in relation to need. In both countries a substantial factor in the scope of shelter poverty among low-income households and the burdens of income inequality are associated with our relative paucity of low-income housing. There are also similar issues with regard to the stigmatisation of the occupants and much of the housing, especially public housing. In addition, there are somewhat similarly contentious issues around the attractions and pitfalls of involving private, for-profit equity investors in such housing, both new

build and redevelopment of public housing. Finally, there are similar problems – though little discussed in both countries – with the degree of dependence on debt to finance social and other below-market housing.

Both of our countries also have demand-side rental assistance programs; these programs provide financial assistance to households rather than housing. This is, by the way, one of many areas in which Kath Hulse is an expert, so I will be brief and cautious in my comments. In Australia, Commonwealth Rent Assistance is available as an entitlement to eligible households through the social security system; however, while the payments vary with household size and type, as I understand it they are not otherwise based upon housing costs and an ability-to-pay standard. In the U.S. housing voucher programs are not part of the social security system and not an entitlement; there are long waiting lists. Once received, though, the payment level does vary by income and local rent levels. In both countries, most of the recipients of rental assistance reside in private, for-profit rental housing and often face landlord difficulties with regard to housing conditions and personal treatment.

Finally, for both social housing and rent assistance, housing costs for residents are at best based upon the ratio standard, 25 percent or 30 percent of income, and at worst not based at all on income. In no case, though, are the payments based upon a more realistic standard like my shelter poverty approach. This means that even though their housing costs are subsidised, most of these households are still unable to meet their non-shelter needs at a minimal level of adequacy. This in turn raises questions as to whether the available subsidies are being allocated in the most equitable and efficient way in relation to need.

While this set of issues is not exhaustive, I hope it reveals that housing subsidy policies in our two countries are not only insufficient in scale in relation to need, but also have various

substantive problems that may exacerbate rather than ameliorate shelter poverty.

## 2. Housing Subsidies through Tax Policies:

Since the 1930s, the primary focus of housing policy in most of the predominantly white, English-speaking countries has been the promotion of mortgaged homeownership. This has consisted of institutions to support lending, ideological promotion and marketing, and subsidies through the tax system. I shall focus on tax subsidies.

Tax subsidies consist of preferential tax treatment of certain activities and/or groups. They do not appear explicitly in government budgets, and are not subject to the annual appropriations processes. But because they are fiscally equivalent to collecting the foregone taxes and allocating to the particular purposes and groups, they are also called "tax expenditures." They are huge in magnitude and have enormous consequences.

In both Australia and the U.S., tax expenditures for housing far exceed direct spending on social housing and housing subsidies for lower-income households. These tax subsidies flow overwhelmingly to homeowners. And they are highly regressive, with high income homeowners receiving far greater benefits than those of lower income.

In Australia, tax expenditures for housing amounted to about \$53 billion in 2005-6, based on government data recently analyzed by Judith Yates. This is more than 10 times as much as is spent on social housing and rent assistance. In the U.S. the ratio is also immense, about 6 to one.

In Australia, about 85 percent of these benefits flow to owner-occupiers, and most of the rest to investors in rental property, very similar to the U.S. Australian owner-occupiers receive an annual home ownership tax subsidy of more than \$8,000 a year on average. The benefit rises, though, with income. For owner-occupiers in the top 20 percent of the income distribution this amounts to over \$14,000 a year in both Australia and the U.S; these are households with an

average income of \$160,000 a year in both Australia and the U.S. Indeed, about two-thirds of home owner tax subsidies flow to the top 20 percent of the income distribution in both countries.

No wonder these tax benefits have been labeled the “mansion subsidy.” More importantly, they distort the housing market, creating perverse incentives for housing speculation and increasing prices, as well as exacerbating inequality and depriving governments of substantial amounts of revenue. Indeed, in the U.S. even conservative economists have been recognising the destructive consequences of these tax policies.

### 3. Other Policies:

In recent decades the imbalances in housing-related spending and tax policies have occurred within the larger policy context of financial deregulation, and more recently expansive monetary policy. These policies contributed to the glut of readily available credit that facilitated ever greater housing speculation. In the extreme, this culminated in the U.S. housing collapse and the global financial crisis. But just because Australia has avoided the housing meltdown and deep recession continuing to plague the U.S., does not mean that Australia has avoided extensive shelter poverty and its deeper and longer-term causes, as I have argued.

### **Where to from Here?**

The overarching conclusions my analysis are two:

- \* Shelter poverty is extensive and increasing. It cannot be explained away as the problem of an unfortunate few. Rather, its causes are to be found in our systems of housing provision as well as our mechanisms of income determination.

- \* The ideology and mythology of mortgaged homeownership are being left further and further behind by both economic reality and social morality. While home ownership certainly

continues to provide real benefits to many, it has become inaccessible to many others, a source of economic and emotional insecurity to others who are nominally home owners, and a significant contributor to social polarisation and economic instability.

It is apparent that a comprehensive program of reform is needed, but I make no attempt to be so ambitious and presumptuous. Rather, I shall focus on aspects of housing ownership and tenure and on some related aspects of housing finance. I will not address the income and labour market dimensions of the housing affordability problem, nor the macro-economic dimensions. I commend your attention to the richly insightful work of Mike Berry on these two areas.

#### Housing Tenure and Ownership – Toward Tenure Parity and Expansion

The term “tenure neutrality” has been put forth by Jim Kemeny as the appropriate goal for housing policy. I share his perspective, but prefer the term “tenure parity,” as I think it properly implies active measures than the more passive connotations of “neutrality.”

Toward this end, I will first briefly mention several areas of policy reform aimed at achieving greater parity among existing tenures. None of these is particularly innovative, and none will come as a surprise. Many of you have, I am sure, been working for ages to achieve these goals in Australia, just as I and many others have been promoting these measures for decades in the U.S. – to considerable resistance of course.

#### Achieving Greater Parity Among Existing Tenures

Firstly, the amount of social rental housing should be greatly increased, and in ways that make such housing physically indistinguishable from private housing, broaden the income mix, and provide operating subsidies to ensure that financial viability is not at the expense of affordability.

Second, rental assistance should more appropriately be matched to need in re both eligibility

criteria and payment standards, i.e., moving toward ensuring adequate residual incomes after housing costs.

Third, there should be reform of private landlord-tenant law to better protect renters in rents, security of tenure, fair treatment, housing standards, and collective bargaining rights.

Fourth, there should be reform of the system of housing tax expenditures, especially the preferential and regressive tax subsidies of home ownership and negative gearing subsidies for private rental housing.

Despite the obvious and daunting political challenges in making progress on these four areas, they are not the end of the story. We still face the home ownership conundrum. On the one hand, there is continuing enthusiasm and support for mortgaged homeownership in Australia, the U.S. and elsewhere. On the other hand, as I and others have been claiming, there are serious questions about whether it can continue to offer the social and economic benefits available to past generations, and if so, to whom and at what cost to families, communities, and the larger society and economy.

The tenure parity measures I identified a moment ago – even if they could be achieved – would not in themselves crack this nut. The question thus arises as to whether there might exist alternative forms of housing provision, which could provide households with what are regarded as the positive benefits of homeownership while avoiding or overcoming the risks and burdens that conventional home ownership imposes. If so, could it not be argued that public policy should support such alternatives, not as a replacement for conventional homeownership, but as options available on an equal and competitive basis.

#### A Debt-Free Alternative to Mortgage Homeownership

I shall sketch such an alternative for you. It consists of three ingredients:

- \* a form of tenure I call “resident-saver”;
- \* a modified mutual housing association form of ownership;
- \* capital grant financing.

The essence of the model is separation of the putative social benefits of home ownership from the economic. Residents would have the autonomy and control associated with home ownership. They would have security of tenure greater than homeownership because there would be no mortgage at risk of default and foreclosure. These social benefits would be vested in the residential tenure and assured through the ownership model and financing. But the economic benefits from “forced savings” would not be through housing ownership; instead they would be through other investment vehicles that can provide wealth accumulation comparable in magnitude, on average, but superior in terms of stability and liquidity. I have therefore named this new form of tenure “resident-saver.”

Let me first describe the ownership entity and then explain more fully the resident-saver tenure.

*Modified Mutual Housing Association Ownership:* The ownership model is based upon principles embodied in the limited-equity cooperative (LEC), community land trust (CLT), and mutual housing association (MHA). There are forms of shared resident-community ownership that exist in the U.S., albeit limited in scale. Since it is closest to the mutual housing association, I call it a Modified MHA.

An MHA is a non-profit, cooperative corporation made up of residents, prospective residents, and community leaders; CLTs also have this type of tripartite ownership. It assures resident ownership and control, balanced against community interest, as well as an infrastructure of expertise and support beyond the residents themselves. An MHA can be set up independently,

or by an existing community housing provider as a subsidiary or sister organisation. An MHA can undertake housing development itself, or a community housing provider can develop the housing and convey title to the MHA upon completion.

The MHA model as implemented in the U.S. deliberately eschews outside profit-seeking investors in order to avoid role conflict and possible pressures to sell the housing into the speculative market at some later point. In addition, MHAs try to finance nearly all acquisition and development costs through upfront capital grants. The goal is to have no mortgage debt and hence no mortgage charges incurred by the housing and imposed on the residents. This means that the housing operates on a “cost rent” basis. That is, the residents have payments that cover the costs of utilities, local property taxes (rates), management, insurance, maintenance and repairs, and reserves for capital improvements and replacements.

In the U.S. most MHAs have developed physically contiguous housing units, typically townhouses on a single site or several sites. However, there is no necessary reason for this to be so. The units could be single-family units on scattered sites, indistinguishable from other housing in the area, just as some Australian public and community housing providers have done with their rental units, and just as many Community Land Trusts and some Limited-Equity Coops have done in the U.S. In this physical form, residents can be responsible for paying the operating expenses explicitly attributable to their individual units, rather than a pro rata share of the entire MHA, and can have responsibility for much of the routine maintenance and repairs, just as with conventional ownership of single-family homes.

Also, these models usually have had some constraints on physical changes residents can make to their units. However, this too can be understood as a consequence of the physical housing type, not inherent in the model. After all, conventional ownership of townhouses and

condos also involves (sometime very strict) constraints on physical changes and additions. Thus, versions that involve scattered-site, single-family units permit considerable freedom of residents to modify and add to their units.

MHAs, as well as some CLTs and LECs, have emphasized organizational development as much as physical development, with residents expected to participate in decision-making and provide minor maintenance of their units, even though professional management has been an integral part of the model. Whiles this may be a worthwhile goal, in the variation I am proposing, where the housing might consist mostly of scattered-site, free-standing units, this is not presumed to be an essential element. It is conceivable that residents would have minimal organizational obligations, but the right to select their representatives to the board, who in turn would hire professional staff to run the organization.

*Resident-Saver Tenure:* The tenure model builds upon residents' rights in MHAs, CLTs and LECs, but with some important differences. In these models, residents have lifetime security of tenure as long as they meet their financial obligations and do not violate the rights of others. They may designate a family or household member as the successor to their unit. They may sublet temporarily for periods of absence, but may not sublet their unit as an investment property.

What, though, makes the occupants "resident-savers" rather than social renters? First of all, as in existing MHAs and LECs, residents would be expected to make an initial deposit or down payment, which is recoverable with interest upon moving out, but which is not a marketable property interest; this is somewhat similar to LECs, but quite different from CLTs. The goal in MHAs has been for residents to put up five percent of the total cost, with capital

grants covering the rest; however, there is no necessary reason why the initial contribution could not be comparable to whatever is required for conventional homeownership.

Second, all residents would be required to make *mandatory* payments over and above operating expenses and capital reserves. *This is the crucial and distinctive feature of my model.* Such payments would be in lieu of mortgage payments, and would be required for a period up to the term of a conventional mortgage. *These funds would be placed into individual investment accounts to accumulate as a savings alternative to equity in conventional homeownership.*

That is, such payments by residents would be “forced savings,” somewhat like mandatory superannuation investments. Similar to superannuation contributions, residents could have a choice of investment vehicles, ranging from term deposits at banks and money market accounts to socially-oriented mutual funds. Unlike super fund investments, though, residents would be permitted to make withdrawals throughout their life span, thereby providing liquidity. However, withdrawals would be subject to some restrictions on the rate and amount in order to maintain the “forced savings” aspect corresponding to conventional home ownership.

I have done a series of calculations comparing the wealth accumulation rates for such hypothetical resident-savers with the wealth accumulation rates for home ownership. Based on investment assumptions that are conservative for resident-savers and relatively favourable toward conventional ownership, I have found that in general and on average a resident-saver would do at least as well as a conventional owner over any time span up to 25 years.

In sum, what does the resident-saver model offers residents?

- control over their homes comparable to conventional homeownership;
- greater security of tenure because there's no risk of mortgage foreclosure;
- asset development comparable in magnitude, on average, to conventional homeownership;
- but superior in terms of security (vulnerability), stability (volatility) and liquidity.

I am proposing a model of housing tenure that would open up housing choices and benefits not now available through the current alternatives of private rental, social rental, and conventional homeownership. To be sure, for the lowest income renters this model would not be affordable. But for moderate-income renters who have no realistic prospects of achieving conventional homeownership – and for those renters who might someday afford but do not necessarily want to bear the risks and other burdens of conventional home ownership – the advantages are obvious.

Furthermore, the Resident-Saver/MMHA model is superior to so-called “shared-equity” homeownership offered by CLTs and LECs. The latter two models allow residents some housing wealth accumulation, but limit it in order to preserve affordability for future residents. This feature has been a source of criticism of these models and limited their popularity. By contrast, the Resident-Saver/MMHA model preserves affordability without limiting wealth accumulation, because it separates the social benefits of home ownership from the economic.

Yet, as I have argued, even in relation to conventional homeownership, the social and economic benefits of the model would be substantial and competitive.

There remains the issue of financing mechanisms. I shall focus on capital grants and then say a little about social credit for housing.

#### Financing – Capital Grants and Housing Trust Funds

To reduce the burden of mortgage payments and dependency of housing on the volatile and costly capital markets, I have long proposed that non-speculative housing of all types – including both social rental housing and the proposed resident-saver/mutual housing alternative to home ownership – should be financed to the greatest extent possible by public capital grants.

In Australia a considerable portion of funding for social housing has been provided

through capital grants, including currently through the Nation Building economic stimulus program. However, in Victoria at least, capital grants cover only 75 percent of capital costs for community housing providers; they must turn to conventional lenders for 25 percent of their capital funding.

In the U.S., the federal Section 202 program provides 100 percent capital grants to non-profit providers of housing for low-income elderly and disabled. In terms of financing it thus offers an interesting comparison and example for community housing providers in Australia. Funding has, however, been subject to the annual appropriations process and severely limited for a number of years.

In addition, over the past two decades there has emerged in the U.S. a very different approach to generating capital funding that I hope might be considered here in Australia: Housing Trust Funds (HTFs). HTFs are special-purpose entities created by governments to receive dedicated revenue streams to support below-market housing. There are currently over 600 HTFs in the U.S., receiving and spending over \$1.6 billion a year. At the local level, HTFs receive funds primarily from impact fees paid by commercial developers. At the state level, funds come primarily from real estate transfer taxes, similar to the stamp duty.

In the middle of 2008 a *National* Housing Trust Fund (NHTF) was finally enacted, after a very long grassroots campaign. It was planned to be capitalised by a portion of the profits of Fannie Mae and Freddie Mac, the huge government-sponsored secondary mortgage market enterprises, but with their near collapse in the financial crisis that's not possible. Currently, legislation is pending in the U.S. Congress for an initial capitalisation of \$1 billion, with funds to come from some element of the financial bailout program. While a good start, this is a relatively modest sum in relation to the scale of need and not a dedicated, on-going source of revenue.

I have instead proposed that the NHTF be capitalized through two other potential sources, sources that might also be appropriate to consider for a potential NHTF in Australia:

1. Reform of the housing tax expenditures, as already mentioned. If just 10 percent of the lost revenue were captured, it could provide over AU\$5b a year in dedicated revenue for an Australian Housing Trust Fund, more than is currently spent for social housing and rent assistance.

2. A tax of a few tenths of a percent on all capital market financial transactions, including stocks, bonds, mortgage-backed securities, derivatives, etc. While I do not know what the volume of such transactions is in Australia, based on a rough scaling of estimates for what such a tax would raise in the U.S. (over US\$150b a year), I suspect such a tax could generate AU\$5-10b a year for an Australian Housing Trust Fund.

Not only would such revenue sources generate substantial ongoing dedicated capital grant funding for housing,; they would also be

- progressively redistributive;
- not subject to the whims of the annual appropriation process;
- not add to government budget deficits.

### Financing – Social Credit

As enthusiastic as I am about the capital grant/housing trust fund approach I have just described, I do recognise that the road to achieving adequate funding in this way will be long and arduous.

Reform of the financial system is essential, in order to deflate the credit bubble, reduce speculative uses of credit, and assure an adequate supply of low-cost credit – to complement capital grants – for productive investment in housing, as well as infrastructure and job-producing industry for a sustainable future. All private, for-profit capital market institutions

should be required to make below-market set-asides to finance non-speculative housing and community development. While such financial institutions might make such loans directly, an alternative and preferable approach would be for them to be secondary market purchasers of below-market loans made by social lenders. There are several types in the U.S., including state housing finance agencies, community development financial institutions, and community loan funds. As far as I know, such financing sources do not exist in Australia, other than mutual savings institutions like MECU.

While social credit financing does not offer the benefits of capital grant financing, I would hope that the general approach and the types of institutions I have just mentioned might be considered as part of the financing repertoire for social housing in Australia.

Housing finance agencies are quasi-public entities created by state governments in the U.S. They raise funds by selling tax-exempt, long-term bonds. They use these funds to provide below-market, fixed-rate, long-term mortgage loans to (for-profit and non-profit) developers of below-market and mixed-income housing. Such financing does not produce deep affordability, but since the late 1960s most states in the U.S. have created such agencies, which have become the largest source of debt-financing for such housing in U.S.

Community development financial institutions (CDFIs) encompass a variety of institutions in the U.S. that specialise in loan financing and expertise for below-market housing and community development activities. They include: for-profit national institutions, like the National Cooperative Bank, which provides specialised but market-rate loans; and non-profit intermediaries, like the Local Initiatives Support Corporation, the Enterprise Foundation, and the Neighborhood Reinvestment Corporation, that provide debt and equity financing on favourable terms. Community loan funds are local entities, like Boston Community Capital, which raise

funds from socially-motivated investors and offer deeply below-market loans to non-profit housing providers.

## **Conclusion**

I have offered a number of proposals that I believe could begin to address not only the manifestations but underlying causes of the housing affordability problems of our nations. I am not naively optimistic about the prospects politically, but am nonetheless certain they represent a goal worth pursuing.

Housing is not only one of the most basic necessities; it has deep importance for so many aspects of our lives. Housing – if it is adequate – provides privacy and security against unwanted intrusions, both physical and emotional. Where our homes are situated defines our community – socially and physically – and determines our access to jobs, schools, services, stores, and to other people and opportunities. The home is the principal locus of family and personal life. It is here that we first encounter the definitions, expectations and contradictions of class, and race, and gender, and sexual orientation, and physical and mental difference. Our homes contain not only our material possessions, but our dreams and our despair.

And yet, despite its intimate and extensive significance, housing is not assured to all as a right. Rather, most of us must purchase housing as a commodity in the marketplace, with incomes obtained, for the most part, from participation in another marketplace, the labor market. “Affordability” is the measure of this often desperate, and sometimes unsuccessful, quest to secure the housing we need with the resources we have or can obtain. Affordability expresses the linkage between the well-being of individual families and communities, on the one hand, and the national and global mechanisms of housing finance and income determination, on the other.

Housing lies at the core of the dilemmas and challenges facing our families, our

communities, our nations and our planet. The resolution of these dilemmas is to be found not through the celebration of selfish individualism, but rather through the rediscovery of social responsibility and the transformation of our economic institutions. I think that Oswald Barnett would agree.