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Opinion Piece for The Age (29/02/08)

Rethinking the Australian Dream?

Owning a place of your own has been an entrenched part of Australian culture since Federation but the Australian Dream seems increasingly unattainable. The latest in a long line of depressing statistics about the difficulties of buying a home are figures from the Real Estate Institute of Australia (The Age 28/02) which show that in major cities like Melbourne, a household on averages wages is unable to afford to buy a median priced house.

Explanations of why we are experiencing these problems often assume that we have a relatively short-term problem. They boil down to economic factors: too much demand and too little supply. Some people suggest that housing markets will ultimately self correct through declining house prices and, however unpalatable this may be to those who already own, this will help people wanting to buy and deal with affordability problems. The lessons from overseas are that this, in itself, may not address the problem and may in fact worsen it. In places like Japan and Hong Kong, where housing prices have fallen markedly in recent times, these declines triggered a lack of confidence in housing markets and the rate of home ownership fell quite significantly.

Recent research by Associate Professor Judith Yates and Dr Vivienne Milligan for the Australian Housing and Urban Research Institute (AHURI) suggests that we don't have a short-term cyclical problem; we have a more fundamental structural problem which began in about 1970. Yates and Milligan show that the ‘deposit gap’ for full-time workers on average earnings buying a median price Australian house has been trending upwards for almost four decades, notwithstanding cyclical changes in real estate prices over that time.

Some of the reasons for this long term trend can be found outside of the housing market. For example, changes in labour markets since the 1970s mean that many people no longer have the secure and predictable income that is needed to repay a housing loan over a long period. We have seen tremendous changes in investment patterns in Australia with prolonged investment in residential property, with investors sometimes vying with purchasers for the same properties. Our cities have been reshaped due to intense demand to live in well located inner urban areas. A consequence is that more people are renting, some people are renting for long periods. Research has demonstrated unequivocally that renters are more likely to experience housing stress and that this stress can be very intense, defined in terms of how much of their income goes on rent.

If we have a long term not a cyclical problem, what sort of solutions should we be looking at? How can we go beyond some of the measures already being put in place by the Rudd Government, such as release of government-owned land, funding for infrastructure to encourage new supply, and a new scheme to attract institutional investment into affordable rental housing?

Let’s start with tax. A lot of people have made a sizeable capital gain on their home which they did nothing to earn, apart from being in the right place at the right time - and it is completely untaxed. If introducing at least part taxation of capital gains from home ownership is taboo, let’s think about turning stamp duty into something more sensible. Stamp duty at its current levels isn’t really a tax on a real estate purchase transaction anyway. Why not levy it on sale when it could operate as a de facto capital gains tax and work out a sensible graduated rate. Then, let’s have a look at
negative gearing which is essentially applied to turnover of existing housing and arguably has added to competition among house buyers and helped inflate prices. This could be restructured to send signals about additions to supply with preferential rates for those prepared to invest in new housing.

Urban and regional policies could also make a difference. Whilst measures to speed up the supply of housing on the urban fringe may meet some of the demand, they won’t address the problem of intensity of demand in inner urban areas with better transport and amenities because cities like Melbourne have only one centre. Moving to a multi-centre city might be part of the answer. This would mean perhaps two or three other nodes in Melbourne, which are the focus of concentrated investment in employment, transport and amenities and which will attract residents. The same argument could apply to some regional centres.

More radically, perhaps, we might accept that many people will rent, as in other large cities around the world like New York. This might work if we were able to break down some of the distinctions between owning and renting in which only owners get the major breaks, such as security, privacy, the capacity to personalise their homes, and to plan if and when they want to move. It may be possible to provide some of these benefits to renters as well without frightening off investors. The research is clear that many investors in rental housing are not in it for the short term; they see this as a long term investment, often as part of their planning for old age.

In brief, the current crisis in housing affordability is part of longer term and structural changes in Australia’s economy and society. Solutions will need to cover a range of policy areas, including urban and regional policy, and will require radical rethinking about the great Australian Dream.

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