

THE GREAT DIVIDE

Australia's Housing Mess and How to Fix It

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The full essay is linked below, but is subscriber only. It can be accessed through the Hobart library though.

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“The houses we live in, the places we call home and bring up our families in, have been turned into speculative investment assets by the fifty years of government policy failure, financialisation and greed that resulted in twenty-five years of exploding house prices. The doubling of prices as a proportion of both average income and GDP per capita has turned a house from somewhere to live while you get on with the rest of your life into the main thing, and for many people a terrible burden.

The problem of housing affordability now dominates the national consciousness and has affected the lives of everyone, dividing Australia into those who own a house and those who don't; those whose families have housing wealth to pass on and those who don't. And what's more, most people now believe that the way to build wealth is to buy a house, and then another one, and another one after that, or to keep upgrading the one you live in. Or both.

A home is no longer what Australia's longest-serving prime minister, Robert Menzies, who championed home ownership and what he called “little capitalists,” once extolled: “One of the best instincts in us is that which induces us to have one little piece of earth with a house and a garden which is ours; to which we can

withdraw, in which we can be among our friends, into which no stranger may come against our will.”

There have been many fine words spoken before and after Menzies by both well-meaning and cynical politicians, but the political class as a whole has failed Australians at all levels – federal, state and local government – for a simple reason that former prime minister John Howard once put into words: “No one ever came up to me to complain about the increase in the value of their home.” Howard did more than anyone to make housing unaffordable, but at least he was honest about why.

In my view, the quiet political conspiracy identified by Howard to preserve and increase the value of houses to keep the majority of voters happy has been amplified by the banks doing the same thing to increase their profits. Australia is in the grip of a “bankocracy,” in which four banks control our access to money. Their profits, and therefore the salaries of their executives, depend on both the volume and the value of their assets growing.

The volume of their assets (that is, the number of loans) increases because Australians believe the only way to increase their wealth is to borrow 80 to 100 per cent of the value of one or more houses; and the value grows because the banks’ customers compete with each other to buy the houses and push up their prices and therefore the size of their loans. The more house prices rise, the greater the banks’ profits. As US investment guru Charlie Munger says: “Show me the incentive and I’ll show you the outcome.”