

HOUSING UNDER HAWKE: PROMISE AND PERFORMANCE

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1. Introduction

This paper aims to assess the housing performance of the Hawke Labor Government, mainly in the light of its stated objectives.¹

It is important to recognise that any government would be faced with problems arising from the housing requirements of a growing and changing population: decreasing household size, an ageing population, high rates of household break-up (through separation and divorce) and re-formation ("blended families"), more young, single households and fewer traditional nuclear families (see, Burke, Hancock and Newton, 1984). Many other issues, such as changing patterns of economic activity throughout Australia as well as the effects of migration (internal as well as international) further complicate any analysis of Australian housing. The general economic climate, too, has major effects on housing. High interest rates, in particular, have widespread effects which are by no means confined to housing.

The focus here is on the major housing programs of the Hawke Labor Government, with special reference, firstly, to the effect of government policies on the production of housing and, secondly, to questions of equity in access to the benefits of federal housing policy.

2. ALP Housing Policy: from Opposition to Government.

Labour will lift homebuilding activity to 135,000 starts in its first year, 145,000 in the second year and 160,000 in third and subsequent years...

Labour is opposed to deregulation of the financial system...

An ALP government will set up a Department of Housing and Urban and Regional Affairs...

An ALP government will expand and upgrade the supply of public housing, with a goal of doubling over 10 years the proportion of total dwelling stock held in a variety of public tenures through state and local initiatives.

Labor's Housing Programs, November 1982.

Tom Uren, then the ALP opposition spokesperson on urban and regional affairs, launched Labor's Housing Programs in November 1982. This comprehensive policy statement had been drawn up in the light of the ALP Platform and the outcome of the National Housing Conference in Sydney held a couple of months earlier. In housing policy there were major differences between the Labor opposition led by Bill Hayden and the Government of Malcolm Fraser. Labor was committed to an expansion and rejuvenation of

the public sector, to greater equity between owners and tenants in the allocation of housing funds and to integrated, systematic housing policies under the overall direction of one minister. The Fraser Government had cut Commonwealth expenditure on housing drastically. It had a narrow, welfare perspective on public housing, no public commitment to the development of equitable housing policies and its main priority was homeownership.

Labor's housing policies were modified substantially after Bill Hayden lost the leadership to Bob Hawke. Hawke's approach was set out in his Policy Speech of 16 February 1983 which emphasised the housing industry and home purchase rather than questions of distribution and equity. He stated that, if elected, his Government would increase housing commencements by 18,000 in the first year rising to an annual total of 150,000 commencements within three years. His government would 'provide a stable and adequate flow of funds for housing at affordable rates' through maintaining control on savings bank mortgage interest rates and extending control to building societies. It would also require that a set proportion of bank and building society funds should go into housing. He committed an ALP government to the establishment of an Australian housing fund in the Reserve Bank to channel funds from non-bank financial institutions through banks and building societies into housing. Assistance was to be available for first homebuyers and additional supplementary rent assistance was promised to all tenants who were social security beneficiaries.

Within three months, then, an extensive program of housing reform had been compressed into a much less ambitious package. The commitment to increase funds to public housing was retained but Uren's promise to double the proportion of public housing was not mentioned. Questions of equity in the allocation of housing funds were not emphasised as much as in Uren's programs. The traditional focus of Australian housing policy favouring home buyers had been reinstated at centre stage. Indeed, the emphasis on the construction industry suggested that higher priority was placed on the use of housing policy to stimulate the overall economy and less priority was given to housing inequities in themselves. In common with other policy areas, then, equity aspects of housing typically have had to come second to macro-economic policy.

Hawke's Policy Speech, rather than the ALP Platform, set the stage for his Government's housing programs. The speech and subsequent claims by the Government constitute a basis against which to assess its housing performance.



The major housing priorities of the Hawke government during 1983 and 1984 were the renegotiation of the Commonwealth-State Housing Agreement (CSHA) and the introduction of a new system of assistance to first home owners: the First Home Owners' Scheme (FHOS). The government was also quick to honour its pledge to poor private tenants, raising weekly rental assistance by a maximum of \$10. The Mortgage and Rent Relief Scheme, initially

introduced under Malcolm Fraser, was also retained as a policy giving some assistance to needy private tenants.

The Department of Housing and Urban and Regional Affairs, promised by Tom Uren, did not eventuate. Instead, Tom Uren was given the least prestigious Ministry: Territories and Local Government. The major housing portfolio remained in the Department of Housing and Construction under Chris Hurford.

Within three months of winning office the Hawke government increased the Commonwealth contribution to housing expenditure within the existing CSHA framework. The Commonwealth contribution for 1983-84 was set at \$500m, representing a 50 per cent increase on the previous allocation. It should be noted, moreover, that the Fraser Government's allocation for 1982-83 had been substantially higher than in previous years; so the Labor Government's allocation to public housing represented a much more substantial long-term commitment than had been the case during the previous administration. The renegotiation of the CSHA reached settlement in September 1984 and contained many of the principles set out in Tom Uren's housing package. The level of funding, however, was insufficient to achieve a doubling of the proportion of public housing over the next ten years (Bethune, 1985).

The housing construction industry had been identified as a priority area early in the life of the Hawke administration and figured prominently in the Economic Summit debates. The housing industry and the building unions, in particular, had campaigned for a boost to construction activity after house building had slumped to 105,000 commencements during 1982-83. FHOS was introduced on 1 October 1983, supposedly 'as part of a comprehensive Commonwealth Housing package to assist the housing industry and ensure access to suitable accommodation of all Australians' (Wight, 1985). Commencements increased dramatically throughout 1983 and 1984, totalling 137,000 in 1983-84 and 153,000 in 1984-85. FHOS was credited with being a major policy achievement.

Prime Minister Hawke pointed with pride to the increased funding for public housing and the revival of housing commencements in his speech to the 1984 ALP National Conference:

Now, after a year in which we increased the Commonwealth Government's support to welfare housing by one half-the largest increase in our nation's history - it is easy to forget the neglect and decline, the increasing homelessness and despair, of the long years of conservative government.

Now, at the end of a year in which the number of new houses in Australia increased by one-third and exceeded our own ambitious target, and at the beginning of a year in which all forecasts point to further large increases in housing starts, it is easy to forget the crisis, the sense of helplessness, in the building industry and among young people seeking their own homes.

The Hawke Government represented its housing policies as a success story as it approached the 1984 election, emphasising particularly the growth in housing commencements (albeit lower than Uren's aspirations). The renegotiated CSHA and FHOS were cited as evidence of a major and continuing commitment to addressing housing problems. New developments, particularly support for community and local government housing initiatives, supposedly demonstrated the Government's sympathetic response to locally-expressed needs and demands.

Hawke's policy speech for the 1984 election was delivered at the Sydney Opera House on 13 November. Strong reference was made to housing achievements and priorities in the Prime Minister's introductory remarks:

We pledged ourselves to bring homeownership once again within the reach of ordinary Australian families - and to end the sense of despair and frustration that was beginning to engulf thousands upon thousands of young people seeking their own homes. We have increased public housing support by fifty per cent. We introduced the First Home Owners Scheme, to bring home ownership within the reach of thousands of young Australians of limited means. The number of new houses being built in Australia has increased by one third.

And we are going to keep it that way. In the next twelve months, 145,000 new houses will be built in Australia, an increase of forty per cent over the level of two years ago. And beyond the next year we will maintain at least this level of housing activity, and ensure that our housing industry never again slumps into the contraction and despair of the year before we were called into office.

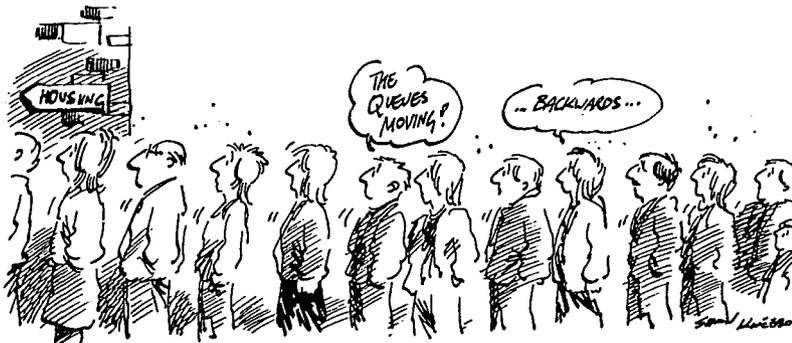
Hawke claimed that his government could take credit for the upturn in housing commencements. We should note, however, that he reduced the promised number of housing commencements from the 150,000 of February 1983 to 145,000 homes a year. The lower figure, moreover, was presented as an ambitious target. The increased support to public housing was cited as an element both of the government's commitment to the sector and also in relation to its equity objectives. High priority was given to support to homebuyers but no mention was made of the problems of the private rental sector.

There have been few major Commonwealth housing initiatives since the December 1984 election. There was a modest expansion of Commonwealth assistance to the community and local government sectors and continued budgetary support to state government housing authorities. Commonwealth allocations to housing in the 1985-86 budget were slightly increased in real terms.

A review of homelessness and inadequate housing had been promised before the 1984 election. This was published in August 1985 and indicated massive unmet need and a substantial problem of homelessness (Coopers and Lybrand W.D. Scott, 1985). Other studies have argued that there was a growth in the private rental sector for low-income tenants (Paris, 1984, 1985). The rapid

growth in housing commencements during 1983-84 has not been sustained and high interest rates have slowed down home purchase. New Commonwealth tax measures could lead to lower levels of investment in the private rental sector: the combination of the abolition of tax deductability for negatively geared rental investments² and the foreshadowed capital gains tax inspired a press release from the Real Estate Institute of Australia announcing that 'the housing-led recovery is over'.

The rest of this paper evaluates the housing performance of the Hawke Government by assessing how far it has accomplished the tasks specified in Bob Hawke's Policy Speech of February 1983. This involves, firstly, a close look at trends in the levels of housing commencements which have figured prominently in claims of the Government's housing success story. Secondly, the 1984 CSHA and increased support for public housing authorities has been cited as evidence of a commitment to equity. It is therefore appropriate to consider the 1984 CSHA and to examine how far policies have moved towards the more equitable allocation of Commonwealth housing funds. We suggest, finally, that other policies of the government are having major effects both directly on housing and indirectly through their effects on the social and economic context in which housing policies operate.



3. A FHOS-led housing boom ... or, riding the cycle?

The First Home Owners Scheme has been an important plank in the Government's overall effort to get things moving in the housing industry

...my Minister for Housing and Construction, Chris Hurford, announced in April 1983 that the government had set itself the objective that it should secure a massive increase in the number of housing commencements from the trough level of 105,000 in 1982-83 to an annual rate of 130-135,000 by the second half of 1983-84.

Bob Hawke, speech to the Housing Industry Association Convention, Adelaide, 14 April 1984.

The first main housing objective of Hawke's Policy Speech of February 1983 had been to increase housing commencements by 18,000 in the first year and to bring commencements to 150,000 within three years. The subsequent increase in housing commencements was hailed by the Hawke Government as a major policy achievement.

This section reaches very different conclusions. Firstly, whereas housing production increased following the March 1983 election, it has not been sustained at the level promised in that speech. Secondly, it is highly contestable whether even the short-term increase in housing production could be attributed directly to Commonwealth Government housing policies. It is argued, therefore, that the stated objectives of policy coincided with an upturn in production but that the Commonwealth Government housing policies did not cause that upturn.

3.1 Housing commencements: a FHOS-led recovery?

The speed with which housing commencements increased certainly was remarkable if judged solely against the benchmark of 1982-83. At 105,000 that was the lowest point for many years. A more balanced view may be taken, however, if we remember that housing production typically exhibits cyclical fluctuations (BIS-Schrapnel, 1986; Needleman, 1965; Neutze, mimeo.) and the Hawke Government was elected at a low-point in the cycle. There are usually greater annual fluctuations between commencements than completions and this has been especially noticeable in recent years.

Anyone wishing to emphasise the seriousness of the position in 1982-83 and the magnitude of the subsequent increase, therefore, would pick commencement data. Changes in the volume of commencements precede changes in the volume of completions, but the latter are rarely as dramatic as the former. These factors are illustrated in Table one which records annual commencement and completions over a ten year period.

TABLE ONE: AUSTRALIAN DWELLING COMMENCEMENTS AND COMPLETIONS (000s), 1976-85

Year	Commencements			Completions		
	private	public	total	private	public	total
1975-76	123.7	13.2	136.9	112.3	19.7	132.0
1976-77	126.4	15.3	141.7	129.6	15.2	144.8
1977-78	105.5	13.2	118.7	114.3	14.6	128.9
1978-79	109.6	9.5	119.1	105.6	11.5	117.1
1979-80	123.3	10.6	133.9	119.1	10.2	129.3
1980-81	139.8	9.3	149.2	125.5	10.4	135.9
1981-82	123.8	8.4	132.3	129.0	9.3	138.3
1982-83	92.3	12.7	105.0	104.8	10.9	115.7
1983-84	122.2	14.9	137.1	110.8	13.1	123.8
1984-85	137.8	14.9	152.7	128.8	13.2	142.1

Source: BIS-Schrapnel, 1986 (tables 14 and 16),

Both commencements and completions exhibit clear cyclical fluctuations (though it is important to note that cycles in Australian cities are not in phase with each other). Table one also shows that annual fluctuations in completions generally were smaller during the last ten years than annual fluctuations in dwelling commencements. If we refer to completion data, then 1982-83 still shows up as a low point, but less dramatically than in the commencement series. The strength of the 'recovery', or,

alternatively conceived, the cyclical upturn, is again, much less dramatic in the completion series.

Quarterly data on a state basis, moreover, show that commencements in Victoria were actually picking up during 1982-83 and the relative quiescence in both NSW and Queensland had been preceded by very high levels of commencements and therefore longer average construction times (see, Indicative Planning Council for the Housing Industry, 1985: table 2.). Although production in 1982-83 was low by any standards, 1980-81 had been high on commencements and 1979-80 to 1981-82 had seen high levels of completions. During the April-June quarter 1983 there was a slight improvement nationally: the lead-time for which certainly preceded the election of the Hawke government. By 1983, in addition, there was a fall in mortgage interest levels, stabilisation in the level of unemployment, and continued household formation was fuelling the underlying demand for home purchase. These factors contributed to the upturn which was already apparent by the election.

The timing of the election was thus ideal for the ALP with regard to cyclical fluctuation in dwelling commencements. Any government, of course, would be keen to take credit for an upsurge in industrial activity, but it is almost certain that commencements would have grown during 1983-84 even with a very different election result. In the light of normal cyclical changes in the volume of housing production, moreover, it is also likely that there would be subsequent downturn.

3.2 The effects of FHOS

The Hawke Government frequently has claimed that FHOS stimulated housing construction. This has been asserted by the Prime Minister and successive ministers for Housing and Construction (Chris Hurford, March 1983 - December 1984 and Stewart West, December 1984 -). This view has been supported by the Indicative Planning Council for the Housing Industry (IPC) and the Housing Industry Association (HIA).

In its annual report, the Commonwealth Department of Housing and Construction stated that FHOS was a 'spectacular success'. Although expressing personal rather than Departmental views, a senior officer of that Department was more judicious in his evaluation of FHOS. Barry Wight suggested that, whereas FHOS has made a 'significant contribution to the upturn in housing industry prospects', we should also recognise the importance of lower interest rates after the high levels of 1981-82 as well as the increased availability of housing finance (Wight, 1985:18).

There will be little disagreement concerning the extent to which FHOS encouraged eligible applicants to proceed to buy whilst still eligible. During its first year of its operation, FHOS assisted over 91,000 first homebuyers. Data released by the Department of Housing and Construction, however, suggest that FHOS was not so much helping needy households to buy as simply stimulating earlier more expensive home purchase by people who would buy anyway (Wight, 1985). Recipients were mainly young (66% were 29 or under), on middle incomes (the average household income of recipients was over \$17,000) and with a notably large proportion

who were unmarried (29%) and without dependents (58%). Unlike the earlier Home Deposit Assistance Scheme, FHOS has had no savings requirement and so eligible applicants were able to proceed quickly towards purchase and use the FHOS grant (up to \$7,000 for couples with two or more dependent children) to boost their deposit capacity.

Assistance to homebuyers supposedly has been a stimulant to the housing construction industry. Whereas we can be confident that FHOS helped thousands of people to buy their homes, it is by no means proven that FHOS directly contributed to the upturn in housing starts. Neither the Department of Housing and Construction nor the IPC had econometric models capable of evaluating the independent effects of the FHOS scheme. Moreover, it was not as if FHOS was introduced into a vacuum: previously the Home Deposit Assistance Scheme also had helped first-time buyers. Whereas FHOS changed eligibility rules and the levels of assistance available to different categories of applicants, it followed a long history of federal subsidies to home purchase. FHOS was well publicised in advance, but one effect of this could have been to delay the decision to purchase until the scheme was in operation. Indeed, before the upturn could be attributed to FHOS it would be necessary to demonstrate that half of the recipients of FHOS would not otherwise have purchased: this is an extremely unlikely proposition.

It is impossible to assess fully the effects of FHOS on the upturn in dwelling commencements in 1983-84. Firstly, new dwellings amounted only to about a quarter of all purchased private dwellings in 1983-84. Secondly, we do not know what proportion of FHOS recipients bought newly-constructed dwellings as opposed to existing dwellings because no such data are publicly available. If a significant proportion of FHOS recipients were buying existing dwellings then the stimulus for new construction could have been largely due to other factors. In recent years, 350-400,000 dwellings have been sold annually, about eighty per cent of which have been bought by owner-occupiers. The 90,000 FHOS recipients, therefore, accounted for between a quarter and a third of home purchasers during 1983-84 but there is no information on the correspondence between FHOS beneficiaries and the purchase of new dwellings.



We know that a substantial proportion of new dwellings were not produced for first homebuyers. High quality, expensive dwellings, aimed at existing owners who want to trade up, are of increasing importance to the housing construction industry. Other new building is aimed at the holiday home market. One area of growing housing production was the market for retirement accommodation. Despite the relative malaise of private renting, some dwellings, usually medium density and often increasingly upmarket, are aimed at the investment housing market.

Neither holiday homes nor rental dwellings, clearly, add to the stock of owner-occupied housing.

The additional stimulus provided by the \$269.5m in FHOS subsidy approved during 1983-84 must have had some effect on housing construction as it contributed, in the short term at least, to the overall growth in homeownership. The argument that this should lead indirectly to more new construction has some theoretical attraction, especially to proponents of filtering theory. Many of the dwellings purchased with the aid of FHOS grants, however, could have been transferred from the private rental stock and much new construction, as we have shown, did not add to the owner-occupied stock. The average price paid for dwellings bought with the aid of FHOS money varied widely between states, from \$33,000 in Tasmania to \$62,000 in the ACT. This suggests that, in Tasmania, it was mainly existing dwellings which were being purchased and, in the ACT, that FHOS contributed to the purchase of newly-constructed homes.

It is not possible, therefore, to estimate the direct effect of FHOS on commencements. FHOS could well have had more effect on the turnover of existing dwellings than on construction. The existence of the scheme encouraged potential purchasers to buy sooner, whilst eligible for assistance, rather than later in their life cycles. The boost in demand fuelled by FHOS, therefore, could have accelerated activity in the short term at the cost of lowering subsequent demand.

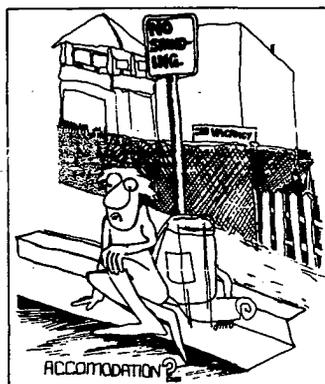
Until appropriate data are available it is impossible to prove the case either way. Meanwhile we can conclude that no causal connection can be demonstrated to exist between FHOS and changes in the volume of housing commencements. When taken as a whole, the evidence currently available suggests strongly that FHOS had much less effect on the upturn in housing starts than the housing cycle and lower interest rates.

Eligibility criteria for assistance under the FHOS scheme were revised in the August 1984 budget, in particular through the imposition of a lower income limit on single applicants without dependents. The justification for this policy change was that single people had higher disposable incomes than families and therefore, at the same household income levels, single person households had been unfairly advantaged.

Just as FHOS had been credited with the upturn in housing commencements, so too it quickly became a conventional wisdom that the reformed eligibility criteria had contributed to the slackening of commencements which was becoming apparent during 1985. In its report in March 1985 the IPC noted that the strong growth during 1984 was easing and forecast a decline in activity, based on three main factors: activity over recent years had been exceeding 'underlying requirements', changes to FHOS 'would reduce demand' and sales by the bigger house builders had declined recently (IPC, 1985). The council's forecast, based on its overall evaluation of the market, was for no further growth in housing commencements. By October 1985, the IPC predicted level of commencements over the next couple of years was slightly higher than its March estimates, but this was highly sensitive to the strong levels of economic growth contained in the 1985-86 budget predictions, lower interest rates and taxation reform.

By the beginning of 1986 there was little prospect of an upward revision of estimates, indeed, further downwards revision seemed more likely. The Federal Government had allocated \$290m for FHOS during 1985-86 but applications had not averaged much over 1000 per month between July and December 1985 and there was, at the time of writing, every prospect of some underspending. A report by BIS-Shrapnel had forecast commencements of 142-143,000 for 1985-6 and 1986-7 with growth to around the 160,000 mark during the early 1990s. Such forecasts, of course, must reckon on substantial annual adjustment due to cyclical and structural economic factors.

Another blow was delivered to the ALP government's housing record with the March 1986 estimates of the Indicative Planning Council for the Housing Industry. Commencement estimates for 1985-86 had been revised downwards to 137,000 and the predicted level of commencements during calendar year 1986 was around 120,000. The housing industry claimed that 50,000 jobs would be lost during 1986 as a result of the downturn. In a heated Parliamentary debate both Prime Minister Hawke and the Minister for Housing and Construction, Stewart West, were reduced to arguing that things were still better than during the last year of non-Labor government. Such arguments may have been true, but they avoid the central issue, namely the Government's failure to achieve its own objectives. The Prime Minister even went so far as to argue that the high level of commencements during 1984 had caused the housing industry to become 'overheated' and that it 'was desirable that there should be some scaling back'. He presented no evidence to substantiate this claim; indeed, it amounted to little more than yet another rhetorical response to changing external circumstances.



It was noted earlier that the Government had revised down its housing commencements targets between February 1983 and November 1984. In part this must have reflected the appreciation that the peak of 1984 was not likely to be sustained. Such downward revision also suggests that "targets" constituted little more than best estimates of probable commencement levels. If the ALP government's claims to having boosted housing production were not exactly in ruins, they were, at best, difficult to sustain.

3.3 Riding the housing cycle.

These considerations lead to two conclusions. Firstly, despite the upsurge in housing commencements during the first year of the Hawke administration, by 1986 housing construction activity was running well below the level promised in Hawke's speech in February 1983 with every prospect of decline during the next couple of years. Secondly, although FHOS encouraged a minor rush of first homebuyers, it has not been demonstrated that this was causally related to the increased level of housing commencements. It is quite likely, moreover, that many if not most FHOS recipients would have bought eventually in any case. If this is true, then the main effect of FHOS has been to boost sales

activity in the short term at the cost of inevitable slackening at a later date.

The rapid increase and subsequent slackening of housing commencements owed more to cyclical changes in market provision than to the housing policies of the Hawke Government. The Government has revised its housing targets in line with cyclical variations and then presented the achievement of such targets as a major accomplishment.

Instead of accepting the rhetoric of a FHOS-led housing boom, then, it appears to make much more sense to think in rather different terms. The Government climbed on to the housing cycle at a fortunate time and has revised its objectives in the light of cyclical change. By focussing on commencements rather than completions, the Government has selectively presented data which exaggerated the extent of the turnaround in production after the 1983 election. Other data, which would make possible a more rigorous analysis of the effects of Government policies, have not been available. Having sought to take credit for the effects of cyclical changes, in depicting its policies in a successful light, the Hawke Government is now faced with the downward phase of the cycle.

4. Equity in housing: the CSHA and tenure neutrality.

... the Government has moved to give effect to its commitment to assisting needy groups within the community to obtain decent accommodation in the 1983-84 budget. We provided a massive 50 per cent increase in funding under the Commonwealth-State Housing Agreement. This arrangement is presently under review, and we have every intention of preserving its integrity as an effective instrument of a truly needs-based housing policy which is attuned to the requirements of Australia today.

Bob Hawke, speech to the Housing Industry Association convention, Adelaide, 14 April 1984.

This section examines the extent to which there has been a move towards more equitable housing policies during the last three years. Two questions are addressed. Firstly, what effects are Commonwealth Government policies having on the public housing sector? Secondly, what progress has been made towards tenure neutrality in the allocation of Commonwealth housing funds.

Prime Minister Hawke repeatedly had cited the 50 per cent increase in funding under the SCHA as evidence of his government's commitment to assisting the public housing sector and, through public housing programs, of allocating housing resources to those most in need. The Fraser Government had made major cuts in spending on public housing between 1976 and 1981. Its allocation for 1982-83, leading up to an election, represented a dramatic reversal of previous trends. On the basis of that government's record overall it is likely that such a level of funding would have been retained in real terms. Since its election, the Hawke Government has maintained spending levels and thus clearly has demonstrated a higher priority in this area than its predecessor.

Stewart West, the Minister for Housing and Construction, emphasised in August 1985 that housing policies 'reflected the Government's commitment to long-term reform'. Whereas Stewart West has used the term 'public housing' Bob Hawke has talked of 'welfare housing' for 'needy' or 'deprived' groups. The latter approach may appeal to widespread prejudices against public housing which, as we have argued elsewhere, reflect fundamentally different perspectives on the welfare state (Paris, Stimson and Williams, 1985). The emphasis on welfare aspects of public housing, however, has more in common with conservative housing policies than the ALP Party Platform which states that:

The public housing sector should be developed as a viable and positive housing sector for the community. It should not be a residual or stigmatised form of housing.

The ALP is also committed to the principle of tenure neutrality in housing policy. This concept has been spelled out by Jim Kemeny (1983), especially in his critique of government support for home ownership. He has argued that the 'mono-tenurial' policies of Australian governments (Labor as well as non-Labor) have both boosted home ownership as well as weakening public housing and blocking the development of other forms of tenure, especially non-profit and cooperative rental housing provision (Kemeny, 1983).

Despite their differences in terminology and philosophy, both Bob Hawke and Stewart West have claimed that the Government was committed to an expanded public sector. In response to an Opposition attack on the Government's housing record in parliamentary question time on 18 March 1986, Stewart West said the 'We are most proud of all our record in public housing'. The increased fiscal allocation to the CSHA is typically cited as evidence of this commitment and achievement. A closer look at the 1984 CSHA, however, suggests some different conclusions.

4.1 The 1984 CSHA

Shortly after the 1984 CSHA was signed, even sympathetic critics were suggesting that, despite its strengths, it did not adequately address key issues of housing-related poverty and overall problems of supply and distribution (Bethune, 1985; Carter, 1985). Both Graeme Bethune and Robert Carter had been involved in the renegotiation of the CSHA, Bethune as an officer of the South Australian Housing Trust and Carter as an adviser to the Victoria Housing Minister. In papers which stated clearly that views expressed were their own, nevertheless they gave fascinating insights into the process of policy formation and negotiation as well as providing the basis for a critique of equity issues in the CSHA.

Both Bethune and Carter suggested that the 1984 CSHA came closest to ALP party policy in its statement of objectives, in which high priority was given to tenure neutrality and the alleviation of housing-related poverty. The question of funding, however, was not satisfactorily resolved as the increase was insufficient to achieve much significant growth in the public sector. Their main criticism was that a fifty percent increase in funds to the CSHA

would not result in a fifty per cent increase in public housing activity.

Firstly, CHA funds partly support state programs assisting low-income home purchase. Between thirty and forty per cent of CSHA expenditure by the state housing authorities is on assistance to low-income homebuyers. These policies, we should note, are in addition to the FHOS program and other Commonwealth schemes assisting homebuyers.

Secondly, the new CSHA made some important changes to the ways in which rental assistance is given to public tenants and diverted funds into rental subsidy. Since the mid-70s, an increasing proportion of applicants to housing authorities had been on low incomes (Paris, Stimson and Williams 1984). The Fraser government introduced a policy of charging market rents. Public tenants, therefore, were more than ever before likely to be eligible for rent rebates. The greater need for rental assistance, moreover, led to a fiscal problem for public housing authorities which were not able to use CSHA funds for rental subsidy. Market rents were abolished in the 1984 CSHA but the new formula for 'cost rents' still resulted in about half of all public tenants needing rental assistance. The 1984 CSHA allows Commonwealth grant allocations to the states to be used to fund the cost of rent rebates to public tenants. One effect of this change, which sensibly recognizes that rental assistance is a federal income-related responsibility, is that part of the CSHA allocation is consumed in rental subsidy rather than in the provision of more public housing. Lee (1985:4) cited the example of Victoria, where 18.5 per cent of the state's housing budget is expected to be spent on rebates in 1985-86. As the proportion of tenants eligible for rental assistance has been growing for some years, it is likely that this will constitute an ever-larger component of 'housing' expenditure, though common sense suggests that income-support measures should be distinguished both conceptually and in practice from housing policy.

The argument that the fifty per cent increase in funding under the CSHA was of direct assistance to public housing, therefore, was far from tenable. The fifty per cent increased Commonwealth funding for the CSHA, included a substantial component for home ownership assistance and an element which used housing funds to relieve public tenants' poverty. These other budgetary items have had to be met before support could be given to the expansion of the public sector.

The proportion of CSHA funds allocated to public housing as opposed to helping home purchasers is largely at the discretion of the states. This is inevitable as the CSHA itself represents an agreement which requires that the states at least match Commonwealth funding on a dollar-for-dollar basis for most areas of expenditure. Some states spend more than others on public housing, with South Australia leading the field. One other reason for South Australia's record of high levels of public housing construction has been the use of other state funds, including state borrowing, to boost its housing programs. In Queensland, by way of contrast, over half of the state's expenditure on 'public housing' went to home purchase assistance.

It is useful to think of the CSHA as a kind of treaty in which different aims and aspirations are embodied. The participants are both Commonwealth and state governments, therefore the political colour of state governments is crucial in overall numbers of participants at the CSHA negotiations. As Carter put it: 'what a difference four Labor States make'. Both Bethune and Carter mentioned the caucussing which preceded formal negotiations between the Commonwealth and the states. They also emphasised that it was the governments which pressed for a CSHA based on the ALP party platform. In particular, the South Australian Government submission provided the basis on which 'the four Labor States had developed specific and reasonably uniform proposals for the new agreement' (Bethune 1985:3). The overall allocation to public housing clearly had been increased and would be sustained at a new and higher level.

Whereas the politics of the CSHA shows the power of the Labor States working together, it also reminds us of the considerable degree of autonomy enjoyed by the states which limits severely the extent to which any Commonwealth government can initiate positive changes: it is easier for a Commonwealth Government to limit states' activities through fiscal allocations or spending constraints than to get states to initiate policies such as the expansion of the public sector. On the other hand, it is also possible for the states to resist federal policies of restraint in housing expenditure through the allocation of state funding to high priority areas, as was the case in South Australia which increased its allocation to public housing during the years of Fraser's cut-back in housing expenditure.

4.2 The size and share of the public housing sector

The stated policies of the Hawke government have been to support and expand the sector, although Bob Hawke has usually referred to the overall allocation of Commonwealth funds to public housing rather than making specific promises about the size and share of the public sector. He has never made anything like Tom Uren's 1982 commitment to double the public housing sector over ten years.

Uren's proposal, however, was never as straightforward as it sounded because the proportion of dwellings in the public sector is a function of the overall distribution of dwellings in public and private sectors. The proportion of dwellings in the public sector, therefore, is sensitive to changes in the absolute size of both public and private sectors. Hence it is harder to increase the proportion of dwellings that are in the public sector if private sector construction proceeds very rapidly. If private sector growth is slow, then a slightly faster proportional increase in the size of the public sector would increase the overall proportion of public housing. Indeed, in theory at least, the public sector could grow in proportional terms during a slump in private sector housebuilding and, although the relative size of the public sector would be bigger, we would be faced with a major housing crisis. The public:private ratio is also affected by transfers of dwellings between sectors. The sale of public housing transfers dwellings to the private sector whereas the

spot-purchase of existing dwellings (including the purchase by public authorities of speculatively-constructed housing) transfers stock into the public sector.

The definition of the public sector, moreover, requires some consideration. At the time of the 1981 census about five per cent of Australian housing was owned and managed by state government housing authorities. A further one per cent or so of households lived in dwellings owned and (usually) managed by other government authorities (such as roads departments). Hence the proportion of public housing could be defined either as five or as six per cent of the stock of private dwellings depending on how we treat dwellings owned by other government authorities. This made a difference of about 70,000 dwellings in the public sector at the time of the 1983 election: 230,000 as opposed to about 300,000. As most public housing authorities are now moving to the position where, at least, they manage the stock owned by other public authorities, then it makes sense to use the more inclusive figure of 300,000 dwellings as our starting point. In order to double the size of the public sector over ten years by construction alone, therefore, it would have been necessary to achieve an average annual completion rate of 30,000 dwellings.

In practice, of course, there would also be gains through the purchase of dwellings and losses through sales. The sales and spot purchase policies of public housing authorities need not be related to each other. Sales policies reflect judgements about the desirability in general of selling public housing and about the particular circumstances of different public authorities. Such judgements reflect both political priorities concerning whether or not public tenants should be able to buy and practical judgements about such policies on the overall size of the public sector³. Spot purchase, by way of contrast, can be a way of increasing the public stock and diversifying it in terms of dwelling type and locational mix.

In order to establish the probable effect of current construction rates, however, we must assume that sales by public housing authorities equal purchase of existing dwellings (otherwise we would need to build in assumptions about future sales and spot-purchase policies, neither of which can be assumed *a priori*). Let us, then, assume that purchase and sales are in balance and that absolute growth in the private sector is based on construction as indicated in table one. On that basis only, therefore, in order to double the proportion of dwellings in the public sector, an annual growth in the order of 35,000 dwellings would have been required (Bethune, 1985:3-4.)

The need to look at housing completions rather than commencements was stressed earlier as the former represent dwellings on the ground and must form the basis for an assessment in absolute and proportional growth of the public sector. Table two shows estimated public:private ratios overall in Australian housing between 1983 and 1993, based on recent completions and BIS-Shrapnel's (1986) forecast of housing completions to 1993. The point of this table is to highlight the broad parameters of current trends and to help us understand the overall effect of those trends on the public-private ratio in housing. In order to

estimate the effect of current trends we have to make some simplifying assumptions. Firstly, table two assumes a net balance between the sale of existing public dwellings and the purchase of other dwellings by the public sector. Secondly, it assumes net balance between internal adjustments to the stock, such as conversions, alterations and demolitions. Without these assumptions it would not be possible to assume that net growth in the housing stock would correspond with completions. The table, naturally, is also sensitive to actual rates of housing completions by sector, including both cyclical and longer-term trends. There is clearly scope, too, for governments to make major changes to the level of public sector completions.

TABLE TWO: Estimated public:private housing ratios in Australia 1983-1993.

year	estimated completions (000)			estimated total dwellings(000)			estimated proportion of dwellings in public sector
	private	public	total	private	public	total	
< 1983	-	-	-	4,700	300	5,000	6.0
1983-84	110.8	13.1	123.8	4,811	313	5,124	6.1
1984-85	128.8	13.2	142.1	4,930	326	5,270	6.2
1985-86	131.1	15.4	146.4	5,071	342	5,412	6.3
1986-87	127.0	14.7	141.7	5,198	356	5,540	6.4
1987-88	132.2	12.7	144.9	5,330	369	5,699	6.5
1988-89	147.6	11.3	158.9	5,478	380	5,858	6.5
1989-90	147.0	12.4	159.4	5,625	393	6,012	6.5
1990-91	147.6	13.0	160.6	5,772	406	6,178	6.6
1991-92	147.6	13.0	160.6	5,920	419	6,338	6.6
1992-93	147.6	13.0	160.6	6,067	432	6,499	6.6

Source: BIS-Shrapnel (1986: p58, table 16.)

Having made these qualifications, however, table two is still of considerable interest. Firstly, it shows that there was a slight growth of the proportion of dwellings in the public sector during the first three years under Hawke. Secondly, modest growth of the public 'share' would occur until the early 1990s when the proportion would stabilise at about 6.6 percent.

On the basis of the assumptions and estimates underlying this table, therefore, we can conclude that there would be very little growth in the proportion of Australian dwellings in the public sector. With at least a short-term downturn in commencements looking likely, then the government could increase public sector activity as an anti-cyclical measure. That would have the effect of increasing the public share. On the other hand, if it is decided to cut back expenditure, then the public housing share could grow less quickly or even decline.

In any event, it is clear from table two that the policies of the Hawke Government up to early 1986 were not leading to much expansion of public housing. By mid-1984 the ALP Party Platform, too, had abandoned the commitment to double the proportion of public dwellings, possibly because there was growing disparity between party policy and Government practice. Even so, table two highlights the gulf which separates the ALP housing platform

commitment to the expansion and improvement of public housing from the practice of the Hawke government which was leading, at most, to marginal growth and little change of philosophy.

4.3 Tenure Neutrality

In his speech in February 1983 Bob Hawke promised to assist first homebuyers to bridge the deposit gap and to increase rental assistance to social security beneficiaries. FHOS was the outcome of the first promise. Additional supplementary rental assistance was made available to poor private tenants.

Wider questions of equity in housing policy, however, have not been addressed by the Hawke Government except at the level of general rhetoric. Given the massive advantages which have accrued to homebuyers in the past, indeed, it is certain that existing owners will continue to enjoy the benefits of previous owner-favouring policies even without positive changes to advantage tenants. Hence if a balance between owning and renting is considered desirable, then it can be argued that tenure neutrality in the future must involve positive discrimination in the present in favour of other tenures, at least until some measure of balance is introduced into the housing system.

Progress has been made in the objectives of the CSHA but not in the overall allocation of the 'housing dollar'. Bethune (1985) estimated that total Commonwealth housing outlays and expenditure for 1984/85 would be about \$1350m of which the CSHA only covered about \$530m. \$265m was allocated to FHOS and \$129 was allocated to Defence Service Homes mortgage assistance. The fifty per cent increased Commonwealth funding for the CSHA included a substantial component for home ownership assistance and an element which used housing funds to relieve public tenants' poverty. FHOS has been little more than middle-class welfare. With no wealth test on eligibility and cash grants of up to \$7,000, this scheme makes a mockery of any claims that Commonwealth housing policies have an equity component. A grant of \$7,000 could be taken by a recipient who already had a deposit and, invested at 14 per cent interest, it would earn the beneficiary \$980 a year. Very few public tenants ever get that level of subsidy and virtually all public tenants are subject to means tests. In the absence of a tax on imputed rents and with no capital gains tax likely on people's principal residence, homeownership remains vastly advantaged compared to other housing options, especially for wealthier outright owners.

In April 1986 the Government finally gave way to pressure from the savings banks and abandoned control on mortgage interest rates for new mortgages. Existing borrowers were to be protected, effectively giving them interest subsidy compared to new borrowers. Building society borrowers were not given the same protection. This led to a storm of protest from building societies and State Labor politicians who argued that the banks and existing purchasers were getting preferential treatment at the expense of the building societies and would-be first homebuyers.

Low-income private tenants have received some help through the Mortgage and Rent Relief Scheme (MRRS), though this has not been

expanded or reviewed in order to give more general assistance to hard-hit low-income private tenants. The MRRS has provided much-needed relief to thousands of needy tenants and is therefore welcome on equity grounds. Rather than resolving their problems on a long-term basis, however, the MRRS has highlighted the extent of unmet need (see Paris, 1984). The problems of the private rental sector are now well documented. Even if debate still surrounds the cause of the current problems of the private rental sector, conditions in the private rental sector have been seriously deteriorating in recent years at least for a significant minority of tenants. Although aggregate figures show that private rents have fallen against incomes, the reality for low-income tenants is one of rising rents, growing competition from wealthier tenants and static incomes. Waiting lists for public housing have continued to grow and rising interest rates are now contributing to a major problem of access for first-time homebuyers.

In late March 1986 there was an appeal from all State housing ministers for the Federal Government substantially to increase its funding of public housing. Ministers from all six States and the Northern Territory argued that another \$350m was needed just to keep waiting lists at current levels. The New South Wales Minister for Housing, Frank Walker, claimed that 100,000 people were homeless or on the verge of homelessness and 700,000 households were in poverty after meeting housing costs.

5. The Changing context of housing provision

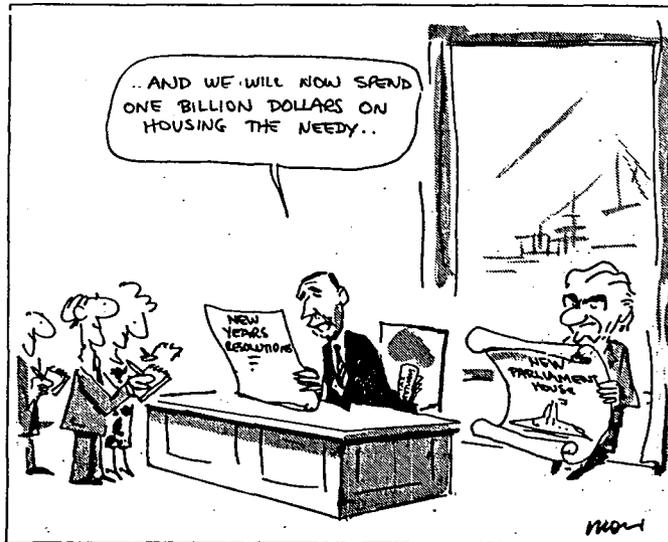
Like any other policy area, housing is influenced by wider social and economic forces as well as many other areas of government policy. Government macro-economic policy, or decisions about rates of migration, can have more effect on housing than housing policy.

In his policy speech of February 1983, Bob Hawke said that his government would provide a stable and adequate flow of funds at affordable interest rates, by (a) maintaining interest rate control on savings banks and extending control to building societies, (b) requiring that a set proportion of bank and building society lending be allocated to housing, and (c) establishing an Australian housing fund in the Reserve Bank.

These promises appear almost archaic in the light of subsequent developments, especially the Government's deregulation of the financial system. Significant other policy measures also have been introduced which are having major effects on the general context within which housing is only one element. In this section we review some of these issues in order to highlight the changed circumstances surrounding any contemporary discussion of housing and housing policy.

The promise to create an Australian housing fund had not been fulfilled by April 1986 and appeared to be forgotten if not entirely abandoned. In the context of a deregulated financial system, moreover, Hawke's commitment to the regulation of mortgage interest rates stood in contradiction to his promise to ensure a steady flow of housing funds at affordable cost unless the Government was prepared to provide subsidies to ensure

affordability. Mortgage interest rates had been regulated until March 1986 when they stood at 13.5 per cent. Even at that level, the savings banks claimed that they could not attract enough investment finance to meet the need for home purchase. Hawke's promise to extend federal controls to building societies had not been honoured. Building society interest rates, controlled by state governments, had been higher than those of the savings banks. Even so, their funds, too, increasingly were having to be rationed. The effect of the shortage of mortgage funds had been seriously to reduce home purchase.



By March 1986, therefore, the government was faced with an acute political dilemma. It appeared necessary to allow the savings banks, in particular, to raise interest rates in order to enable them to attract investment funds. This, however, could affect existing mortgages and thus lead to a storm of protest. A refusal to increase rates, however, seemed likely to ensure a continued diminution of housing funds leading to more mortgage rationing and, for many buyers the need to take second or more mortgages at full commercial rates. One option was to provide yet more subsidy to purchasers, but this was unattractive to the Treasury and was contrary to the ideal of tenure neutrality.

The Treasurer, Paul Keating, was in favour of lifting the rate but this was opposed in turn by Stewart West and other Cabinet colleagues. Stewart West even proposed massive overseas borrowing to generate loan finance but this, in turn, was blocked by Treasury. The savings banks were outraged that their interest rates were pegged whilst those of their competitors, the building societies, were up to three percentage points higher.

It was by no means certain, however, that higher interest rates would boost housing demand. Instead of mortgage finance being rationed by its limited supply, higher interest rates could lead to reduced demand. The basic question which remained to be tackled was whether housing could continue to be insulated from the effects of general deregulation of the financial system.

The Government finally came up with a compromise in April 1986. New savings bank mortgages would no longer be regulated but existing mortgages would be pegged at 13.5 per cent. Bank mortgages immediately rose to 15.5 per cent and the difference between the two rates was to be subsidised by the Commonwealth Government. This constituted a new form of subsidy for existing homebuyers but did nothing to assist low income first home buyers. The subsidy for existing but not new mortgagees, moreover, both introduced a new form of inequity into housing as well as compounding the complexity of the generally advantageous position of purchasers.

In general economic conditions should improve, and particularly if interest rates should fall, then the partial deregulation of housing mortgage rates may not have an enduring effect. Increased lending, combined with underlying demand also could lead to an upsurge in housing production. The economic outlook, however, was worse rather than better by June 1986 with poor trading figures and growing Commonwealth deficits. Although interest rates had fallen substantially overseas, most notably in the USA, there were no signs yet in Australia of corresponding reduction in the interest rate. If the general economic upturn takes longer than predicted, then the consequences are grim both for the housing industry and for those currently inadequately and expensively housed.

A number of other important policy areas are having important effects on housing. Changes in taxation policy have led housing industry lobbies to argue that there will be in future a seriously reduced level of investment in the private rental market. No new investments made after 17 July 1985 have been able to take advantage of negative gearing (though a modest depreciation allowance was introduced for newly-constructed dwellings.).

The proposed capital gains tax will affect the scale of rented properties. Whilst neither of these innovations is likely to be as disastrous as the real estate industry claims, in the short term at least they are likely to lead to a reduced level of investment in the private rental sector. Even though there were signs of substantial increases in rent levels during 1986, it was still the case that many other, non-housing investments, offered more attractive returns than investment in rental property. The net effect was a tightening rental market boosted by demand from frustrated homebuyers within which low-income tenants are faced with escalating rents and little short-term prospects of rehousing by the public sector.

In the preliminary announcements concerning capital gains tax, the government has emphasised that the tax will not apply to the taxpayer's principal residence. This will reaffirm the privileged status of homeownership. In some cases it may encourage owners to trade up. In other cases it could act as an inducement to owner occupiers to invest in additions and extensions to their homes rather than investing in rental property. The proposed taxation treatment of different tenures could even lead to more calculative speculation by homeowners and is almost certain to do nothing to contain house price inflation.

6. Conclusions: after the boom was over ...

Judged on the basis of its own promises and claimed achievements, the housing record of the Hawke Labor government is not as impressive as its advocates have claimed.

The government has argued that its policies have led to a significant upturn in housing production. We have shown, however, that the upturn can be explained much more convincingly by reference to cyclical factors. The government's main policy measure, First Home Owners Scheme, has not had a demonstrably significant effect on the cycle of housing production. Declining housing production during the last year, moreover, has occurred despite a continuation of the very policies which were supposed to have led to earlier growth.

The Commonwealth-State Housing Agreement has had a substantial effect on the overall commitment of funding to the public sector but much less effect on the overall size and share of the sector. On the basis of current policies it is inconceivable that the public sector share of housing will increase significantly. Very little progress has been made towards tenure neutrality. Home purchasers have continued to benefit disproportionately from Government policies and low income private tenants remain severely disadvantaged.

The context in which housing policies operate has been greatly affected by deregulation and changing financial markets. Such factors remain outside the scope of housing policy. The crisis of finance for home purchase can only temporarily have been resolved through partial deregulation of savings bank interest rates: the consequences of which for housing finance remain uncertain. In addition, the government's new tax measures are likely to have adverse effects on the supply of private rental housing.

Footnotes

1. This paper was originally submitted in March 1986, and revised in May 1986. My colleagues have made valuable comments on it although they do not necessarily agree with its final form; in particular I am grateful to Bob Gregory, Fred Gruen, Hal Kendig, Max Neutze, Marian Simms and Ian Winter.

2. The term 'negative gearing' refers to those investments in rental housing (or other sorts of property) which show losses after declaring rental income and deducting costs, notably interest payments.

3. For example, it is usually now argued that sales should be at market value and that all sales should be compensated for by new construction or spot purchase. This enables public tenants to achieve homeownership without the running down the size of the public sector. The sale of public housing, however, can lead to changes in both the locational and dwelling-type mix of public housing which, depending again on political judgements, can be more or less desirable.

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