HOUSING AND THE ECONOMY: INTERROGATING AUSTRALIAN EXPERTS' VIEWS

A report to the Housing and Productivity Research Consortium

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Key findings

- Leading Australian economists and other housing experts overwhelmingly agree that governments must pay greater regard to housing system impacts on productivity and growth – a view held by almost two thirds of research participant economists (64%), and by 94% of others. Underpinning concerns include appreciation of:

  – The productivity impairment due to the housing system's tendency to distance homes affordable to low and middle income earners from employment growth hubs

  – The opportunity cost arising from the channelling of debt-fuelled investment into housing stock – an asset essentially unproductive in terms of employment generation

  – The high proportion of income spent on housing, especially for renters, thus precluding expenditure on other consumption items, and thereby reducing overall demand in the economy.

- Failure to recognise the economic significance of housing is also attributed to the lowly and fragmented status of housing in the institutional structures of government.

- By a margin of five to one, top economists and other housing experts see 'status quo' economic policies as intensifying income and wealth inequality; yet by a margin of two to one, they doubt that countering inequality is genuinely a current official policy priority:

  – Official tolerance of rising inequality, as perceived, defies a growing international agency consensus on resulting economic harm – e.g. in the stances of the OECD and IMF.

  – Government inaction on inequality is widely attributed to ideologically entrenched beliefs about rights associated with private property ownership, as well as continuing adherence to 'trickle down' economics.

- By a margin of four to one, experts in our survey indicated that in supporting housing sector stimulus through fiscal measures, government action should be directed at the non-market sector rather than at market housing:

  – Underpinning arguments include experts' contention that targeting investment as such is preferable on cost-effectiveness grounds, as well in countering growing socio-economic inequality

  – A minority view favouring market sector housing stimulus rested largely on a belief in the inherent inefficiency and slow-footedness of government service provision.

Background

This report stems from an ongoing research program to investigate and expose the connectivity between housing system outcomes and economic performance. This program focuses on exploring housing-economy linkages, on current trajectories in housing and economic policy, and on possible new policy directions in these realms.

The current publication follows on from an initial analysis of a survey of leading Australian economists and residential property market experts' thinking on the above topics, assessed by measuring respondents' level of agreement with a set of 54 propositions posed by the researchers via an online survey

(Maclennan et al. 2021). In the chapters that follow we investigate the thinking that underlay respondents' online survey responses, as represented by the views of 20 selected survey participants (19 economists) in relation to 13 selected assertions from the original 54:

- *Housing markets will rebound to reach pre-COVID levels of construction output by 2022.*
- *Major new economic policy efforts – other than monetary policy and additional to the measures announced in October Budget – are essential to stimulate a sustainable post-pandemic economic recovery.*
- *Monetary policy reliance on low interest rates and Quantitative Easing has exacerbated inequality by boosting the prices of housing and equities.*
- *Concerns about inequality of economic outcomes are now front and centre for economic policymakers.*
- *Coming out of COVID 19, stimulating housing production is best achieved through social/affordable housing investment rather than private market incentives.*
- *Policymakers should pay greater attention to the economic productivity effects of housing market outcomes, such as costs, tenure, quality and proximity to work.*
- *There will be a significant extension of Quantitative Easing in Australia over the next five years with banks purchasing government debt.*
- *Net overseas migration will rebound to pre-2020 levels by 2023.*
- *Rising house prices are generally good for the economy.*
- *Post-pandemic work practices and housing consumption preferences will result in a lasting shift in housing demand away from cities and towards favoured regional locations.*
- *The slow processes and restrictive quality of local government planning decisions are the major cause of poor rates of housing affordability in Australia.*
- *Poor quality strategic metropolitan planning has led to the geographical mismatch between jobs and homes and under-supplied new places to live and work without long commutes.*
- *The key difficulty is an unreformed, inflexible housing system set within more flexible and efficient financial and labour markets.*

Post-pandemic housing market futures

The potent combination of low interest rates and other forms of government stimulus were the main factors cited in support of optimism that housing construction could see a rapid post-COVID recovery. Doubts that this would necessarily occur rested, in part, on concerns that the HomeBuilder program could be more effective in bringing forward rather than sustainably expanding housing demand. Once associated activity ends, and especially if migration rates are slow to recover, the bottom of the residential construction cycle could be seen in 2022 rather than 2020.

Expert opinion recognises that the pandemic has embedded remote working for substantial numbers of employees, potentially weakening the spatial connectivity of housing and employment. Many employers now recognise that home working may be compatible with acceptable productivity. While this could have enduring impacts on spatial distribution of housing demand, scope for such lifestyles likely to be is restricted to a narrow range of professional occupations. Moreover, arguing that agglomeration economies will remain important in knowledge industry businesses, a number of experts saw the productivity benefits of in-person interactions as limiting any widescale abandonment of the corporate office.

Economic policy, housing and inequality

Across our interviewees there was a wide consensus that QE and low interest rates have increased inequality through their impact on asset prices. The major beneficiaries have been the already wealthy, including existing home owners. While this situation may be framed by the prevailing global economic context, it is also enhanced by longstanding Australian policy settings on property taxation. Thus, some see QE as having failed to deliver promised economic uplift: rather than stimulating productive investment, it has been largely diverted into savings or non-productive asset acquisition. Thus, the case for reform of wealth taxation settings, including estate duties and land tax.

But while it was generally seen that inequality had been exacerbated by macroeconomic policy, relatively few believed that an effort to contain or reverse inequality was a major driver of government policy in Australia. This was despite inequality surfacing as an important concern of global economic and governance institutions, such as the IMF and OECD.

> *[Inequality is] a bit like climate change, you know, [policymakers] know what's happening. But they're refusing to do anything about it [Consultant C7].*
>
> *It's going to be very hard to prosecute economic policy that continues to polarize people …. So a lot of the things that you need to improve productivity, you run into barriers if you have a polarizing inequitable society [Consultant C2].*

Explanations for the lack of obvious engagement with inequality, especially that of wealth, among politicians referred to both ideological positions reflecting entrenched beliefs about private property ownership and a continued adherence to 'trickle down' economics, as well as practical politics, with most politicians finding the idea of actions that might threaten property wealth just too hard in the current political climate. Several interviewees perceived a growing divide between politicians and bureaucrats on this issue, asserting that inequality was now a widely shared concern among the latter, albeit not as yet reflected in policy formulation.

Post-pandemic economic recovery strategy

Survey respondents generally believed that governments needed to commit to additional economic policy initiatives, other than monetary policy measures, and in addition to the moves announced in the 2020 Commonwealth budget. The minority viewpoint that additional economic stimulus was unnecessary rested largely on scepticism about the case for direct government investment in stimulating long-term growth.

In relation to the inclusion of direct housing stimulus within an economic recovery strategy, surveyed experts generally favoured non-market housing as preferable to incentives for private market housing investment. Arguments in favour of this stance included the understanding that social/affordable schemes were socially beneficial projects that could be quickly initiated. There were also concerns that private sector incentives were at risk of leakage, gaming and malpractice. The minority view that favoured a market housing emphasis stemmed largely from scepticism about government performance as a direct service provider.

Land-use planning: its role in housing unaffordability and spatial mismatch

Survey respondents held contrasting views about the impact of the planning system on housing affordability and urban economic productivity. While only a minority saw local government planning decision-making as a major cause of poor housing outcomes, councils were nevertheless criticised for failing to deliver clear and consistent development decisions.

> *[P]lanning is inefficient and where the processes are particularly inefficient then you will exacerbate supply constraints (Government G1)*
>
> *I do think planning plays a role [regarding housing affordability] ... both positive and negative. But I just don't think it's credible to argue ... that the planning system is primarily at fault. I think there are a range of factors, you know, monetary policy, for example, which has helped inflate housing prices (Academic A3)*
>
> *There are no serious [housing] supply constraints through the planning system in our country ... the constraint rests with the holders of those developable sites (Consultant C2)*

There was much greater agreement that poor quality strategic planning had contributed to spatial mismatches between housing and employment, especially in the major cities. Interviewees nevertheless recognised the challenges of strategic plan implementation in the face of profit-seeking developer behaviour, and the risks and tensions inherent in the political system.

Tensions between the goals of land use planners who developed strategic city plans on the one hand and the state agencies who determined major economic and infrastructure decision making on the other were also seen to lead to poor policy integration at the city scale. This was put down to a lack of effective metropolitan scale governance structures. There was also recognition that Australia lacked a fully developed national settlement strategy that might relieve pressure on the major cities through a planned economic and population dispersal strategy.

Housing and the economy

High and/or rising house prices were generally considered as economically damaging. While acknowledging that this scenario could boost consumer confidence, any associated benefit was for many outweighed by the likely aggravation of inequality that results from sustained asset price inflation. Similarly, high and/or rising house prices were problematic because of the resulting suppression of home ownership rates – detrimentally affecting population welfare.

The balance of expert opinion saw the housing system as 'unreformed' and relatively inflexible and/or inefficient by comparison with finance or labour markets. For some, this reflected a belief that governments had lacked appetite for what was considered necessary de-regulation of housing (e.g. in relation to planning constraints). For others, more important arenas of inaction concerned tax settings – especially stamp duty, but also property owner income tax concessions. While historically benign, changing socio-economic conditions had rendered them in need of reform that had been so far eschewed:

> *The tax system wasn't a problem in the 1950s because we didn't have … asset price inflation. Once [this] came into it the kind of tax system we had became a problem and we didn't change it [Academic A6].*

A number of different perspectives underlay the overwhelmingly dominant view that Australian governments need to pay greater attention to housing system effects on economic performance. The housing system's tendency to exacerbate spatial mismatch was noted by many.

> *[W]e're still building half of our housing out on the urban fringe at ever more distant location. So what that's doing is wasting human capital, and we can't afford to waste human capital [Consultant C2].*

Another concern was the opportunity cost (as well as the financial stability risk) arising from over-investment in the housing stock as an essentially unproductive asset (in terms of its employment generating potential). Officialdom was seen to under-rate the importance of housing in this realm partly because of the relative absence of quantitative evidence for resulting economic impairment, but also because of emasculated 'housing domain knowledge' and associated analytical capacity within government.

1 Introduction and methods

1.1 Research setting

This report forms part of an ongoing research program to investigate and expose the connectivity between housing system outcomes and economic performance. The program builds on a series of projects that have begun to extend understanding of this linkage in the Australian setting.

This is a national context in which housing system performance has become increasingly contentious over the past 10-15 years. Housing affordability has formed a major point of contention in three of the last five Australian general elections, following on from previous history when that was rarely true (Pawson et al. 2020). Our work also takes place against the backdrop of a long period of subdued national economic productivity growth which has similarly evoked rising levels of concern in official circles, as well as among professional economists and economic commentators outside of government (Gittins 2016, 2020; Productivity Commission 2020; Garnaut 2021).

Specifically, the research project that underlies the current report follows on from three earlier reports involving the current authors; reports that attempted to open a new front in investigating the links between housing system outcomes, economic productivity and financial stability:

- Making better economic cases for housing policies (2018)
- Strengthening economic cases for housing policies (2019)
- Extending economic cases for housing policies: Rents, ownership and assets (2020)

(Maclennan et al. 2018; Maclennan 2019; Maclennan and Long 2020).

The last-named of these reports outlined a proposed future research program intended as further exploring how housing outcomes relate to the economic performance, probing expectations of how these relationships might change in the future and demonstrating how poor quality and expensive housing impairs inclusion, growth and stability.

The current study is the first in the new series of projects proposed in that 2020 report. As a ground-clearing exercise, it sought to gauge the views of leading Australian economists and residential property market experts on housing-economy connectivity, on current trajectories in housing and economic policy, and on possible new policy directions in these realms. The current report follows on from an initial output from the research that analysed study participant thinking on the above topics, in terms of respondents' level of agreement with a set of 54 propositions – as evoked through an online survey (Maclennan et al. 2021).

Building on that work, this report investigates, in depth, the thinking that underlay respondents' online survey responses in relation to a selection of the 54 statements.

1.2 Methodology

The research approach was loosely modelled on the 'Delphi' technique that seeks to identify consensus positions among topic experts, and to comprehend the factors underlying differences of view on topics where no such accord exists. As further explained below, research participants were leading Australian economists and other housing market experts. Their perspectives on relevant topics were investigated through an online survey (87 respondents), followed by in-depth interviews with 20 survey respondents.

1.2.1 Research participant recruitment

The online survey sample comprised 169 of Australia's top economists and housing market and/or policy experts. In assembling the sample, the starting point was The Conversation's 65-member Economics Panel – a grouping nominated by the Economics Society of Australia. This includes colleagues employed in various senior industry positions, as well as in the top ranks of academia.

Additional invitees were selected with reference to the authors' in-depth knowledge of Australia's housing economics and housing policy communities. They included senior economists and others highly reputed for their academic, business or regulatory familiarity with Australia's housing system, drawn from academia, consultancy, industry (private and not-for-profit) and government. As an indication of their seniority, 108 invitees (64%) had the title Professor, CEO, Chief Economist, Partner, (Departmental) Secretary or Executive Director – see Table 1.1.

Table 1.1: Online survey sample

Title	Sector						Total
	Academic	Con-sultancy	Govt	Industry	Media	Think tank	
Professor	48						48
CEO*	1	8	7	18		1	35
Chief Economist				16			16
Partner		2					2
ED/Director**		2	2	2		1	7
Dr	20	1	2	3			26
Other		4	8	14	6	3	35
Total	69	17	19	53	6	5	169

***Including one Departmental Secretary – senior official reporting to Minister. **Including two colleagues titled 'Executive Chairman'.**

1.2.2 Online survey

As noted above, the online survey took the form of 54 propositions or assertions about housing and the economy, grouped under nine headings as shown in Appendix 1

Undertaken in October/November 2020, the survey involved respondents (contacted by email) stating their level of agreement with each of the 54 propositions – using a standard 5-point Likert scale from 'strongly disagree' through to 'strongly agree'.

With 87 completed responses the survey achieved a creditable response rate of 51%. The majority of respondents (54%) were trained as economists with 40% working as economists and the remaining 14% engaged in another professional position. Some 46% came from disciplinary background other than economics. Two in five (40%) were academics, 8% were in government, a fifth (20%) worked in non-profit organisations and 30% in the private sector. Fuller methodology and response rate details are provided in Appendix 1. A full set of the survey propositions and response distributions can be found in our companion report, as already published (Maclennan et al. 2021).

For generalising purposes survey results tables include 'average scores'. These are calculated by assigning scores of 1-5 for responses from strongly disagree (=1) to strongly agree (=5), with scores for all participants on each statement summed and divided by the number of respondents on that statement. Thus, an average score of 1 indicates a universal response of 'strongly disagree'; 5 – all strongly agree.

1.2.3 In-depth interviews

Following on from the survey, 20 of the 87 respondents were re-contacted to investigate participants' thinking that underlay responses to 13 propositions selected from the original 54. These were chosen to represent the breadth of issues encompassed by the survey, selecting in particular those considered most individually important.

The starting point for interviewee selection was the 70 (of 87) respondents who had voluntarily disclosed their identity in their online survey return, indicating willingness to take part in a follow-up interview. Within this group, preference was given to members of the Conversation's Economics Panel. Thus, 10 of the 20 selected participants were distinguished as such. The remaining 10 were chosen partly in relation to their seniority, but with consideration also given to sector (e.g. academic, consultancy/industry, government), and gender representation.

Nineteen of the twenty interviewees were trained economists. Sector representation was: Academic – 9, Consultancy/industry – 8, Government – 3. Gender representation was 15 male, 5 female.

Each interview (undertaken online or by phone) took the form of a semi-structured discussion where respondents were asked how they had interpreted each of the 13 selected propositions, and about the considerations that underlay their level of agreement with each statement, as indicated. In relation to any propositions where the respondent's opinion was at variance with majority thinking, the possible reasons for this were also probed.

Interviews were recorded with participants' permission, and subsequently transcribed.

1.3 Report structure

The remainder of this report is structured around the 13 propositions explored in the interviews. These are grouped together under five chapter headings. In each chapter we focus on two or three related propositions, identifying the key themes that emerged from discussions with the 20 interviewees about each of these statements. Each chapter, and each proposition covered within each chapter, is also briefly contextualised with reference to recent statistical trends and/or contributions to policy debates – or simply by unpacking the relevant propositions themselves. Finally, in Chapter 7 we briefly conclude the report with some overarching observations on the key messages that emerge from this work.

2 Post-pandemic housing market futures

2.1 Chapter agenda

Experts' expectations on likely future scenarios for Australia's housing market were a central concern in this research. With project fieldwork taking place in late 2020, the significant system shock experienced mid-year will have been front of mind for all research participants. Albeit less severe than in many comparator countries, the pandemic-triggered economic and housing system turbulence experienced in Australia during 2020 admittedly created a challenging context for market futurology. Importantly, however, our interviews were undertaken in November/December, some months after the end of Australia's national lockdown, when signs of economic (and housing market) recovery were already becoming apparent in most jurisdictions.

The in-depth interviews explored participant thinking on three online survey propositions directly or indirectly related to this topic:

- Housing markets will rebound to reach pre-COVID levels of construction output by 2022
- Net overseas migration will rebound to pre-2020 levels by 2023
- Post-pandemic work practices and housing consumption preferences will result in a lasting shift in housing demand away from cities and towards favoured regional locations.

Perhaps not surprisingly – especially given the temporal context – survey participants (87) were somewhat divided on all three of these contentions. This was also largely true among the follow-up interviewee subset (20). As revealed through the interviews, however, respondent thinking on these posited future scenarios sheds light on the many factors that influence Australian housing market dynamics.

In this chapter we examine, in turn, expert interviewee thinking related to each of the above propositions. In each case, this discussion is briefly contextualised by citation of recent policy developments and/or statistical trends which will have informed respondent reasoning.

2.2 Prospects for post-2020 residential construction industry recovery

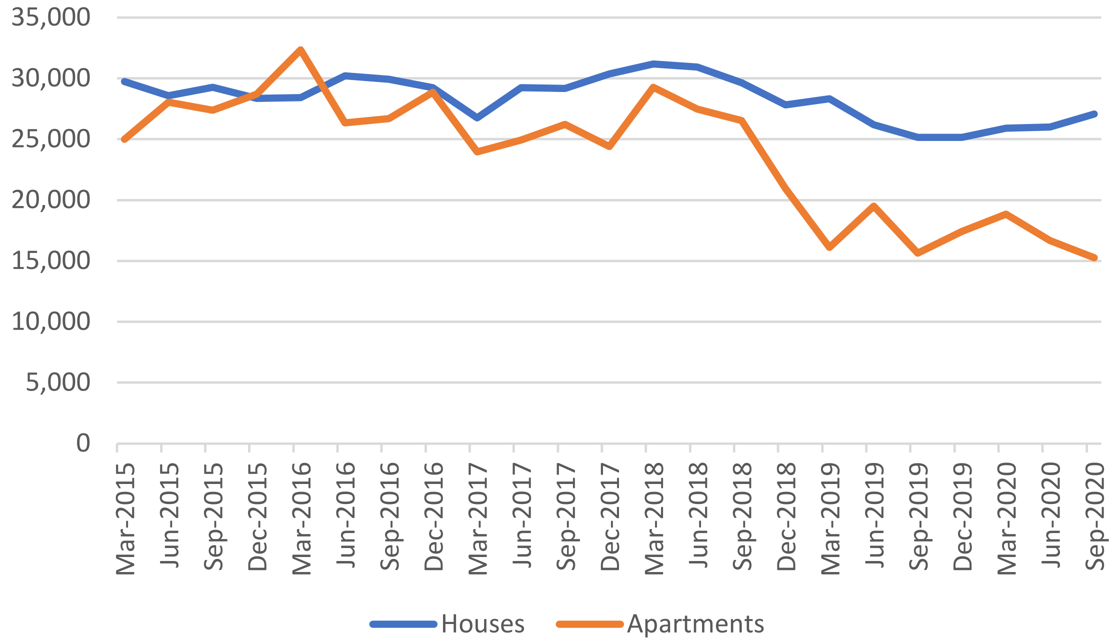
2.2.1 Fieldwork context

There were an estimated 1 million people employed in Australia's residential construction industry in 2020 (Housing Industry Association 2020), equating to 7.2% of the economically active population, or 7.8% of employed adults (ABS 2021). Partly given its considerable size within the national economy, the sector's vitality is a significant concern for economic policymakers. The initial onset of the COVID-19 pandemic in Q1/2 2020 evoked widespread anxiety that a resulting recession would trigger a housing market downturn, leading to a major housebuilding contraction.

The context here was a period which had already seen a 30% decline in new housing commencements in the 18 months to Q4 2019 – see Figure 2.1. Likewise, mainly thanks to declining activity in the apartment construction part of the market, building approvals had been on a generally declining trend over this period (see Figure 2.2). Purely due to cyclical trends, the industry was already on a distinct downswing trajectory before COVID-19 hit.

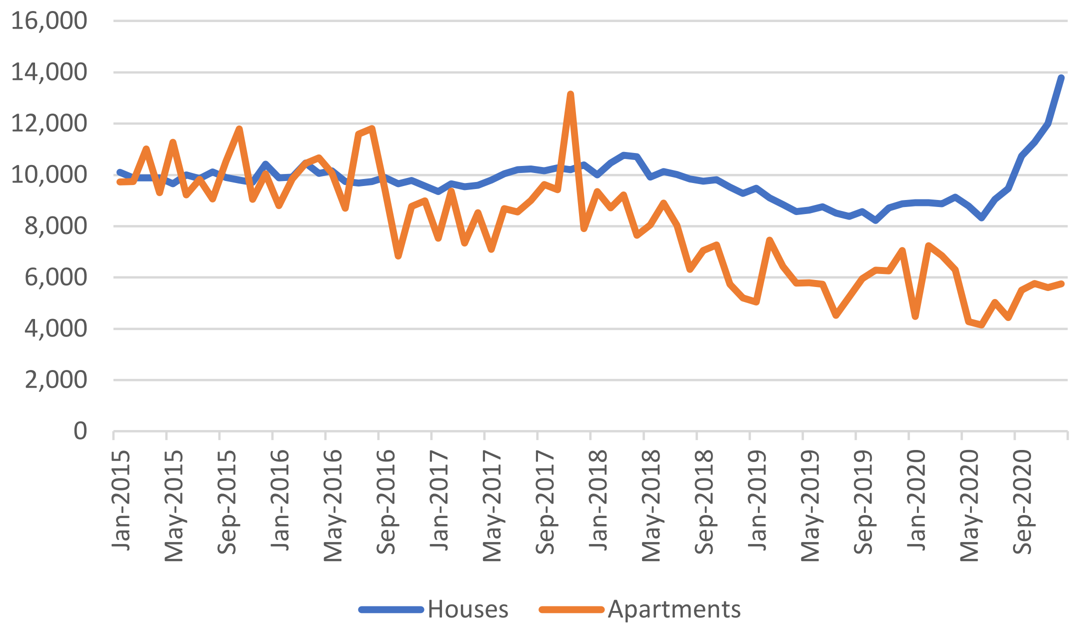
Nevertheless, as the graphs also indicate, the second half of 2020 in fact saw indications of a marked rise in house (as opposed to apartment) construction activity. This had begun to be reported at the time of our fieldwork. Relatedly, by late 2020 it had already become apparent that earlier predictions of steeply declining residential property prices had not materialised. At the same time, as discussed in more detail later in this section, Q2-3 2020 had seen a notable divergence between capital cities and regional housing markets – as exemplified in the case of NSW in Figure 2.3.

Figure 2.1: New dwelling commencements, 2015-2020 (quarterly)



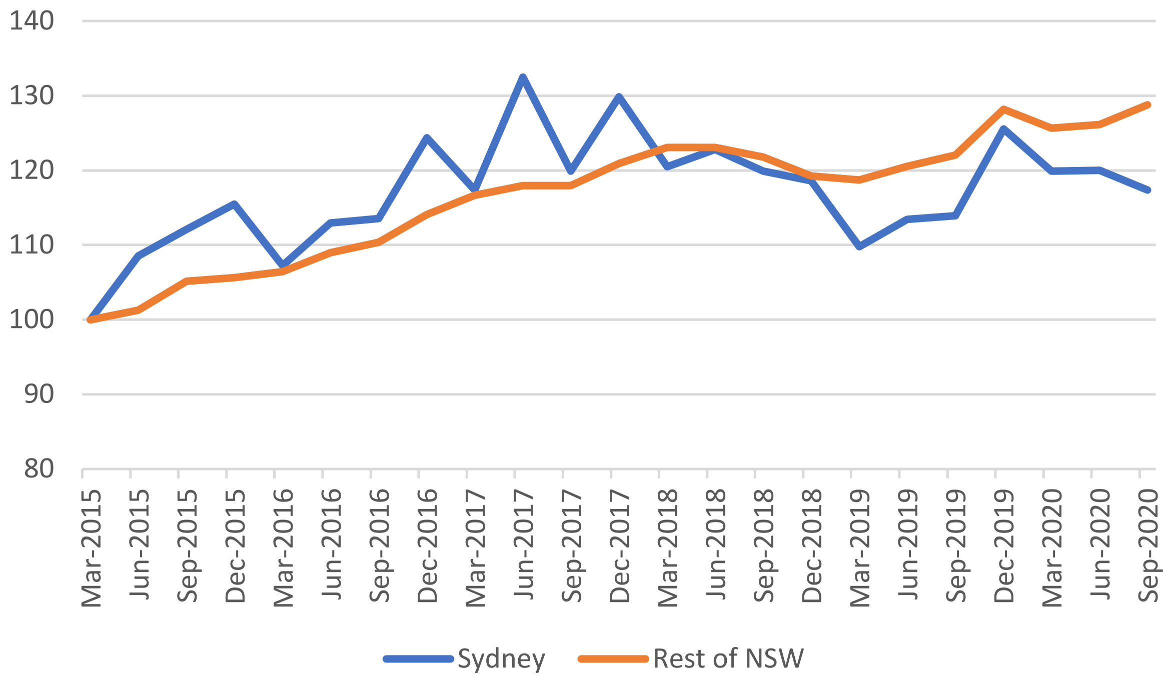
Source: ABS; Building Activity, Australia - Table 33

Figure 2.2: New housing approvals, 2015-2020 (monthly)



Source: ABS; Building Approvals, Australia - Table 6

Figure 2.3: Residential property prices in NSW, indexed to Q1 2015



Source: ABS; Residential Property Price Indexes: Eight Capital Cities - Tables 4 and 5

2.2.2 Experts views on prospects for post-2020 housing market recovery: Online survey results

Online survey respondents tended to contest the proposition that housing markets will fully recover by 2022, to the extent that construction output will have revived to pre-COVID levels by that time – see Table 2.1. Nearly two thirds of participants (63%) disagreed with this hypothesis. The distribution of responses among interviewees was slightly more negative, with 15 out 20 (75%) taking this position.

Table 2.1: Housing markets will rebound to reach pre-COVID levels of construction output by 2022 (%)

	Strongly disagree	Disagree	Neutral	Agree	Strongly agree	No opinion	Total	Average score
Economist	15	40	23	17	4	0	100	**2.55**
Non-economist	20	55	5	18	3	0	100	**2.28**
All respondents	17	47	15	17	3	0	100	**2.43**
Interviewees	15	60	5	20	0	0	100	**2.30**

Source: Authors' survey

2.2.3 Experts' reasoning on anticipated housing market prospects

In explaining their expectations on the likelihood of rapid residential construction industry recovery, interviewees generally focused on three main housing demand-influencing factors: the cost and availability of mortgage finance, government policy as regards economic stimulus, and the effect of migration on population growth. For most interviewees, anticipated prospects for building sector recovery were dependent on expected interplay between the first two and the third of these.

Low interest rates and economic stimulus

Many interviewees emphasized the housing market impacts of currently low interest rates and other forms of official 'economic stimulus' in boosting housing demand – and therefore market vitality. Particularly given the Reserve Bank's 2020 statement that interest rates would be maintained at current levels for at least three years (RBA 2020), some explained this as being overwhelmingly the most significant factor prompting their agreement with the proposition that housing markets will recover by 2022:

> *[T]here's so much stimulus going into the economy from the Reserve Bank and from the government that it's going to end up in asset values as far as I can tell, and housing is going to be a part of that. I mean, we're already seeing the stock market still booming. So I mean where else does the money go? … I think that it will end up in the property sector [Academic A9]*
>
> *[T]he government and the Reserve Bank are just washing money into the system … And those people are going to invest in real estate. You [also] saw that after the GFC in 2008 when they pump all this liquidity into the system and people simply invest it [Academic A1]*

Other respondents focused more specifically on the influence of official initiatives to stimulate housing construction demand. Commenting on the 2020 downturn in investor housing finance approvals, one expert argued:

> *One thing that is pointing in the opposite direction … [is] what seems to be a quite strong up-turn in demand from first home buyers. [In addition to the HomeBuilder program this] also has something to do with some extraordinarily generous grants being offered by state governments … particularly in Western Australia. But I think in South Australia and Tasmania as well … in Tasmania, you can get $45,000 I think from federal and state governments [for new house purchase] [Consultant C7]*

At the same time, some warned that such initiatives – if effective in the immediate term – could result in a 'vacuum effect' when withdrawn:

> *[I]n some respects [incentivising investment through HomeBuilder is] a bring forward, you know, in terms of some of those decisions. So I would have thought that has to sort of reach an end at some point … [say in the] second quarter [of 2021], what's going to prop up demand [from that point onwards] in the absence of net obviously is migration … So I would expect there to be some sort of plateauing beyond that [Government G1]*

> *[T]he vacuum effect is an issue … kind of a displacement effect where people just bring forward their planned purchase. And I do think that these measures tend to have those sorts of effects … helping people over the line who would have made it anyway [Academic A8].*

Migration as a contributor to housing demand

A body of interviewees voiced more pessimistic stances on housing sector prospects. They highlighted expectations on various factors depressing housing demand; in particular, the impact of low migration rates on population change. On this point one interviewee simply encapsulated the views of others, arguing:

> *I believe that it will take a while before migration returns to its pre-COVID trajectory and I think that migration has been a strong driver of population growth in Australia and [therefore] a strong driver of housing production demand [Consultant C2].*

As another colleague reasoned:

> *In particular, the thing that would push … back [a revival of housing construction output] that would lead you to say 2023 or later is the absence of inward migration from overseas, which the budget is telling us isn't going to resume until 2022-23 [Consultant C7].*

As seen by some, the effects of a significant period of lower population growth would compound the expected impacts of subdued economic performance:

> *Obviously, now [we're not going to] have the kind of population increases that we would otherwise have had as a result of migration. And I think that ultimately that will have its impact on housing construction, even though I know at the moment, it doesn't [seem to be doing so]. Ultimately [the combination of low migration and] high unemployment and stagnant household incomes and stagnant wages [will dampen housebuilding]. Unemployment will fall. But I think, but not dramatically. So it will remain above the levels that we've become accustomed to in recent years [Academic A3]*
>
> *Unemployment levels are going to increase… and so people will find it hard to borrow, people will find it hard to take that risk in a casual labour market in a recessed economy. I think demand will continue to be weak … I think it's going to take four or five years [for the economy to fully recover] [Academic A1]*

Related to migration impacts on housing demand, as well as to 'policy influences' (see further below) one respondent reflected that:

> *[B]efore COVID the housing sector was already in decline [and] although there's been a fair bit of stimulus into the sector in COVID, I'm not sure it's going to change some of the basic factors. I mean immigration's come off a lot …but Governments were tending to restrict it anyway, progressively reducing the effective number [Academic A4].*

Expert expectations on likely future migration rates are further discussed later in this chapter.

Weighing up conflicting influences on housing market prospects

Interviewees naturally recognised that prospects for housing construction recovery would depend on the balance between diverse factors that influence housing demand. For some, the apparent house price up-tick being reported at the time of the research was occurring to some extent in defiance of 'economic fundamentals':

> *Yes [given that house prices began to increase in late 2020], it is an odd situation that housing markets don't seem to be behaving as you would expect, given that … population growth and migration [remain far below historic norms] … [M]igration's down, employment's down, wages are down – all the drivers of housing demand are down, and yet housing prices are up. My explanation for it is that, you know, housing has got its two lives. One is to provide shelter. The other one is to provide an investment – [a] shelter for your wealth. And so I think a lot of the activity in the market isn't directly linked to … drivers of demand in the in the traditional sense. Because people are just trading in it as an investment asset. And of course, … partly because of COVID we have continuing very, very low interest rates. And … in times of uncertainty [housing investment is] a natural recourse. So I'm not surprised [that] approvals … don't fully reflect yet the shift in population growth [Consultant C2].*

Also referencing considerations on the possibility that stimulus measures may advance rather than expand housing demand, another participant argued:

> *You have two years of negative net migration, it's going to have a big impact on household formation. So you've this big fall in demand. But at the present time, courtesy of government stimulus, you've actually got, you know, high levels of activity. We just got an element of bring forward in demand…… And then I'm expecting, you know, a lag. They can't sustain these levels of activity, given the much lower growth in households, so my view is that the low point in housing activity is not this year or next year, but lot more like 2022 [Academic A7].*

Policy motivations

A final perspective advanced on this topic offered by one participant emphasized a view that maintaining residential property values would continue to be an overwhelmingly important government priority, not only due to welfare and (possibly) wider economic implications, but for more self-interested reasons:

> *I never expected [the housing market] to fall off a cliff … it is obvious that, you know, central banks and governments will do everything they can to hold up, house prices and to entrench the inequalities that exists today and they themselves [are] beneficiaries of that outcome … Just about every MP on every side of politics has extensive property interest … That is something that we should not fail to mention it is false politeness … basically 99% of [elected politicians] have a vested interest in the decisions they're taking [Consultant C6].*

2.3 The likelihood of resumed international migration at previously familiar rates

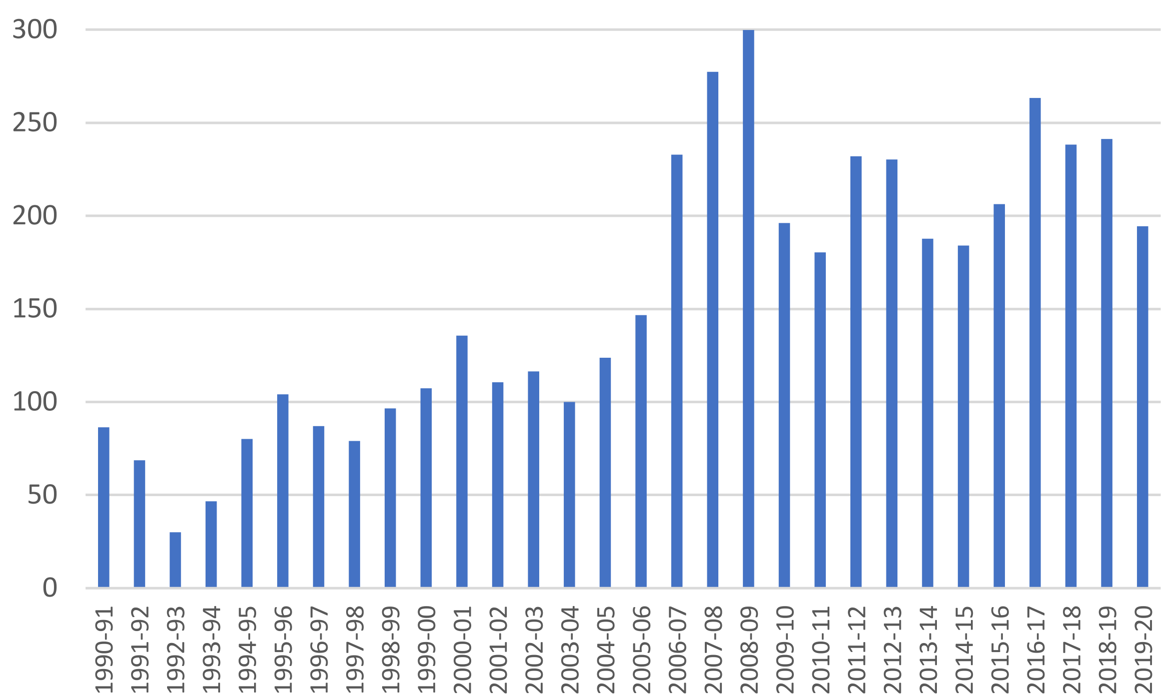
2.3.1 Fieldwork context

As reported above, many in-depth interview respondents naturally highlighted migration rates as an important component of housing demand – and thus, albeit at one remove, a significant influence on residential construction sector vitality. The online survey and in-depth interviews also focused more directly on expectations about the possible resumption of pre-pandemic migration rates. Specifically, research participants were asked to respond to the proposition: 'Net overseas migration will rebound to pre-2020 levels by 2023'.

Crucially, of course, the partial closure of Australia's international borders since February 2020 eliminated immigration during the pandemic, other than that involving returning Australian citizens. Indeed, Australian Treasury Budget projections anticipated a remarkable net outflow of 72,000 people in 2020-21, a scenario unprecedented in modern (peacetime) history (SBS News 2020).

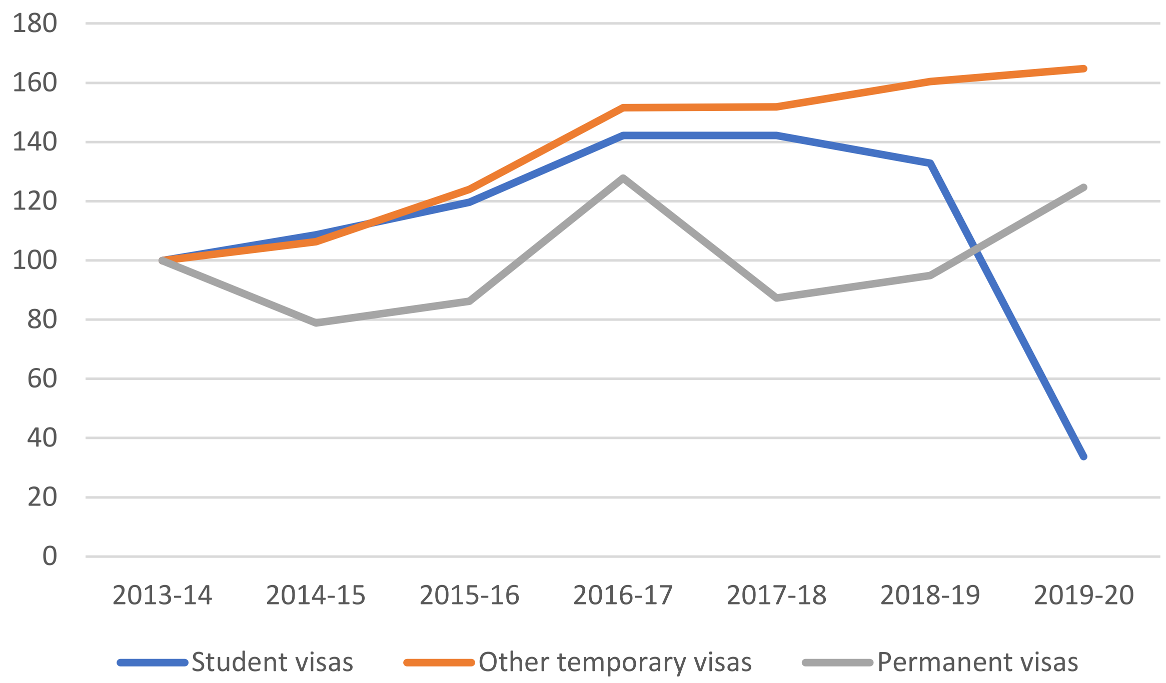
As shown in Figure 2.4, this follows a decade in which rates of migration were running at historically high levels, thus constituting a major component of overall population growth. Nevertheless, preceding the pandemic, calendar year 2019 had already seen a 16% drop in net overseas migration, mainly attributable to a reduced inflow of international students and others on temporary visas. Thanks to the pandemic, that cohort crashed in 2019-20, while the other migrant categories trended slightly up – see Figure 2.5.

Figure 2.4: Net overseas migration into Australia 1990-2020 (000s)



Source: ABS; Migration, Australia - Graph 3.1

Figure 2.5: Components of migration flows into Australia, 2013-2020 – indexed to 2013-14



Source: ABS; Migration Australia 2019-20; Net overseas migration, Arrivals and Departures, State/territory, Major groupings and visa – financial years, 2004-10 to 2019-20

2.3.2 Experts' views on likely post-pandemic migration rates: online survey results

Online survey respondents (87) were fairly evenly divided on expectations of migration into Australia recovering to 2019 levels by 2023 – see Table 2.2. Interviewees (20) were more inclined to doubt this, with 60% of this cohort in disagreement with the proposition.

Table 2.2: Net overseas migration will rebound to pre-2020 levels by 2023 (%)

	Strongly disagree	Disagree	Neutral	Agree	Strongly agree	No opinion	Total	Average score
Economist	6	40	13	35	4	2	100	**2.89**
Non-economist	8	30	15	43	5	0	100	**3.08**
All respondents	7	36	14	38	5	1	100	**2.98**
Interviewees	10	50	15	20	5	0	100	**2.60**

Source: Authors' survey

2.3.3 Experts' reasoning on anticipated post-pandemic migration rates

Since respondents generally doubted that migration rates would recover to pre-pandemic levels in the near future, the next section recounts respondent views underlying this belief. We then discuss the thinking that underpinned the minority view that such a bounce-back was indeed likely.

Restricted migration rates

Among participants seeing a rapid resumption of high immigration as unlikely, most believed that the Commonwealth Government would choose to more strenuously restrict skilled worker migrant intake in coming years. In part, this was expected as a simple rational response to elevated post-pandemic unemployment rates, and broader economic weakness, as anticipated in the immediate future:

> *I think most probably because we are going to be having higher levels of unemployment for a long time there may be a cut in the business visa kind of thing. There's not going to be much argument for bringing in skilled people when we've got a lot of unemployed skilled people in Australia. So that aspect of immigration, most probably will be damp for a while [Academic A6]*
>
> *[I]f we still have relatively high unemployment, then my guess is the government will not allow the net overseas migration to go back to where it once was [Consultant C7]*
>
> *[M]igration depends on people wanting to come. Even before the restrictions the government … migrant quota … wasn't being filled because the Australian economy was weak. Yes, so it's the economy drives migration as well as migration helping to drive the economy … Maybe the fact that we're in a healthy place will make a difference, but you'd need a need a booming economy to get lots of migrants again [Consultant C5]*

Others, recognising a possible economic imperative for restricted skilled worker migration at a time of relatively high unemployment, more strongly emphasised the politics of such a judgement:

> *Well [my view here is] not really economic reasoning … Our attitudes are quite conservative with regard to migration and … therefore … the present government will be reluctant to admit the … number of migrants it had done pre-COVID. Not just because of COVID, but unemployment rates, you know, [are] going to be high and remain high. And so politically to allow international … migration [to] rebound back up to the levels there were pre-COVID would [be difficult] with the [Coalition] base [Academic A3]*
>
> *[T]here's been quite a mood on the government side of politics [advocating that], we need to cut out immigration. And a lot of that was a – nudge, nudge, wink, wink – a racist position. You play the race card: cut the Muslim immigration in particular. So they were reducing it anyway. Trying to reduce it anyway. I don't think those sentiments die and if economic circumstances are tough and it looks like foreigners are taking our jobs … the unions and conservatives come together quite well on those issues. [And yet] there's … now a claim of skill shortage in fruit pickers and migrant labour and so on. I just think that [migration policy is] more run on politics than on the economic arguments, even though Australia has been built on migration [Academic A4]*

> *Well, there's a policy choice. [I believe that] … if somebody wants to come in here and is willing to contribute [we] ought to have a pretty good reason for not letting them do that… But, politically, I expect to be on the losing side of that argument … the politics and the policies have been pushing towards more restrictions … for a long time and I think that's going to be [the tendency in the future] [Academic A5].*

Recognising the huge recent significance of international students within overall migration flows many respondents doubted that this cohort would be restored to pre-COVID levels in the near future. Heavy reliance on Chinese students was noted as placing Australia in an exposed position given recently deteriorating diplomatic and trade relations:

> *Of course, there we've got international politics [with] China. Australia is not favourite flavour of the month. And that's where many of our international students come from. So the prospects, there [are] not looking particularly optimistic. We can start to look for other markets, but that takes time to develop other alternative markets, you know, India. I know … we do have students from there already, but it would take significant number of years, I would have thought before we could replace losses of Chinese students [Academic A3].*
>
> *Interviewer: What about international student numbers? Response: Well, we're largely talking about Chinese students here. I think it's an obvious lever for the Chinese Government to use against us, and one that the government doesn't care very much about [Academic A5].*

Migration rates to recover by 2023

In common with 43% of all online survey respondents, a quarter of interviewees (25%) expected that migration rates would indeed recover to 2019 levels by 2023 – see Table 2.2. Some justified this stance mainly according to a belief that Australia's attractiveness to potential international students and other migrants could be enhanced by the effective way the pandemic has been handled, and by a relative lack of long-term damage to the economy with reference to comparator countries.

Others emphasized the economic imperatives of resuming pre-pandemic migration rates and challenged the view that anti-immigrant sentiment is sufficient to motivate greater restrictions for political reasons:

> *[T]he reason I'm confident about [a migration bounce-back] is that it's a driver of economic growth in our country. [And] it does correct for an aging population to a degree. And I think, as a nation, we get migration. Now, I know it's become a really controversial topic, and people blame infrastructure backlogs and housing [un]affordability on migration. But I don't see … the groundswell of opposition that we've seen elsewhere [internationally] … my impression is that [this] is a genuinely multi-cultural country, and something that Australians get … [and] there is underlying bipartisan support for this [Consultant C2]*
>
> *Interviewer: So you think that it's politically possible for the Commonwealth Government to allow migration to return to previous levels? Respondent: I think they will; I think both sides of politics will [support that] [Academic A1].*

> *I think [a resumption of pre-2020 migration rates will be] driven by necessity, to be honest. If I'm thinking about this from … a political perspective … [and] if I'm right, in terms of the stimulus packages being a bring forward [then] what's going to fundamentally drive [housing] demand going forward [beyond that]? The only thing I can think of is basically more population. And I think … the government will basically be very … keen to ensure that those units are returning as early as possible [Government G2].*

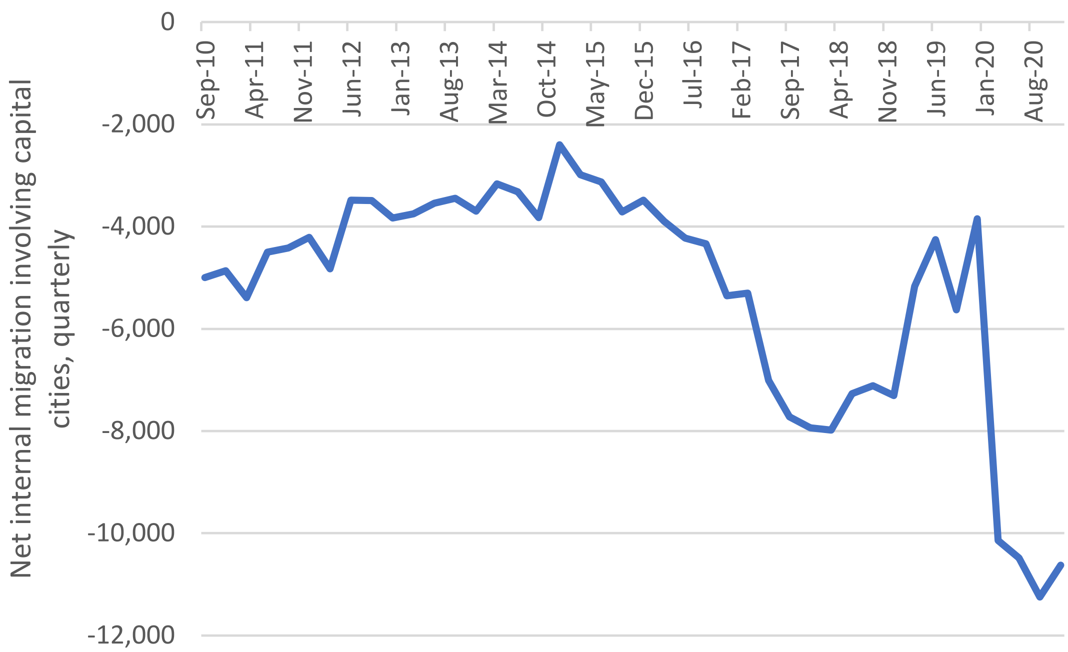
2.4 The post-pandemic spatial pattern of housing demand

This final main section of the 'future housing market scenarios' chapter focuses on the possibility that pandemic-triggered shifts in working practices and housing preferences could result in lasting change in Australia's housing market geography.

2.4.1 Fieldwork context

There has been considerable speculation on the possible enduring effects of COVID-19 on the spatial pattern of demand for both office accommodation and housing. Media reports have highlighted claims that burgeoning scope for home-working has unleashed a new wave of sea- and tree-change re-locations. Equally, there is emerging statistical evidence of ramped-up out-migration from Australia's capital cities. As shown in Figure 2.6, quarterly net population losses from Australia's capital cities to regional locations accelerated during 2020, more than doubling from the levels recorded in 2019. Nevertheless, while it may be significant that this apparently echoed a trend seen from 2014-2017, the pattern was almost entirely a reflection of outflows from Sydney and Melbourne. Moreover, at just over 10,000 per quarter during the first nine months of 2020, the actual size of capital city migration losses recorded during the pandemic remains modest relative to the size of the two cities.

Figure 2.6: Net internal migration involving capital city gains/losses, Sep 2010-Dec 2020



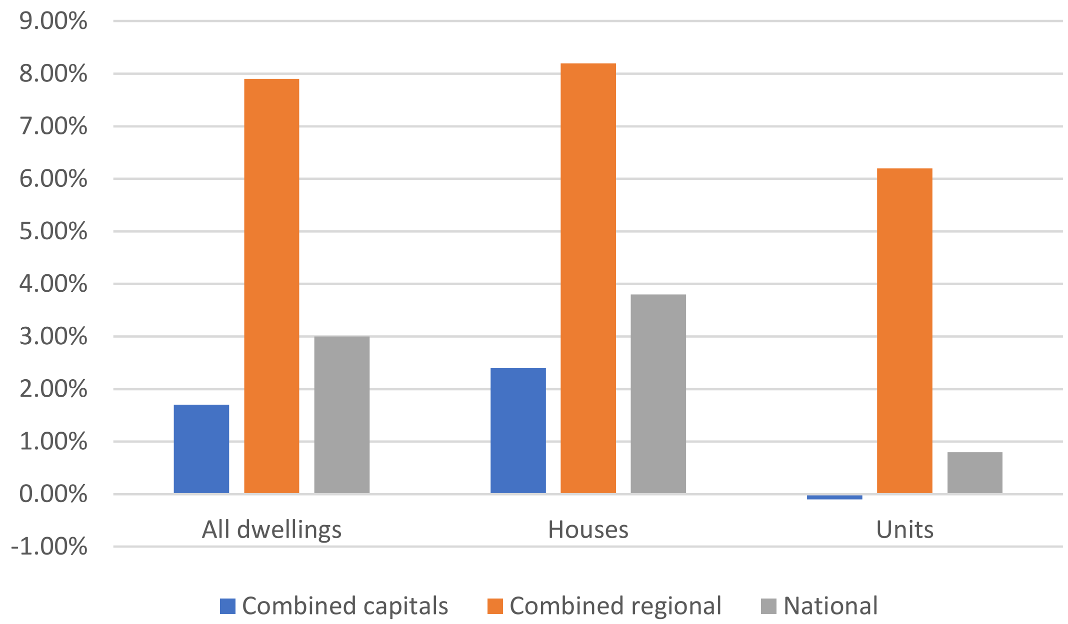
Source: ABS; Regional internal migration estimates (provisional)
https://www.abs.gov.au/statistics/people/population/regional-internal-migration-estimates-provisional/latest-release

Several interrelated factors will have been at play in these changes. The most immediate has been the COVID-19-triggered reduction in arrivals of international students and other overseas visitors. This has reduced rental housing demand in central cities and also in tourist destinations. The associated re-designation of former short-term rental accommodation into the mainstream market has boosted longer term rental supply in these locations. The result has been a notable reduction in rental values in these locations as well as apartment prices as both new buyers and investors have pulled back.

Equally, rents – as well as property prices – rose sharply in many regional areas in 2020 (Pawson et al. 2021), especially in 'life-style' destinations reportedly favoured by footloose former city-dwellers employed in professions amenable to home working. As shown in Figure 2.7, whether one is referencing houses or apartments, property prices in regional Australia rose much more sharply here than in capital cities in the year to January 2021.

An associated concern is the potential impact of changes in working practices for continued demand for CBD office space, as employers see the productivity benefits of home working as well as the potential for cost savings on office rentals. The role of technology in supporting this rapid adaptation to home working among office-based employees has been cited as a new factor influencing employers' perceptions of home working as well as stimulating demand from employees for greater flexibility in working arrangements. All of this raises the possibility that the COVID-19 shock has pushed us to the edge of a major shift in the relationship between home and work.

Figure 2.7: Residential property price changes in 12 months to January 2021



Source: CoreLogic Hedonic Home Value Index; February 2021
https://www.corelogic.com.au/sites/default/files/2021-02/CoreLogic_home_value_index_Feb_2021_1_1.pdf

2.4.2 Possible enduring shifts in the geography of housing demand: online survey results

On balance, survey respondents (87) saw it as likely that the pandemic would trigger lasting shifts in the spatial pattern of housing demand, albeit that economists were collectively less convinced – see Table 2.3.

Table 2.3: Post-pandemic work practices and housing consumption preferences will result in a lasting shift in housing demand away from cities and towards favoured regional locations (%)

	Strongly disagree	Disagree	Neutral	Agree	Strongly agree	No opinion	Total	Average score
Economist	6	26	28	30	9	2	100	**3.09**
Non-economist	3	20	20	40	15	3	100	**3.46**
All respondents	5	23	24	34	11	2	100	**3.26**
Interviewees	0	25	25	40	10	0	100	**3.40**

Source: Authors' survey

2.4.3 Experts' reasoning on post-pandemic economic and housing market restructuring

Again, this is complex area involving a range of potentially countervailing influences and essentially speculative judgements on possible behavioural changes that could result from the pandemic. Once more, interviewee reasoning usefully sheds light on expert understanding of economic and housing interactions and their possible spatial impacts.

In exploring these perspectives we first contrast the views of respondents more inclined and less inclined to the view that the pandemic will have ushered in lasting change in Australia's economic geography. We then investigate participant insights on possible changes to housing market geography at intra-state and intra-urban scales.

Changes to working practices

Acknowledging pandemic impacts on attitudes to home working, many respondents saw this as a shift generating enduring changes in the workplace practices. Respondents cited the employer recognition that home working need not compromise productivity, nor place at risk managerial control of employee workloads:

> *[S]uddenly we know that [thanks to communications technology] actually you don't have to be physically present to do an awful lot of your economic activity (Government G3).*

Many anticipated a 'new normal' of flexi-working, for example three days in the office and two days out, depending on employee circumstances and preferences. But the point was that a critical threshold in perception had been passed, and the draw of the 'water cooler' conversation has been broken:

> *[I]t's not only employees who've discovered that there are better things to do with their time than … commute in one way or another. I think employers have also discovered that allowing your staff to work from home doesn't compromise work as much as they had figured it would … people still can work in teams despite being in different places, physically (Consultant C7).*

For workers whose roles permitted this level of flexibility, less time spent commuting might also lead to better productivity overall:

> *I think hopefully there'll be some productivity improvements that come up that as well. At least not spending as much time in a car every day …. you're just doing that a few times a week (Academic A9)*

The continuing influence of agglomeration forces

A possible 'big picture' implication of the above observations would be that the COVID-19 experience has pushed Australia into a new era in the spatial economy. On this reading, enhanced telecommunications and pandemic-triggered changes in company sentiment could be ushering in a new age where knowledge industry activities may be performed by spatially dispersed workers without unacceptable loss of efficiency or creativity. If borne out, this change could substantially diminish the agglomerative tendencies that have powerfully influenced Australia's urban economic geography over recent decades. The housing market outcome could be an enduring reversal of the general tendency towards steepening property price gradients from our capital city CBDs.

Nevertheless, a number of interviewees expressed scepticism on about this scenario. Despite its huge expansion during the pandemic, teleworking was subject to significant limitations:

> *[I]n information intensive industries in particular, I think, face to face contact will remain important." (Academic A3)*
>
> *I don't know [that] everyone's going to want to work from home forever….. I think that all those arguments in favour of agglomeration will come to the fore again (Academic A6)*
>
> *I do feel that agglomeration is here to stay, and that the central structure of our cities will not change; that there will [continue to] be a premium on agglomerated locations (Consultant C3).*

More specifically, some respondents expected a return to more established working practices as the pandemic subsided:

> *My prediction is that … people will be returning to the office in the in the New Year. They may not be in the office for the same amount of time. But I think there's an expectation that they probably need [to be there] for the majority of the time…… you still can't beat face to face interaction (Government G2).*

> *There are massive benefits from being in the same place as your colleagues even aside from the social thing, just in terms of the working of workplaces…… These things happen because that's how good work gets done (Consultancy C5).*

Referencing his company's experience of wholesale home working through most of 2020, one respondent summarised the continuing draw of working together:

> *I would sum it up this way, our productivity hasn't been affected by [wholesale home working but] innovation has – if you can make that kind of distinction (Consultancy C2).*

Potential housing market impacts: rebalancing urban and regional demand

A more flexible approach to working or living arrangements could impact the geography of housing demand in an enduring way. Some interviewees recognised that COVID may have brought forward latent plans for tree- and sea-change moves. Similarly, while acknowledging that the pandemic may have given a fillip to such relocations, some respondents doubted that this would become a sustained trend:

> *The truth is that people make decisions, not just based on work … this also [involves] schools and all kinds of things come into play [in influencing] housing decisions. I don't actually foresee a lasting shift (Academic A8).*

Equally, respondents emphasized that scope for relocations of this kind was in any case largely limited to favoured individuals in certain professional occupations, able to afford home-office space, and to contemplate long distance commuting:

> *I do think that it's an opportunity to move out of the city, if they want to, depending on the sort of work that they do (Government G1)*
>
> *[E]specially for people who may have been contemplating leaving the city and may attach more value to sea-change locations (Consultancy C8)*
>
> *This could be a long-term play, but only for those with the resources and options to move (Consultancy C3).*

There may also be an age-specific component to this phenomenon, with older more established workers in a better position to consider such moves, perhaps as a pre-retirement play. On the other hand, younger workers, possibly without the resources to relocate, may be more likely to value office working – and the urban locations that implies – for both socialising and developing work contacts and networking.

The limitations of regional locations were also recognised, with several respondents sceptical that these were fully appreciated by some urban dwellings who might be contemplating such moves:

[I]t's not just about workplace agglomeration impacts. It's also about the amenities that regional Australia does not have (Consultancy C4)

I have a bit of a laugh when I see all these people … buying places out in regional towns. Having grown up in a regional town and couldn't wait to get out. And you know that the novelty will wear off pretty quickly (Government G2)

I think people love cities. I mean … living in the country? It's not for everybody. I grew up in the country. I know! (Academic A9).

Potential housing market impacts: urban restructuring

As well as offering the possibility of longer distance relocation, pandemic-triggered economic change may also impact location choices within major urban areas, compounding the attractiveness of larger suburban homes and damaging the appeal of apartment living.

The reluctance to return to public transport was also noted, with some respondents speculating that equal distaste for car commuting in the post-COVID city might spur a greater desire to avoid commuting altogether. This might lead to an expansion of suburban office hubs and co-working spaces:

I think it will deliver opportunities for suburban areas and regional areas at the margin, develop slightly more balanced economies and create local jobs (Consultancy C3)

I think we'll be seeing the benefit of hubs within suburbia (Academic A1).

Embedding of remote working practices will likely impact central city real estate markets:

Big employers are talking about a hybrid model of work – 3 days a week maximum in the office, or just coming in for meetings. In which case they don't need those [CBD] buildings any more … They'll have to be re-imagined, those [CBD] office buildings, into other activities (Academic A1)

I think it will have its consequences in terms of the value of commercial real estate and the demand for public transport and a whole lot of other elements. These are I think significant structural shifts, which will carry through for many years (Academic A4).

But again, there were counter arguments:

What's that Mark Twain quote, you know, rumours of my death are grossly exaggerated? And I think the same for this for the CBD…. I think the majority of people will want to work, either in the office or on a hybrid basis, so cities might not be 100% what they were, but the idea that we're all going to go off and have a radical tree or sea change [is far-fetched] (Consultancy C4).

2.5 Chapter summary

The potent combination of low interest rates and other forms of government stimulus were the main factors cited in support of optimism that housing construction could see a rapid post-COVID recovery. Doubts that this would necessarily occur rested, in part, on concerns that the HomeBuilder program could be more effective in bringing forward rather than sustainability expanding housing demand. Once the program ends, and especially if migration rates are slow to recover, the bottom of the residential construction cycle could be seen in 2022 rather than 2020.

In supporting the majority view that migration rates would recover only slowly, expert respondents particularly cited expectations that unemployment would remain well above historic levels for some time to come, and that this would be antithetical to the resumption of skilled migrant inflows at pre-pandemic levels. The economic case for maintaining relatively restricted permanent migration rates would be compounded by political imperatives – as a continuation of a pre-pandemic zeitgeist, rather than a wholly novel development. At the same time, a minority view that migration would be enabled to quickly recover was supported by a belief in a deep popular commitment to multiculturalism, allied to a contended bipartisan appreciation of migration as a key contributor to economic growth.

Expert opinion recognises that the pandemic has embedded remote working for substantial numbers of employees, potentially weakening the spatial connectivity of housing and employment. Many employers have come to the recognition that home working may be compatible with the continued maintenance of required productivity levels and managerial workflow control. However, while some experts accept that this could have measurable long term impacts on the capital city versus regional distribution of housing demand, many emphasize that the scope for associated sea- or tree-change moves will be restricted to a narrow range of people working in particular occupations, especially professionals. Moreover, in support of a belief that agglomeration economies will remain important in knowledge industry businesses, it is suggested that the creativity benefits of in-person interactions will place a brake on any widescale abandonment of the corporate office.

3 Economic policy, housing and inequality

3.1 Chapter agenda

Rising inequality has emerged as a significant concern in economic policy circles in recent years, as evidenced by formal recognition by such bodies as the IMF (2014) and the OECD (Balestra and Tonkin 2018), as well as through academic contributions (Piketty 2020; World Inequality Lab 2018). At least as far as the international economic institutions are concerned, this is largely attributable to concerns about economic productivity implications associated with the willingness to invest in human capital:

> *A main transmission mechanism between inequality and growth is human-capital investment. While there is always a gap in education outcomes across individuals with different socio-economic backgrounds, the gap widens in high-inequality countries as people in disadvantaged households struggle to access quality education. This implies large amounts of wasted potential and lower social mobility (OECD 2015 p15).*

Similarly, according to the International Monetary Fund (IMF):

> *'It would still be a mistake to focus on growth and let inequality take care of itself, not only because inequality may be ethically undesirable but also because the resulting growth may be low and unsustainable' (Ostry et al. 2014).*

Moreover, tolerance of rising inequality jars with the International Monetary Fund's new-found advocacy for 'inclusive growth' (Georgieva 2019).

Others argue that major concerns about the economic impacts of rising inequality follow from consequential effects on aggregate demand (Bell 2018).

In Australia, any such tendences are heavily damped by tax and transfer system effects. Such effects are conventionally credited with ensuring only very modest recent growth of income inequality in Australia, as officially analysed (Sila and Dugain 2019; Productivity Commission 2018). Thus, over the period 1988-2015, equivalised incomes of lowest decile households rose by 54%, as compared with an increase of 85% for the highest decile cohort. However, when housing costs are factored into the equation, a starker trend emerges. As demonstrated by Wiesel et al. (2018) after deducting rent and mortgage costs, the disparity between lowest and highest decile 1988-2015 growth rates was much greater: 30% and 81%, respectively – see Figure 3.1. Effectively, the rate of income increase for the top decile was 2.7 times faster than for the bottom decile.

Figure 3.1: Change in equivalised household incomes, Australia, 1988-2015

Source: Wiesel et al. 2018

In any case, income inequality is just one component of the issue. Over the last several decades, wealth inequality has emerged as driving social divisions largely underwritten by escalating residential property prices (Coates and Chivers 2019). Although precise data on the topic are scarce, Sheil and Stilwell (2019) demonstrated that in just four years from 2012-2016, the share of national wealth in the hands of the richest 10% of Australian households grew from 48.1% to 50.2%, while the richest 1% saw their assets increase from 14.2% to 16.2% of the total. Summarising recent trends, the authors commented:

> *Wealth inequality in Australia is evolving along two fault lines. The bottom 40% of Australian households have practically no share of the rising total. Meanwhile, the middle 50% of households have a declining share relative to the Top 10%, and particularly relative to the Top 1% (Sheil and Stilwell 2019).*

In the context of the current research, it's the impact of macroeconomic policy, and in particular, economic stimulation via ultra-low interest rates – recently underpinned by the adoption of quantitative easing (QE) – which is of importance. While bonds and equities have benefited from this, so too has the value of residential property as the supply of cheap and plentiful money unleashed from QE has been capitalised into prices. As acknowledged in a recent RBA report, lower interest rates have also increased the spatial inequality of housing wealth (He and La Cava 2020).

These trends also have a generational dimension. Older established property owners, including investors, have profited the most. Thus, the average increase in mean net household property wealth among 25-34 year-olds increased by just $5,800 between 2003-04 and 2015-16, but the net household property wealth of households aged 65-74 increased by $486,900 (Wiltshire and Wood 2017).

Among the more unexpected impacts of COVID-19 in Australia was the income equalising effect that resulted from Canberra's initial actions to protect livelihoods in March 2020. Mainly thanks to the JobKeeper and Coronavirus Supplement programs, the average income of the poorest tenth of Australian households rose almost 40% during the first wave lockdown. At the time of writing, however, something like the inequality status quo is being restored but not just a status quo where pre-pandemic disparities of income and assets are reinstated, but a resumption of Australia's trajectory towards greater wage inequality (Sila and Dugain 2019).

Even by the time of the research fieldwork in late 2020, with Australia's economy and housing markets beginning to show strong signs of recovery, interviewees will have been aware of the indications that inequality drivers were re-asserting themselves.

So how did our 20 expert interviewees see the effects of monetary policy on inequality, and how did they consider that inequality ranked among the key concerns of Australia's economic policymakers? In the remainder of this chapter we review their responses to two survey propositions:

- Monetary policy reliance on low interest rates and Quantitative Easing has exacerbated inequality by boosting the prices of housing and equities

- Concerns about inequality of economic outcomes are now front and centre for economic policymakers.

As will be seen, both of these assertions evoked a fairly high degree of agreement across the group – albeit that respondent observations also revealed a complex range of factors at play in this issue.

3.2 Monetary policy impacts on asset prices and inequality

3.2.1 Experts views: Online survey results

Survey respondents largely backed the view that inequality has been exacerbated by recent and current monetary policy via consequential effects on asset prices (see Table 3.1). Only 14% disagreed. The responses of economists and non-economists differed little, and the balance of views among interviewees' was likewise little different from that among the broader cohort of survey participants.

Table 3.1: Monetary policy reliance on low interest rates and Quantitative Easing has exacerbated inequality by boosting the prices of housing and equities (%)

	Strongly disagree	Disagree	Neutral	Agree	Strongly agree	No opinion	Total	Average score
Economist	6	11	17	45	21	0	100	**3.64**
Non-economist	3	8	13	48	25	5	100	**3.89**
All respondents	5	9	15	46	23	2	100	**3.75**
Interviewees	0	10	20	45	25	0	100	**3.85**

Source: Authors' survey

3.2.2 Experts' reasoning on monetary policy impacts on inequality

The strength of the monetary policy: inequality connection

Reflecting the clear balance of survey responses, few interviewees felt there was any doubt about the inequality-enhancing impacts of current monetary policy priorities:

> *Yeah, look, I don't think there's any argument about this. Low interest rates – we can see what it's done to prices. Still, depending which index you use, prices are still rising or at least not going backwards … It's pretty hard not to argue that these historic low interest rates are having impacts on asset prices and that inequality increases. Also … for those that have the money to reinvest, so the more wealth you can create. So, it will exacerbate that wealth gap [Consultant C4].*
>
> *Well we saw that with the GFC when all of this negative interest rates and all that started. All you have to do is look at income distribution patterns since then. Almost all of the gains accrued to people in the top 10 percentiles – and that's not just in Australia, but in the rest of the advanced world [Academic A2].*
>
> *It's great for me in the [equities] business, but … I think it's to the detriment of long-term growth and fairness in society [Consultant C1].*

At the same time, one respondent emphasized that Australia's current exceptionally low interest rates are not entirely attributable to policy factors:

> *We've got some very strong global structural factors that are keeping interest rates low globally [Government G3].*

And one dissenting participant challenged the consensus that the main issue here relates to the cost and availability of debt, arguing that inequality-inducing Australian house price inflation is a long-term trend more attributable to tax settings, in particular the Capital Gains Tax discount introduced in 1999:

> *I think the biggest cause of inequality … in the housing market has been this is a sort of bare bones view of what happened, as I see it, [when] from about 2000, investors poured into the housing market and pushed up house prices … you know the government's [Capital Gains] tax changes were probably the reason, certainly a key part of it [Consultant C5].*

Transmission processes and mechanics

A number of interviewees reflected in some depth on the economic processes linking current monetary policy to rising inequality:

> *[I]t was very well summarized by the speech [RBA Governor] Phil Lowe gave … when he said that one of the ways in which bond purchases work is by the people who sell the bonds to the Reserve Bank afterwards do something else with the money. And normally … they buy other assets and since the supply of those other assets isn't increasing unlike the supply of bonds, then the price of those assets, all else being equal, is likely to go up. The other way in which it works on asset prices is, of course, there's an implicit – and, in fact, in Australia's case an explicit – commitment to keeping interest rates at very low levels for long periods of time … And what that does is remove one potential source of doubt or risk for people who are contemplating borrowing money to buy assets [Consultant C7].*
>
> *[W]hen interest rates fall, asset prices tend to rise. Economic theory would [explain this in terms of falling] interest rates [leading to a fall in] the discount rate investors used to translate future revenues into present values. And therefore, the present value of future streams of revenues increases. And so you become more willing to pay a higher price for an asset [Academic A3].*
>
> *Cheap money and QE results in a portfolio balance effect that will stimulate a move along the risk curve for investors [Consultant C8].*

Monetary policy effectiveness in stimulating productive economic activity

As well as noting the damaging impact of monetary policy on asset prices, some interviewees doubted the effectiveness of low interest rates for the productive economy:

> *Quantitative easing didn't have the real [economy] … stimulus that they assumed, but it certainly did [inflate] asset prices, whether it was currency or bonds, or most importantly the stock market. And of course, the higher income earners have better access to those asset classes and so [QE] has increased inequality. And measuring inflation without including asset prices – well that's pretty misleading [Academic A4].*
>
> *[In addition to inflating asset prices] lower interest rates [can] also encourage businesses to invest in capital equipment machinery, etc, which has productivity improvements, causes employment to rise, etc, etc. But my worry is related to the [parallel] emphasis on tax cuts: that the effect comes through more in [higher] asset prices than it does through increasing [productive] investment [Academic A3].*

Redressing asset price inflation and inequality due to low interest rates

Several participants suggested that governments could act to offset the damaging effects of cheap debt due to monetary policy. One suggested that attention should be given to ways of compensating people disadvantaged as a result. More specific policy remedies were also advanced:

> *We are very light on measures that redistribute wealth. So, you know, we're one of only eight OECD countries that doesn't have any kind of estate duty … and you know we don't tax land, very much … there's a small amount that state governments collect [through] land tax but they give away more than half the theoretical land tax base by exempting owner occupied housing [Consultant C7].*

> *I'd like to see [a floor level for] interest rates so they can't go below 2% or they can't go below 3% or whatever, so that you avoid some of the over-indebtedness problems, you avoid some of the moral hazard. And you bring in that need to switch to fiscal policy much sooner [Consultant C1].*

3.3 Perceptions on official attitudes to inequality

3.3.1 Experts views: Online survey results

Survey respondents tended to reject the proposition that inequality of outcomes has become a central concern for economic policymakers, with 53% disagreeing compared to 24% agreeing. Interviewees were marginally more likely to agree (35%) compared to the sample as a whole. Nevertheless, from the interviews it was also clear that at least some of those who had agreed with the proposition in their survey response had done so on the basis that this *should be* (rather than is) the current reality in Australia.

Table 3.2: Concerns about inequality of economic outcomes are now front and centre for economic policymakers (%)

	Strongly disagree	Disagree	Neutral	Agree	Strongly agree	No opinion	Total	Average score
Economist	16	35	19	22	8	0	100	**2.70**
Non-economist	18	36	15	21	3	6	100	**2.52**
All respondents	17	36	17	21	6	3	100	**2.62**
Interviewees	15	35	15	25	10	0	100	**2.80**

Source: Authors' survey

3.3.2 Experts' reasoning on the status of inequality in official economic policy thinking

Evidence for the belief that inequality is officially disregarded

Articulating the views of many respondents about the priority accorded to reducing inequality, one commented bluntly:

> *It's not front and centre – governments are not doing anything much about it. We all talk about it but no one is doing anything [Consultant C8].*

Echoing this view was another interviewee's perception that Australia's stance here is far from internationally unusual:

[A]t the moment, I would not give high marks [on actively attempting to counter inequality] to any of the OECD member country governments [Consultant C6].

Nevertheless, a resistance to acknowledging and acting to counter worsening inequality was argued to be self-defeating for a government committed to the mainstream goal of productivity enhancement:

It's going to be very hard to prosecute economic policy that continues to polarize people … You know, regulatory reform becomes harder with gross inequity or even not so gross inequity. It's difficult to do micro economic reforms, it's difficult to prosecute … reforms in the labour market. So a lot of the things that you need to improve productivity, you run into barriers if you have a polarizing inequitable society [Consultant C2].

In justifying a belief that countering inequality is generally missing from contemporary economic policymaker priorities in Australia, interviewees taking this position tended to couch their arguments in terms of recent observed directions in Commonwealth Government tax and social security policies. Notably, there was recognition that both major political parties were complicit in this:

Well, we've got a legislated tax cut for high income earners, passed by the current government … with the acquiescence or support of the Labor Party. So if they were concerned about inequality they're not showing it. There's ample evidence that … the economic growth, which was supposed to finance the tax cuts isn't going to happen. So those tax cuts will have be paid for by high taxes on low earners or reduced services [Academic A5].

[The] tax changes that are taking place right now will hugely widen inequality [Consultant C5].

It's quite clear from the conduct of fiscal policy that that the [October 2020] budget was not framed with a view to both encouraging economic growth and more equality [Academic A3].

I don't think at state or federal level [inequality is] nearly front and centre enough … If we look at what's happening with Job Seeker and the failure to increase that. That is kind of the most basic way that you would deal with inequality and housing affordability and homelessness. It's a huge problem for those people [Consultant C4].

The most conspicuous example [of a lack of concern on inequality] is I think the reluctance to address the issue of JobSeeker and they're still playing around with it, you know, said they're going to continue [to pay the Coronavirus Supplement] beyond December but … at a reduced rate … [I]f you were genuinely concerned about inequality … if you'd have had an inequality impact statement on those key Cabinet decisions, you would never have taken those decisions [Academic A4].

Differentiating political and bureaucratic actors

A number of interviewees emphasized a view that, while it was arguably hard to discern in recent politically-authorised national policy positions, inequality concerns are now widely shared within the bureaucracy:

> *I think [concern on inequality is] there in the bureaucracy because the Treasury is close to academics and there's quite a bit of movement between the two and consulting and talking. But that's not the same as the government [Consultant C5].*
>
> *I think the underlying policy world is elevating distributional issues writ large, as a primary consideration, rather than a secondary consideration [Government G3].*

Others detected growing importance being attached to inequality among 'economic policymakers' as represented by those working in official institutions insulated from direct political control:

> *The Reserve Bank of Australia [is] clearly now conducting its operations with unemployment more in mind, rather than [only] price inflation. So it is recognizing the reality that inflation is not an immediate problem and that it needs to focus its concern on unemployment, which you would tend to be if, you know, you were concerned about social issues and equality [Academic A3].*

Why countering inequality is downplayed: Ideological objections

Equating 'economic policymakers' with 'government' and seeking to explain a view that governments typically downplay inequality as a problem, one group of interviewees saw this as influenced by ideological beliefs. 'Maybe they … still believe in the trickle-down effect' mused Academic A1. A similar perception was articulated in this exchange:

> *Interviewer: [Compared with the Australian Government] the international institutions [like] the OECD and the IMF speak a very different language on [inequality] compared with 10 years ago.*
>
> *[Yes] particularly the IMF. [It] has really shifted. [But Treasurer Frydenberg] still seems to live in the world of Reagan and Thatcher [Academic A3].*

Partly in support of a particular concern about growing inter-generational inequality, another interviewee argued that this was seen as culturally as well as inviolable across the political divide:

> *[W]e also have … this entrenched belief in Australia that crosses party lines that old people are entitled to what they've got … there's been a significant increase in the proportion of wealth held by people over the age of 65. And there's a view that they're entitled to it and woe betide any political party that thinks that they're not! And … moreover, there's also a belief which is almost unique to Australia that those people are entitled to give it unencumbered to their adult children [Consultant C7].*

Why countering inequality is downplayed: Practical considerations

For a second group of respondents, the issue was not so much an ideologically inspired denial of inequality as a concerning fact, more a desire to shy away from a recognised problem – perhaps because, in the words of Consultant C8 '[T]he options scare the electorate'. As seen by another respondent:

> *[Inequality is] a bit like climate change, you know, [policymakers] know what's happening. But they're refusing to do anything about it [Consultant C7].*

A deeper interpretation of the practical challenge involved in any fundamental assault on inequality in the Australian context was voiced by Government official G3:

> *Everyone in the inequality field always points to Scandinavia, as a model, but to actually [jump] from Australia to Scandinavian-style equalities requires a complete reworking of our policy systems in a whole range of areas and a whole bunch of different social norms. And so, clearly that's not being contemplated anywhere in the official policy family. And I think that's true, irrespective of who's in power, because I think that sort of change is … structurally too hard.*

3.4 Chapter summary

There was a clear majority in support for the proposition that QE and low interest rates have increased inequality through their impact on asset prices. The major beneficiaries have been those with greatest access to assets, including existing home owners. While this situation may be framed by the prevailing global economic context, it was also enhanced by longstanding Australian policy settings with regard to property taxation. As a result, some thought QE had failed to deliver the economic uplift needed – rather than stimulating productive investment, it has largely been diverted into savings or non-productive asset acquisition. For some, this called for a reassessment of wealth taxation policy, including estate duties or land tax reform.

But while it was generally seen that inequality had been exacerbated by macroeconomic policy, relatively few believed that an effort to contain or reverse inequality was a major driver of government policy in Australia. This was despite inequality surfacing as an important concern of global economic and governance institutions, such as the IMF and OECD. Moreover, this appeared to be a bi-partisan approach.

Explanations for the lack of obvious engagement with inequality among politicians, especially that of wealth, referred to both ideological positions reflecting entrenched beliefs about private property ownership and a continued adherence to 'trickle down' economics, as well as practical politics, with most politicians finding the idea of actions that might threaten property wealth just too hard in the current political climate. Notably, respondents noted an emerging difference between politicians and bureaucrats on this issue, with several asserting that inequality was a widely shared concern among the latter, but that this concern had yet to become apparent in policy formulations.

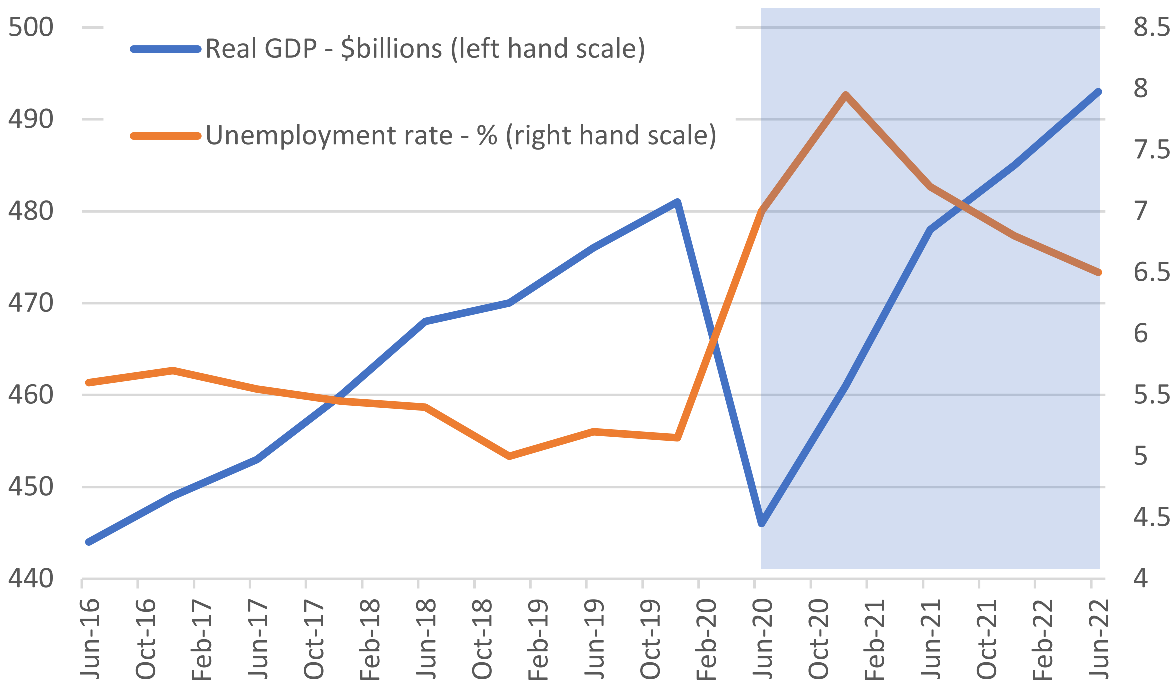
4 Post-pandemic economic recovery strategy

4.1 Chapter agenda

This research has coincided with a global economic downturn unprecedented in modern peacetime history. By mid-2020 the COVID-19 crisis had plunged Australia into its first technical recession for more two decades. And while shorter in duration and more modest in scale than the pandemic slump as experienced in many other countries, it has been an economically destructive event of large magnitude.

As summarised in Figure 4.1, by June 2020 Australia's GDP had fallen by 7.2% on the figure six months earlier, while unemployment had risen by almost 2 percentage points and was officially expected to peak at almost 8% at year end. Beyond that, even by mid-2022 unemployment was projected as remaining well above its pre-COVID level.

Figure 4.1: GDP and unemployment – trends and forecasts



Source: Australian Treasury budget papers 2020; Economic Outlook Statement charts 1 and 2

By the time of the research fieldwork on which this report is based (late 2020), signs of economic recovery were already apparent in Australia. However, emergency income and business protection measures remained largely in place. Therefore, irrespective of official forecasts, it was widely recognised that the true scale of pandemic-triggered economic damage remained uncertain.

Also important in terms of the research timing is that the interviews were undertaken shortly following the Commonwealth Government's 2021 budget; effectively, Australia's national post-COVID recovery plan. Many interviewee responses were naturally framed within that context. They will also have been informed by other aspects of official policy responses that aimed to offset the 2020 downturn. The most important of these are the Reserve Bank's base rate reductions and quantitative easing activity as announced in March 2020, actions aimed at lowering the cost of government, commercial, and household borrowing.

The in-depth interviews explored participant thinking on three online survey propositions directly or indirectly related to this topic:

- Major new economic policy efforts – other than monetary policy and additional to the measures announced in October Budget – are essential to stimulate a sustainable post-pandemic economic recovery
- There will be a significant extension of Quantitative Easing in Australia over the next 5 years with banks purchasing government debt
- Coming out of COVID 19, stimulating housing production is best achieved through social/affordable housing investment rather than private market incentives.

Responses to these propositions suggested a degree of consensus across the research participants. Most respondents generally agreed with all three assertions.

In this chapter we examine, in turn, expert interviewee thinking related to each of the above propositions. In each case, this discussion is briefly contextualised by citation of recent policy developments and/or statistical trends which will have informed respondent reasoning.

4.2 The contended need for further stimulus measures

In directly referencing the Australian Government's 2020 budget, the proposition at issue here (see Table 4.1) is alluding to a budget strategy strongly targeted towards facilitating a business-led recovery through tax reductions and concessions (Martin 2020a). Economic stimulation through ramped-up public infrastructure investment was largely eschewed.

Table 4.1: Major new economic policy efforts – other than monetary policy and additional to the measures announced in October Budget – are essential to stimulate a sustainable post-pandemic economic recovery (%)

	Strongly disagree	Disagree	Neutral	Agree	Strongly agree	No opinion	Total	Average score
Economist	2	6	17	34	40	0	100	**4.04**
Non-economist	3	3	0	45	50	0	100	**4.38**
All respondents	2	5	9	39	45	0	100	**4.20**
Interviewees	0	5	10	50	35	0	100	**4.15**

Source: Authors' survey

By an overwhelming majority (84% to 7%), online survey respondents believed that additional economic actions were indeed needed to stimulate post-COVID recovery (see Table 4.1). Sentiment was similar among follow-up interviewees. Arguments advanced in support of this majority position included concerns that reliance on monetary policy had exacerbated inequality, worries that employment-generating private investment could be difficult to evoke, and a view that the strategy lacked long-term ambition. The minority viewpoint that additional economic stimulus was unnecessary largely rested on scepticism about the case for direct government investment.

4.2.1 The case for more stimulus measures

Exhaustion and unsuitability of reliance on monetary policy

In making the case for new, additional, economic stimulus measures a number of arguments were put. Underlying this thinking was an understanding that, with interest rates already reduced to virtually zero, the scope for further central bank action here was strictly limited:

> *Well, first thing is monetary policy is essentially running out [of road] and that's global. Interest rates are at zero and they're going to stay at zero indefinitely in the future [Academic A5]*

Beyond this, and reflecting the views expressed above in Chapter 3, others argued that past reliance on monetary policy had been highly damaging in triggering asset price inflation and growing wealth inequality:

> *Monetary policy makes things worse. It's as simple as that … What monetary policy is doing via ultra-low interest rates or negative real interest rates, and … now through quantitative easing in Australia [and] around the world … [has been] holding up asset prices … And an increase in the price of assets … in relative terms is a reduction in the price of the things that most people bring to the market – whether it is their labour power or whether it is … the farm gate product or the products of sole traders or what have you [Consultant C6].*

Fiscal responses to date: a one-sided gamble

On similar lines were criticisms of the 2020 budget's central emphasis on tax cuts. From this perspective, the overall package was problematically skewed towards incentives and concessions aimed at stimulating a private sector-led recovery. In this view, the Government's reliance on stimulating desired responses by market actors was a risky gamble:

> *If your fiscal stimulus takes the form of tax cuts [the thinking is that] it will bolster confidence stimulate new investment, fuel consumer demand and result in multiplier effects that will propel us back to full capacity and full employment. But as we all know that relies on trickle-down effects because tax measures are typically received by those who have relatively high incomes and wealth and those people tend to save a large part of their of additional income. So many, for example, might really use quite a bit of those tax cuts to pay down their mortgages, rather than [for] spending on consumer goods. And [with] corporate tax cuts … companies might well respond by saying, right we'll just carry on with the investment program that we intended to execute anyway. And now it will cost us less and we can bolster our dividends, executive bonuses [Academic A3].*

A corollary was that the further stimulus measures considered necessary by many should instead focus on direct investment such as stepped-up infrastructure spending, including an emphasis on environmentally beneficial measures such as the promotion of energy efficiency:

> *What I'm kind of interested in seeing [is] … what the IMF calls the 'greener smarter fairer' initiatives … Unfortunately, we haven't really seen a great deal of that at the federal government level. The state governments have done a bit more … there are some pilot programs at least around, particularly energy efficiency in social housing. We know these things work and have lots of benefits – the cost benefit analysis stacks up very well. So just follow the economics and you'll get some good policy. [Consultant C4].*

However, Consultant C4 also recognised that reference to the experience of post-GFC stimulus programs could pose problems:

> *Looked at from a federal government perspective, there is no doubt that [pink batts] hangs over people's heads. Any life losses is awful and tragic, but I think people forget the good pink batts have done for a lot of people. Also, you know … just because you made a mistake in the past doesn't mean you can't learn from that and make sure that you have certified people doing these things [Consultant C4].*

Other interviewees advocating stepped-up infrastructure investment explicitly favoured social housing construction:

> *[There] should have been a greater focus on infrastructure [in the 2020 Federal budget], greening of the economy and social infrastructure. I would, of course, include social housing. I was surprised … [at the lack of] a greater emphasis on fiscal stimulus delivered through direct spending programs [Academic A3]*
>
> *I think the kind of stuff that Dan Andrews came out with in Victoria's brilliant. And that's the kind of thing we need … at the moment we've got a [Commonwealth] Government that's very ideologically committed to market oriented solutions and I just don't think that's enough [Academic A6]*

Indeed, as seen by one interviewee, the absence of a social housing boost in the 2020 budget was motivated by partisan politics rather than by economics:

> *I think we'll see upwards of another 50 billion in total on the budget, but what form it will take [is uncertain]. There are so many sectors that would give them pretty immediate jobs – and the housing sector, of course, I mean, social affordable housing would be a significant initiative [of this kind]. [But the Federal Government has] been really tentative about that mostly for a stupid political reason that Rudd did it, so we don't want to do it. It's nonsense … And they do believe that the private sector will just pick up the slack when they stopped funding those jobs [through JobKeeper]. That's a big assumption, I think [Academic A4]*

Lack of ambition

Another critical perspective underlying the contended need for additional non-monetary stimulus measures was the case that the 2020 budget had lacked ambition and a longer-term strategic outlook:

> *I have been disappointed that we haven't had a proper medium to long term recovery strategy … a lot of it is still in the context of short-term responses to economic consequences [of the] pandemic and most of the assistance that has been given has [been] … focused and temporary or whatever their words were [Academic A4]*
>
> *[B]y and large the stimulatory physical stimulation that we've seen has been about filling a hole, rather than creating growth [Government G3].*

A more radical analysis was that, since the economy had been already operating far below capacity even before the pandemic, the objective of 'restoring normality' was inadequate:

> *Governments need to take much bigger action and much more sustained action because … the status quo ante as we [entered] this recession was mass unemployment. The status quo ante was not full employment, full employment is 2% that's what it was for the decades under Robert Menzies in the post war period. [But] if you count the number who are unemployed, underemployed … non-participants [now] it is a huge number [Consultant C6].*

Compatible with this critique, but extending beyond it, was the view that a COVID recession recovery strategy should incorporate wider and more far-reaching objectives to diversify and restructure Australia's economy:

> *[W]e do need to diversify our export base. We're not a big enough country to rely on internal consumption to drive our economy … We do need to have a healthy export sector, and so I don't think corrective action via monetary policy [and] topping up people's incomes through transfer payments is going to cut it in the longer term ... [W]e have to do things like reinstating the manufacturing sector and getting into exports beyond the service exports that we do now and the mining exports.*
>
> *Australia has a very unsophisticated economy in many respects. So there's a great job of work to be done to improve capacities and capabilities to diversify our exports. For decades now [we have relied] on commodity exports and a few service exports. We've allowed manufacturing to wither on the vine. The COVID crisis has also demonstrated [the] vulnerability and certain supply chains.*
>
> *[The 2020 Commonwealth budget] was tactical. It was a conservative government's budget … more about stabilization. It didn't map out a grand vision for transformation of the economy. There's a kind of this a snapback sentiment to it, even though that [word] wasn't used, yet you know 'she'll be right' … 'temporary interruption to the normal service' [Consultant C2]*

A different perspective on the need for 'further measures' of a reforming nature was embodied in the contention that sustainable economic recovery would be dependent on micro-economic reform:

> *I think there's a lot of attention being given to basically pumping up the economy [but] … not enough attention [is] being given generically to supply side policies and hence the micro reform elements. [Government should be] not only pumping up the economy, but also concurrently, looking at measures that will get us closer to some semblance of allocative efficiency as we go [Government G1].*

Beyond this, it should be acknowledged that a 'more balanced' stimulus (incorporating more direct investment alongside private market incentives) was not universally favoured. One interviewee, for example, succinctly argued that:

> *Businesses are the creative part of the economy. Macro-economic policy has a place, but governments need to get out of the way [Consultant C3].*

4.2.2 More fiscal stimulus measures unnecessary or potentially damaging

On the other hand, a few online survey respondents and interviewees disagreed that additional non-monetary stimulus measures were desirable. For some, this came from a view that economic recovery was already gathering pace in late 2020 and required no more such inputs:

> *Three to four months ago, I would have sort of said probably more was needed. But, you know, as things are transpiring, we seem to be doing okay so, obviously, you'd like everyone to be back working as per normal pretty quickly [Academic A7].*

Similarly in support of a view that no further stimulus was desirable, another participant offered a more critical perspective on direct intervention:

> *Well, I've tried to learn from experience. If you look at the Rudd Government after the GFC, you saw pink batts, you saw all these federal government programs rushed out for similar reasons – counter-cyclical economic policy reasons. And look what happened – the green lines thing, the building schools education program, a series of disasters and billions of dollars wasted … I'm an adherent of the 'government failure' school. If you look at economic history since World War 2, the Federal Government has engaged more and more in the financing of … programs rather the actual delivery of programs. Nowadays it hardly delivers any [hands on] programs at all. They don't have the skills to do that any more [Academic A2].*

4.3 Expectations on monetary policy

4.3.1 Overview

Related to the proposition discussed in the previous section, the interviews also explored expert expectations on monetary policy, more specifically. In initiating quantitative easing in March 2020 the Reserve Bank had entered new territory. Even prior to the pandemic, in 2019, disappointing economic growth rates had prompted RBA Governor Phillip Lowe to float the possibility of QE deployment (Karp 2019). This, it had been argued, was a potential means of extending the potency of 'conventional monetary policy' when – having been already reduced to 0.25% – there was effectively no further scope for interest rate cuts. In expanding the money supply, QE reduces the cost of government borrowing and frees up credit that may be taken up by households and businesses. As announced in February 2021, the Bank plans a second phase of bond-buying activity, running through until at least Q3 2021.

Among survey respondents the balance of opinion was that this could continue for well into the future (see Table 4.2). As unpacked through the interviews, some saw this as an undesirable prospect but one that reflected the need to counter-balance fiscal policy inaction. The scope for extending QE without triggering inflation was another talking point. A final theme that emerged from the interviews was the belief that the Bank would wish to terminate such action as soon as possible.

Table 4.2: There will be a significant extension of Quantitative Easing in Australia over the next five years with banks purchasing government debt (%)

	Strongly disagree	Disagree	Neutral	Agree	Strongly agree	No opinion	Total	Average score
Economist	2	9	23	47	6	13	100	**3.54**
Non-economist	0	5	18	43	10	25	100	**3.77**
All respondents	1	7	21	45	8	18	100	**3.63**
Interviewees	0	10	20	50	15	5	100	**3.55**

Source: Authors' survey

4.3.2 Monetary policy necessitated by fiscal policy reluctance

For many respondents, a view that QE would be extended for some years was predicated on two assumptions. First, that economic recovery would be slow and relatively subdued. And second, that governments would remain cautious on the use of fiscal policy pump-priming measures:

> *I'm worried about how Australia is going to bounce back. I mean, we are seeing a strong bounce back at the moment, but I feel that that's just an outworking of pent-up demand … But looking beyond this, you know, next six months or something, I'm worried about our export profile. I'm worried about a slowdown in migration. So I think Australia's economy will be … at risk of, if not a protracted recession, but rather insipid growth … possibly growth without strong enough employment generation … job-free growth. I think that governments – and especially if conservative governments are in in charge – they'll be looking for these non-interventionist approaches [relying on monetary policy rather than fiscal policy] [Consultant C2].*

> *[A]t the last board meeting of the reserve bank they already just said yes, we're going to do this [extend QE well into the future]. Whatever it takes … for the next five years. They're coming out and recognizing that the Commonwealth [Government] was not doing enough [Academic A6].*

4.3.3 Headroom for QE intervention

A medium term extension of QE intervention was emphasized by some as tenable because of the sanguine official attitude towards the prospect of consequential impacts on the consumer prices index:

> *I think there is a view forming in the macro-economic policy world that there is some slack in the system and you can more or less print money to a degree without releasing inflation and so I don't know where the endpoints of that are and I don't know where people in the reserve bank might think the endpoints are, but my sense from discussions and my sense of what we're saying is that people do see some slack [Government G3].*

At the same time, others criticised this stance on the grounds that it failed to give due weight to asset price effects of monetary stimulus:

> *I suspect there is a very significant probability, which we may already be seeing, that quantitative easing is also pumping up asset prices and those sort of bubble conditions, whatever the latest geniuses say about the new monetary economics, historically quite unsustainable [Government G1].*
>
> *People say oh you'll ultimately get real sector inflation … but [in fact] the inflation has been there [already]. It's just been in asset prices …housing prices, share prices. In those circumstances, I think you've got to stop and think about … you've already got the inflation and what impact is that having? [Academic A4].*

On a different tack, another respondent questioned the feasibility of medium-term QE extension:

> *I'm not sure that there [will be a] continued appetite from banks to come to purchase bonds. I know that … so far [they have shown a] healthy appetite. But given the size of government deficits and then the amount of bond purchases … The amount [the Reserve Bank is] committing to the purchase of bonds is huge … over the next year or so. I just wonder whether or not it's feasible to carry on. I know there's a large amount of savings, you know, floating around in the economy because people haven't been able to spend … but just one wonders whether the limit to this, you know, the ability to engage in quantitative easing … before they have to turn to this alternative [where] the Treasury just sell the bonds straight to the Reserve Bank [Academic A3].*

4.3.4 Perceived RBA enthusiasm for extended QE

Consistent with the above-mentioned view – that QE has been necessitated by fiscal policy inaction – were respondent assertions that such measures were reluctantly enacted by the Bank, and would be ended as soon as possible:

> *I think the messaging from the central bank has been quite firm on [QE]. They're not that keen. I mean, obviously, they are now going down that path. But I think they'll be keen to not do as much [as might have been previously expected] and also, on the back of that, the fact that we are rebounding more quickly, the fact that vaccines are now in the mix … We're [now] seeing them very busy in the market, but even 12 months from now, that could look quite different [Consultant C4].*
>
> *I think that [there] may be an extension of quantitative easing [but I'm] not as confident now as I was when I was filling out my survey … I know that the Reserve Bank has always been very cautious on this front [Academic A8].*

Finally, beyond concerns about consequential asset price inflation and resulting inequality, one respondent argued:

> *Agree [extended QE] will happen but do not agree it should. In effect it's leading to the part nationalisation of the banking system [Consultant C3].*

4.4 Targeting government housing stimulus

4.4.1 Overview

In the event that a government decides to use direct housing stimulus to promote economic recovery, it may choose to do so by pump-priming private market activity or by investing directly in the non-market sector. In the context of efforts to revive employment after the COVID-19 recession, the Commonwealth Government has preferred to target housing stimulus to the private market. Under its HomeBuilder program, announced in June 2020, grants initially valued at up to $25k were made available to individuals to build a new home or substantially renovate an existing home, subject to income and value caps (Treasury of Australia 2020). With take-up having substantially exceeded initial Treasury projections, and with its extension into 2021, the estimated overall scheme cost grew from an initial $680 million to over $2 billion (ABC News 2021). The HomeBuilder scheme was terminated at the end of April 2021, although associated construction activity will run forward through the rest of the year.

Calls for the 2020 budget to include a national housing stimulus initiative targeted on social housing (Martin 2020b) were rejected by the Commonwealth Government, but Victoria's state government elected to initiate its own four-year $5.3 billion social housing stimulus boost (Topsfield and Millar 2020). On the whole, however, in seeking to boost recovery through housing initiatives, states and territories have preferred private market-focused schemes (which, when used in concert with HomeBuilder, have enabled beneficiaries to secure sums totalling up to $55,000 (Rowley et al. 2020)).

Table 4.3: Coming out of COVID 19, stimulating housing production is best achieved through social/ affordable housing investment rather than private market incentives

	Strongly disagree	Disagree	Neutral	Agree	Strongly agree	No opinion	Total	Average score
Economist	0	13	19	34	32	2	100	**3.87**
Non-economist	5	18	8	30	40	0	100	**3.83**
All respondents	2	15	14	32	36	1	100	**3.85**
Interviewees	5	10	20	30	35	0	100	**3.80**

Source: Authors' survey

The experts surveyed, nevertheless, tended to see direct investment in non-market housing as preferable to incentives for private market housing investment. Around two thirds of participants – in-depth interviewees and others alike – took this position (see Table 4.3). Consistent with this balance of opinion, 82% of survey respondents believed the Commonwealth Government was mistaken in excluding social housing investment from economic recovery plans announced in 2020 (See Maclennan et al. (2021).

The remainder of this section explores interviewees' reasoning behind their survey responses on this point. First, although it was a minority position, we summarise the respondent view that housing stimulus is not an appropriate component of post-pandemic recovery strategy. Next we review the various arguments advanced in favour of a housing stimulus strategy preferencing the social sector. These included the priority attached to countering growing socio-economic inequality and the contention that targeting investment as such was justifiable on cost-effectiveness grounds. Finally, we explore the minority case that housing stimulus investment is best directed to the market sector.

4.4.2 Is housing stimulus an appropriate response to the pandemic?

Before discussing the relative merits of market housebuilding incentives versus direct investment in non-market housing, it should be acknowledged that two in-depth interviewees felt the proposition rested on a false premise. In their view, the targeting of housebuilding within post-pandemic economic recovery efforts was questionable – irrespective of whether aimed at market or non-market sectors. In part, this reflected an observation that pandemic-reduced immigration would slow population growth – and therefore deflate underlying housing demand – at least in the short to medium term.

> *[I]f you're thinking about, well in the near term, and … possibly for a longer period, a reduction in immigration and therefore the overall volume [of demand] is likely to be reduced … it's not obvious to me why [we] necessarily want to stimulate production [Government G1].*

Associated with this line of argument was the contention that – recognising embedded flaws in Australia's housing system – governments should be prioritising the reform of tax and other institutional settings, over and above housing stimulus investment.

4.4.3 Arguments for stimulus investment targeted to social/affordable housing

Addressing underlying social and economic needs

Among the majority of interviewees favouring social/affordable housing stimulus in preference to private market incentives, the most widely expressed argument was that this could help redress historic under-investment in an asset class with the potential to yield social and/or economic dividends for the country – as well as benefiting disadvantaged individuals. One respondent, for example, argued that:

> *Even with the slowing of construction it doesn't seem as if there's actually going to be a huge problem of unemployment in the trades sector. So the question is more 'what would be the most socially valuable investment?' We massively subsidise private housing and do a terrible job on social housing. We've relied on the private rental market [to provide for low income households and that] hasn't been a hundred percent successful [Academic A5].*

More forcefully justifying advocacy for targeting non-market housing, another contention was that:

> *[T]here's a massive shortfall in social housing. I'm not recommending that social housing be the only form of housing provision we should be planning in the, in the future [but] in Australia, there's actually a critical need that's been exposed by the [COVID-19 pandemic] particularly in Victoria [Consultant C6].*

Expressing similar sentiments, while emphasizing a strategic housing policy perspective, was the argument that:

> *[To register a significant impact on housing affordability] you need to start making big changes to supply, especially at the low end, and for that to happen you need the social housing. I'm not a huge fan of governments building stuff themselves, but they could certainly be commissioning it – and they can obviously borrow at much lower rates … [Consultant C1].*

Arguing the case more from an economic productivity standpoint, another interviewee explained his advocacy for social/affordable housing stimulus:

> *… not so much because of the fears … about the utility of relying on private sector instruments, it's more about my conviction that social and affordable housing is essential infrastructure and we need to invest in this infrastructure in order to create a platform for a more productive … society. We've got a huge shortfall of that particular form of infrastructure. So it makes both housing policy sense … as well as good economic sense to focus on social and affordable housing [Consultant C2].*

Contending with inequality

A linked argument was the contention that targeting stimulus investment to social/affordable housing was highly desirable in terms of the need to prioritise actions that redress growing inequality:

> *[W]e need to subsidize that social affordable housing investment. The economics of it mean you can't do it without government intervention. And why wouldn't you do that in the short-term instead of giving wealthy households who were already going to spend the money on housing renovations or, you know, new home builds? [Consultant C4].*
>
> *I was thinking more from the affordability perspective and also [in relation to] long run inequality problems. The lack of social housing relative to demand for it is what I consider a long-term structural issue … This was actually a really good opportunity to …you know, go ahead and build more buildings, but do it in a way that would actually boost the social housing stock … If you're doing [it] that way the prospects of house prices kind of shooting upwards would be less, but they've chosen [instead] to focus on HomeBuilder [Academic A8].*

Cost-effectiveness in boosting construction sector employment

A final argument put by some respondents favouring social/affordable housing stimulus was the contention that this would be simply a more effective means of deploying government resources in boosting economic recovery. Part of this was about an understanding that social/affordable schemes were socially beneficial projects that could be quickly initiated. However, it also reflected concerns that private sector incentives were at risk of leakage, gaming and malpractice:

> *[I]f the government decides to build social housing you can be much more confident that there will be an increase in housing supply [than] if the government spends exactly the same dollar amount of money, giving people incentives in the form of … tax breaks or whatever [Consultant C7].*
>
> *There are more [social/affordable housing] shovel ready projects. There's no doubt about … their economic benefit. The other benefits that have been given to the housing sector over the years have been easily abused and distorted … The money gets easily mis-allocated and when you go through those private sector incentives ... As soon as you define an incentive like that there's an army of people working at ways to game it … Whereas I think affordable housing it addresses the need for low income housing and that addresses inequality. And it has a faster, more direct economic stimulus effect [Academic A4]*
>
> *[Private housing market incentives are the] housing system equivalent of trickle-down effects [termed] filtering. [Such incentives] typically will again be received more by higher income groups than lower income groups and then the argument is that … they release housing vacancies [to] middle income groups … and then lower income people filter up into those that are vacated by middle income groups and then the homeless filter up into that. But I think [the] private housing system has embedded … inefficiencies which impedes the operation of that filtering process and render it … muted. And so [if] we really do care about both stimulating the economy and providing more socially equitable outcomes direct intervention on the supply side is a better way of achieving those goals [Academic A3].*

4.4.4 Why private housing market incentives should be preferred

While outnumbered by those advocating direct investment in social/affordable housing, several interviewees took the opposite stance. To a large extent this stemmed from a belief in the inherent inefficiency and slow-footedness of government service provision:

> *Government agencies are inefficient. We need to let business in and respond – the market is best placed to decide. Governments underestimate costs and logistics of providing services and goods. Private enterprise is the best option [Consultant C3].*
>
> *You can use a … crisis like this … as a lever to get some more [social housing] investment … happening there. But I wonder how quickly that could have actually started happening …. government departments seem to take forever [Academic A7].*
>
> *[Stimulating housebuilding through private market incentives is preferable because] it's much quicker – you get things moving much more quickly. You probably heard that amazing story from the Northern Territory last week with Aboriginal housing where millions and millions of dollars had been expended and only four houses had been built. They were supposed to have built, you know, several hundred by now. And that's often the case with these government programs – the often take so long.*
>
> *Interviewer: the balance of opinion across the other respondents was in favour of focusing on social housing … why do you think that would be?*
>
> *I think they have a touching faith in the ability of government, but I don't share that [Academic A2].*

It is notable that these comments do not recognise the experience of the social housing investment program incorporated with the 2008 Nation Building Economic Stimulus Package – a venture involving 19,600 new social rental dwellings delivered on time and on budget (KPMG 2012).

4.5 Chapter summary

By a substantial majority, survey respondents believed that governments needed to commit to additional economic policy initiatives, other than monetary policy measures, and in addition to the moves announced in the 2020 Commonwealth budget. Arguments in support of this position included concerns that over-reliance on monetary policy had aggravated inequality, worries that employment-generating private investment could be difficult to evoke, and a view that the October 2020 recovery package lacked long-term ambition. The minority viewpoint that additional economic stimulus was unnecessary rested largely on scepticism about the case for direct government investment.

As to monetary policy, the balance of opinion was that RBA quantitative easing would likely continue for several years (see Table 4.2). As represented through follow-up interviewee testimony, some saw this as an undesirable prospect but one reflecting Reserve Bank recognition of the need to counter-balance fiscal policy inaction.

In the event that government opts to include direct housing stimulus within an economic recovery strategy, experts in our survey generally favour non-market housing as preferable to incentives for private market housing investment. Around two thirds of participants took this position. Arguments in favour of this stance included the priority attached to countering growing socio-economic inequality and the contention that targeting investment as such was justifiable on cost-effectiveness grounds. In part, this reflected an understanding that social/affordable schemes were socially beneficial projects that could be quickly initiated. It also reflected concerns that private sector incentives were at risk of leakage, gaming and malpractice. The minority view that favoured a market housing emphasis stemmed largely from a belief in the inherent inefficiency and slow-footedness of government service provision.

5 Land-use planning: its role in housing unaffordability and spatial mismatch

5.1 Chapter agenda

This chapter focuses on the role and impacts of the planning system[1] on the efficiency of housing supply, and the likely impact this has on housing affordability, as well as on urban economic productivity more broadly. Unlike many macro-economic processes, planning is inherently spatial in character and focus, leading to wide variations in the local context in which it takes place. Moreover, , Australia has a variety of strategic planning frameworks as planning is a constitutionally devolved responsibility with each state and territory government responsible for determining its own system. This adds significant complexity to developing an understanding of the planning system's role in economic activity outcomes across Australia.

This chapter focuses on two online survey propositions or assertions that explored expert perspectives on spatial planning issues:

- The slow processes and restrictive quality of local government planning decisions are the major cause of poor rates of housing affordability in Australia.
- Poor quality strategic metropolitan planning has led to the geographical mismatch between jobs and homes and under-supplied new places to live and work without long commutes.

The first of the propositions relates to local planning. We define this as encompassing the responsibilities of local authorities who are tasked with establishing local plans that regulate and permit development within their boundaries, and the decision making that is vested at that level, usually undertaken by elected councillors or council planning staff.

The second proposition concerns the role of strategic planning in promoting the development of regions as a whole, including the need to align both land use and economic development policies to support broader economic productivity goals. In Australia strategic land use planning remains a responsibility of state and territory governments, albeit often implemented by local councils through their local planning documents. A key function of these strategic plans is to better coordinate the future location of both housing and economic activity, as well as the infrastructure that integrates these two core functions.

While not explicitly covered in the 'metropolitan planning' survey proposition (see above), this aspect of planning also encompasses the major investment decisions made by governments on infrastructure provision, both hard (rail, road, etc) and soft (schools, health facilities, etc). Although local and state/territory governments play the dominant role in the planning system itself, Federal government is also very influential. This is true both at the level of larger scale infrastructure investment decisions, such as City Deals and other major infrastructure decisions, but also in the many other policy areas that play out in both housing and labour markets across the country. Not surprisingly, given such a multi-scalar governance context, interviewee contributions did not necessarily differentiate between these levels of government, and this is reflected in the discussion below.

1 Land use planning is broadly defined here as both planning for determining longer term strategic land uses across a region and more local development control planning regulating development.

5.2 Planning, housing affordability and urban development

Both in Australia and elsewhere, the past 10-20 years have seen a sustained critique of the inefficiencies and 'market distortions' attributed to land-use planning systems; phenomena contended as restraining market activity and therefore negatively impacting housing affordability (Cheshire 2009; Glaeser and Ward 2009; Daley et al. 2018). There is an extensive body of literature, often from an orthodox economics position and supported by the development industry (e.g. Property Council of Australia 2015; UDIA 2020), that argues that planning essentially constrains supply, thereby creating a scarcity factor that pushes prices to a level beyond which the market would 'naturally' determine. Criticism of local government planning from this perspective focuses on the duration of land-use planning decision processes, inconsistences between jurisdictions, 'overly restrictive' zoning (e.g. constraining density and height) and the susceptibility of local decision making to local resistance to development activity – the so-called NIMBY problem. In the Australian context, the roles of corruption and vested interests have also been a recurring concern (Murray and Fritjers 2017). As will be seen below, all these issues were raised by participants in this research.

As with local planning, the role of strategic planning in achieving the social and economic efficiency of a regional area, has been subject to considerable debate. Critics cite a failure of strategic planning to allow for sufficient land supply, either in greenfield locations or rezoning to allow higher densities in already built-up areas [UDIA 2020]. Further criticism has been levelled at the failure to integrate the various levels of government and decision making effectively, as well as at the sometimes disconnected land use planning and infrastructure delivery planning functions [NSW Productivity Commission 2019]. While governments have taken steps to address these issues over the years, there is nevertheless a perception that they remain as substantial barriers to housing supply.

This debate is often framed with reference to the so-called 'spatial mismatch' theory (Kain 2004). This proposes that urban development processes can led to a divergence of the location of labour and the location of employment, with an impact on economic productivity through sub-optimal human capital formation – as well as increased urban congestion and transport infrastructure costs, as would-be workers are increasingly distanced from job rich locations.

Despite the critics of planning, there is an emerging counter to this position which argues that planning is only one component of the many factors that impact dwelling prices, that it is rarely a limiting factor on housing supply (Limb and Murray 2020), and that the growing demand for housing as an investment asset is more important both over both the long and short term (Ryan Collins et al. 2017). In addition, some analysts contest the widely accepted case that Australia has been living through decades of general housing development undersupply (Phillips and Joseph 2017). This would be consistent with a view that a significant amount of post-millennial residential construction has been aimed at an international investment market detached from actual local household demand propensities. Others have argued that in practice, land and housing supply are carefully managed by the development industry to support both price maintenance as well as to manage capacity constraints (Leishman 2017) and indeed, the planning system itself assists in this process (Murray 2019).

Clearly the role of planning remains a contested area and the responses from our online survey participants and expert interviewees reflected this.

5.3 Local government planning decisions and housing affordability

5.3.1 Experts views: Online survey results

The proposition that unresponsive and over-restrictive planning practice is a major impediment to housing affordability evoked a rather polarised response among survey respondents, although with more rejecting the statement than agreeing (45% to 37%) – see Table 5.1. Economists were more inclined toward a critical view of planning than non-economists. This is an intriguing finding, perhaps reflecting different levels of engagement with the planning process between the two groups. Importantly, it should be borne in mind that the differing views about the topic unpacked in the next section are predominantly those of economists, since they comprised almost all of the follow-up interviewees (see Section 1.2.3)

Table 5.1: The slow processes and restrictive quality of local government planning decisions are the major cause of poor rates of housing affordability in Australia (%)

	Strongly disagree	Disagree	Neutral	Agree	Strongly agree	No opinion	Total	Average score
Economist	19	19	17	28	15	2	100	**3.00**
Non-economist	23	30	15	20	10	3	100	**2.64**
All respondents	21	24	16	24	13	2	100	**2.84**
Interviewees	15	35	20	20	10	0	100	**2.75**

Source: Authors' survey

5.3.2 Experts' reasoning on local planning impacts on housing affordability

As with other questions, many of our interviewees offered responses that explored the complexities around this issue. On the one hand, there was a strong view voiced by some that planning did indeed form a barrier to efficient land use outcomes:

> *The way that planning is inefficient and where the processes are particularly inefficient then you will exacerbate supply constraints ... But the experience there … also highlights that when local governments aren't really on top of the strategic needs, or they lack the resources and a number of other considerations, you'll get bottlenecks – whether they are revealed just in higher prices or, you know, [developers] voting with their feet to adjacent or nearby local government areas, one way or another it's inefficient compared with where it might be (Government G1).*

The effect of local government in impacting development in areas of rapid growth was noted, citing an example of strategic plans to release land in the suburban fringe with a major transport infrastructure investment:

> *[Council] just put a height limit [on all associated development], so [the area] didn't get the residential development. And, of course …. this pushed people … into ….. those north western suburbs, without the development of the basic infrastructure – schools, parks, you know (Academic A4).*

Respondents also alluded to the susceptibility of local planning to more malign influences:

> *We have divided responsibility. Local councils put the planning rules down and admittedly within some sort of planning structure, but then … they're only loosely adhered to. And you get a, you know, a real mixed bag of developments and approvals and it's a corruptible process (Academic A4).*
>
> *Well, it just makes it very difficult to get any new supply into the market, you know, in a timely way … All the stories I hear from CHPs [Community Housing Providers]; it just sounds like a complete nightmare, so random; borderline corrupt. [So planning restrictions are] suppressing or delaying [activity] (Government G2)*

It should be noted in relation to the last comment that in NSW at least, recent moves to distance planning decisions from local influences have attempted to address these issues. But there was a recognition that variations in the range of local government responses to development needed to be factored into any argument on supply constraints:

> *I mean, there's no silver bullet here, but some jurisdictions do it better than others ... I think the ones that tend to do it very efficiently sort of understood that the population and the business growth was actually really important to the local government, and that the planning system and its efficiency was a result (Government G1).*
>
> *[I]f you have a particular local area where local planning policies are quite restrictive then there would be an impact [on house prices and affordability] (Academic A8).*

A further view was that local government was prone to NIMBYism, especially in higher value locations with a vocal population. So, it wasn't the statutory planning process per se that got in the way, but political wariness of local voter backlash:

> *NIMBYism is a very powerful force …., particularly in respect of New South Wales (Consultant C7).*

Another perspective was that the real impact of planning restrictions was not in the time it took to determine a planning proposal, but in the development controls that constrained flexibility in supply:

> *There is no doubt that planning processes [have an effect] …. but it's a relatively small portion of the total cost. It's more the fact that we get the height restrictions or floor space restrictions, that that's the thing that is that is probably restricting the supply (Consultant C4).*

In a similar vein, another respondent differentiated between two distinct issues encompassed under the phrase 'local planning processes'; that is, the efficiency of the system itself – decision-making duration – and the outcomes of that decision, which is often a source of contestation:

> *The difficulty of this is that I think economists that see the decision making as being really important are actually conflating two dimensions. One is the efficiency of the decision-making process and clearly these are going to be made [quicker] from more efficient processes … And the second thing that I think people on that side of the fence are saying is actually that the nature of the decisions should be different. And I think the debate around the second is far more important than the debate around the first (Government G3).*

More generally, it was widely recognised that planning was only one of a range of factors, and possibly a relatively minor one, that impacted on housing supply and affordability:

> *There are bigger macro-issues that are more important. LGAs are getting quicker at turning around DAs, but it's a bigger issue than that. Federal and State government has the main levers on house prices (Consultancy C3).*
>
> *I do think planning plays a role …. both positive and negative. But I just don't think it's credible to argue – as do, say, the Grattan Institute – that the planning system is primarily at fault. I think there are a range of factors, you know, monetary policy, for example, which has helped inflate housing prices. Strong population growth … growing inequality. So there's a myriad range of factors (Academic A3).*
>
> *[Planning is] always seen as an easy target … There are reasons why you go through these processes [of planning approval] ... But I don't think going through a regulatory process to deliver a standard sort of house is a blockage to supply (Academic A1).*

The role of local planning in constraining supply was unequivocally dismissed by one urban economist, placing the emphasis on land owners who carefully manage land release:

> *There are no serious supply constraints through the planning system in our country ... In central Melbourne there's 40 years supply. 40 years supply! It is not … that planning constrains the production of multi-unit housing; the constraint rests with the holders of those developable sites. And therein lies a major challenge. How do you get them to release this land? But it's not as if the planning system is rationing. It's not the limiting factor. It definitely is not. There are incentives for landholders to hang on to their land … windfalls to be gained from that process. And so we need to look outside of the planning system to address that and, in particular, you know, asserting public ownership of development rights and taxing [them]. (C2)*

This was echoed by a housing economist:

> *We have had very healthy levels of supply in Australia compared to other countries. Perhaps they're not being built in the right places or perhaps they're not being built in areas where people really need them. But they're being built and I have more concerns about the demand side factors (Academic A8).*

The important role the development industry plays in determining supply was also a key factor which impaired the competitiveness in the market:

> *We have a system now where basically only really big companies with deep pockets can participate. So the development process was a lot more competitive in the past, lots of small players could be in it. But you know the time it takes to, sort of, you know, acquire land, get it through the system, get it developed takes a long time and deep pockets. And so it's not very competitive … particularly with move to pretty much everything being master planned and we obviously pay a price for that (Academic A7).*

The usefulness of the economic analytical methods available to assess the impacts of various factors on housing supply outcomes was also questioned. Talking about research on urban growth boundary impacts, this respondent noted:

> *We did all kinds of econometrics, and the results kept coming out that the urban growth boundary and its introduction really did increase prices, you know, after you have controlled for all sorts of things. But this was in the run up to the global financial crisis, when we had a, you know, relaxation of monetary policy going on. We had the 50% capital gains discount introduced, helping to fuel speculative demand for housing. And I couldn't disentangle [these factors] given the methods I was using (Academic A3).*

Finally, some saw the issue of barriers to efficient housing supply as being linked to the current system of stamp duty and land value taxation rather than planning per se, which led to perverse incentives to property owners, land owners and developers:

> *Well, I think stamp duty is a big issue (Academic A9)*
>
> *[Developers] are responding to incentives … [but] an appropriate tax on the on the increase in land values … could completely change the incentives of the developers and the landholders … (Consultant C6).*

Overall, then, local planning was generally seen as just one of a range of factors that act on housing supply and affordability, despite a range of well-articulated criticisms.

5.4 The role of strategic planning in urban spatial economic efficiency

5.4.1 Experts views: Online survey results

By a large margin, survey respondents agreed with the proposition that poor strategic land use planning has led to mismatches between new housing construction and the location of employment opportunities – see Table 5.2. Only 15% disagreed with this diagnosis of the spatial mismatch problem.

Table 5.2: Poor quality strategic metropolitan planning has led to a geographical mismatch between jobs and homes and under-supplied new places to live and work without long commutes (%)

	Strongly disagree	Disagree	Neutral	Agree	Strongly agree	No opinion	Total	Average score
Economist	2	15	17	51	13	2	100	**3.59**
Non-economist	3	10	13	48	28	0	100	**3.88**
All respondents	2	13	15	49	20	1	100	**3.72**
Interviewees	0	30	20	40	10		100	**3.30**

Source: Authors' survey

5.4.2 Experts' reasoning on strategic planning and spatial mismatch

Interviewees also broadly supported the indictment of strategic planning voiced in the survey proposition (see Table 5.2). Equally, however, their testimony revealed a nuanced understanding of the issue. For example, for one interviewee, it was less a case of strategic planning being inefficient in itself, and more a matter of constraints on appropriate implementation:

> *I think it's probably that I'm more concerned about the execution or implementation of those plans … And the dishonouring of those plans by the Parliaments (Academic A1).*

It was recognised that efforts to move employment into new growth areas was a perennial planning challenge:

> *I'm not sure the planners know how to actually reduce the mismatch (Academic A7).*
>
> *But they just need to have more jobs and again, that chicken and egg. When do firms have the confidence to invest and maybe their business is the catalyst that makes it happen a little bit faster. But it's very hard to plan cities (Consultancy C4).*

Equally, other respondents questioned whether the mismatch mattered or doubted that the real issue was in providing appropriate infrastructure to support access to employment:

> *I think the AHURI work that's looked at the match between job opportunities and employment hasn't come up with a lot of strong evidence to suggest that there is serious mismatch (Academic A3).*
>
> *Does it actually matter that the poorer you are the further [from the city centre] you actually live? The question is whether you then have the amenities and the infrastructure that enables you to seamlessly travel, you know, where you need to for work (Government G2).*

> *So actually investing in transport infrastructure in a city like Sydney has got the potential to tackle affordability and it's got the potential to get more people, you know, shorter commuting times (Academic A7).*

Inevitably, the tension between the longer-term objectives of strategic planning and the short-term goals of the market came up. The move to more compact development was recognised, but the market often has other objectives. Not surprisingly, the main concern was about the largest cities, tempered by a recognition that the issue varied by location and jurisdiction. In discussing the impact of planning in shifting towards more compact city development, which is thought to reduce the spatial mismatch problem, one interviewee noted:

> *Strategic planning … has actually created the change in density in cities that wouldn't have happened had you had not that strategic planning and as much as there may be problems with it, it has actually created a bit of diversity. [Strategic planners] are sort of trying to do the right thing but the market beats them sometimes (Academic A6).*

The tensions between government departments themselves were identified as a critical issue, as well as a lack of integrated strategic planning at the city level leading to a governance gap in the planning and implementation process. For example, there was a view that State Treasuries are preoccupied with ensuring plentiful supply of relatively low cost greenfield land to meet housing supply targets, very much in line with economic orthodoxy which largely ignores the spatial outcomes of policy. For strategic planners, on the other hand, expanded high density urban renewal was the key priority. As a result:

> *There is a disconnect between the way we plan for the spatial economy and the way we plan for housing production. [State governments are] prone to silos and they have different drivers ... So these two silos are, in effect, pulling in opposite directions. And institutionally we're not capable of reconciling that tension … because we don't have metropolitan governance (Consultancy C2).*

At the same time, however, other respondents felt that strategic planning had only a minor role in housing supply and the spatial outcomes it generates, or indeed, if strategic planning was much of a real problem:

> *Urban development's got very little to do with planning. It's got a lot to do with investment. The quality of planning bears little relationship to urban development in Australia, or elsewhere. The incentives are so strong for the private sector to try to make [large profits from land development] (Academic A2).*
>
> *Because there's so many macro policies that drive the [market] …. Certainly, when I talk about this to other economists, I rarely get the notion that the problem is [mainly] obstacles to supply (Academic A5).*
>
> *Strategic planning is just one of many issues (Consultancy C8).*

The recognition that the job-home mismatch was more complex was reflected in this respondent's comment, which, while acknowledging the impact of housing affordability, argued that planners needed to better understand the drivers of both housing supply and demand:

> *But if you really want a house, you're not going to live in a one-bedroom apartment. So there is a deeper issue at play that determines what those mismatches look like. And I think, it's incumbent on policymakers really to get underneath that, and try and understand how holistically, you can manage that better (Government G3).*

Finally, at least one respondent noted that there might be a more radical strategic urban policy response to this issue, that of recognising the need for wider urban decentralisation:

> *The economic argument in favour of decentralisation is now much stronger than it was in the 1970s ... It would be unfortunate not to take advantage of the [COVID] crisis to address some of these settlement imbalances (Consultancy C8).*

As with local planning, it would seem from the responses to this question, therefore, that while our panel of experts saw strategic planning as part of an issue, they understood that it might only play a contributory role in generating poor economic outcomes in our cities.

5.5 Chapter summary

Survey respondents had diverse views about the role of the planning system on the housing affordability and urban economic productivity. When asked if local government planning decision making was a major cause of poor housing outcomes, most disagreed, although economists were more likely to agree than non-economists. Nevertheless, local councils were criticised for failing to deliver clear and consistent decisions on development, especially in areas of rapid growth. NIMBY-ism could also be a problem in higher value locations. Moreover, one respondent made the point that it wasn't necessarily the decision-making process itself that was contested, but the outcomes which development proponents objected to. Others, however, saw planning as only one of a number of factors, and possible only a minor one, impacting the supply and price of housing. The role of the development industry itself in determining rates and locations of housing supply was also highlighted.

There was much greater agreement that poor quality strategic planning had led to spatial mismatches between housing and employment, especially in the major cities. However, even this level of agreement revealed a more complex range of views. Rather than blame strategic planning per se, a number of respondents recognised the challenges inherent in developing spatial plans that could encompass the complex forces driving development in a large city region. There was also recognition of the difficulties in implementing a strategic plan once it's been developed in the face of the challenging dynamics of both the market economy naturally seeking to maximise profitable development outcomes and the risks and tensions inherent in the political system.

Tensions between the goals of land use planners who developed strategic city plans on the one hand and the state agencies who determined major economic and infrastructure decision making on the other were also seen to lead to poor policy integration at the city scale. This was put down to a lack of effective metropolitan scale governance structures. Finally, there was also recognition that Australia lacked a fully developed national settlement strategy that might relieve pressure on the major cities through a planned economic and population dispersal strategy.

6 Housing and the economy

6.1 Contextualising respondent perspectives

This chapter brings together expert perspectives on the economic significance of property market trends, on housing system interrelationships with financial and labour markets, and on the consequences of housing system outcomes for economic performance. As in previous chapters, we analyse the views of our research participants with respect to a group of related propositions, the first of these being:

- Rising house prices are generally good for the economy

This alludes to the historical orthodoxy among mainstream economists and economics-trained policymakers that Australia's housing market is largely a well-functioning and efficient system operating at, or close to, equilibrium. Most famously personified in comments by former prime minister John Howard (Melbourne Age 2003; Martin 2016), and very much in tune with dominant media messaging (Pawson 2019), Australian governments have generally welcomed rising house prices as signifying consumer confidence. More broadly, even academic researchers (e.g. Gyourko et al. 2013) and government analysts have cited house prices as a barometer of metropolitan or regional success.

Ever-rising residential property values are nevertheless increasingly recognised as the single most significant driver of growing wealth inequality – both globally and in Australia (Maclennan and Miao 2017; Florida 2018; Coates and Chivers 2019). The problem is linked to rising mortgage debt and increasingly recognised as likely to add to instabilities in the macro economy and financial system (Kohler and Hobday 2019).

Related to the above statement, the second proposition considered in this chapter is the broader assertion that:

- The key difficulty is an unreformed, inflexible housing system set within more flexible and efficient financial and labour markets

This could be read as alluding to a hypothesis that, as it functions in Australia, the housing system is governed by certain key policy settings that have remained relatively static and resistant to reform over many years. Importantly, and notwithstanding growing concerns at their distorting effects, key tax rules that privilege housing investment have remained essentially unchanged since 1999. An alternative perspective could be that by being subject to ongoing (and problematic) regulatory constraints, housing system operation is suboptimal by comparison with financial and labour markets. A third reading would be that housing, by its very nature, is a relatively inelastic commodity – meaning that housing markets necessarily function in ways quite different to financial and labour markets.

The third and final proposition considered in this chapter is probably the single most important statement of all 54 devised in this research. It contends that governments have failed to appreciate the importance of the housing system with regard to its impact on national economic – as well as social – wellbeing:

- Policymakers should pay greater attention to the economic productivity effects of housing market outcomes, such as costs, tenure, quality and proximity to work.

As recognised by a number of respondents, 'policymakers' could be read as referring to officials or political players. In the context of Australia's multi-level governance it could be interpreted as applicable to state/territory governments as well as the Federal administration.

6.2 Interpreting rising house prices as a positive economic indicator

6.2.1 Experts views: Online survey results

Research participants were somewhat divided in their response to the assertion that rising house prices could be economically beneficial. A relatively large proportion – nearly a third of all respondents – were undecided on this (see Table 6.1). By a margin of more than two to one, however, remaining participants disagreed with the claim. On balance, therefore, rising house prices were seen as providing no cause for economic celebration.

Table 6.1: Rising house prices are generally good for the economy (%)

	Strongly disagree	Disagree	Neutral	Agree	Strongly agree	No opinion	Total	Average score
Economist	4	38	36	19	0	2	100	**2.72**
Non-economist	10	45	25	20	0	0	100	**2.55**
All respondents	7	41	31	20	0	1	100	**2.64**
Interviewees	10	35	40	15	0	0	100	**2.60**

Source: Authors' survey

6.2.2 Experts' reasoning on house prices and the economy

It was evident from our discussions with interviewees that they (and probably other survey participants) had interpreted this proposition in different ways. Most commonly, interviewees discussed their responses in terms of the level of house prices (in relation to incomes) in Australia, or the consequences flowing from historic house price inflation. Many comments related to the social or socio-economic implications of high/rising house prices rather than their consequences for 'the economy' as such. As implied by the large proportion of 'neutral' responses in the online survey (see Table 6.1), many participants saw both pros and cons for high and/or rising property values.

Rising prices are economically beneficial

Many respondents noted the conventional economic wisdom that high and rising property values boost consumer confidence:

> *We know that there's a wealth effect that's associated with rising asset prices. And we certainly don't want prices to go backwards [Consultant C4]*

[In] traditional economic thinking … if housing prices are rising people have that wealth effect and it helps [support] consumption spending and that keeps things ticking over [Consultant C2].

[R]ising house prices have been very much a part of the creation of confidence in the economy [Academic A6].

At the same time, several participants qualified an acknowledgement that rising prices could be economically beneficial by emphasizing that this was potentially negated when prices were inflating at 'unsustainable' rates:

Slightly rising prices are OK, but you can have too much of a good thing [Consultant C8].

It would be healthy for prices to rise, but it can't be spiralling away as it has been doing. And as it is starting to do again … In my perfect world, house prices would rise in real terms along with real wage rates [Academic A8].

[W]hen house prices are rising, rising at a sustainable rate, you know it's generally a good sign that the economy is doing well when they start to sort of race ahead at a higher rate you can start to … get a bit concerned [Government G2].

Implicit here is that while rising prices can be beneficial, excessive volatility on the upside brings with it the risk of a damaging price correction or crash. A broader contention was that:

If [they are] a genuine reflection of societal preferences and priorities [then] … rising prices can be good … [the housing system is] working effectively [if this] provides a signal for supply response. That gets a tick from me. And … if this is genuinely about societal preferences …. that's causing a price increase, that also gets a tick from me [Government G3].

Rising (or high) house prices exacerbate inequality

Reflecting the balance of opinions that rising house prices are generally bad for the economy, many respondents highlighted the effect of asset inflation on inequality:

[O]ne of the reasons [rising house prices are] bad for the economy is because they entrench inequality [Consultant C5].

[Rising house prices are] essentially a [wealth] transfer from people who don't own houses to people who do [Academic A5].

Who gains? The people who gain are those multiple property owners [Consultant C6].

The aggravation of inequality due to house price inflation is not only about the divide between those owning increasingly valuable property and those lacking such assets. It also concerns the way that inflating property values driven by falling interest rates create a situation where the growing real value of necessary mortgage deposits means that the threshold for entry to home ownership is increasingly a wealth barrier rather than an income barrier.

Others argued that excessively priced housing was problematic because it inflated national household debt to hazardous levels and/or pre-committed household income to rent or mortgage debt held against relatively unproductive assets:

> *[W]hy it's bad for the economy is all the inequality argument and the productivity effects of putting all our investment into … unproductive housing, rather than into the kind of things [that] would be much more sensible [Academic A6].*

Rising (or high) house prices detrimentally affect overall welfare

Some respondents voiced the well-worn concern that, where they push up the income (or wealth) threshold for accessing home ownership, rising house prices cause social damage by depressing home ownership rates:

> *[Partly due to property price inflation] I think we're [now] in the bottom third of [high income] countries in terms of homeownership rates. I think it's sort of very negative from a social perspective [Consultant C7].*

Another participant saw this outcome as reflecting an insufficient 'supplier response':

> *The bad side is if … you don't have a good supplier response, and if it's simply inflationary to the point where the existing asset owners get a bonus so you're locking people out of the market, that's clearly a bad societal outcome [Government G3]*

Finally, there was the broader critique that:

> *[I]t's not obvious to me that our welfare is better because the value of all houses might be high, but is that welfare in terms of, you know, what we can consume? It's a zero sum game, would be my view. Generally [having high house prices] doesn't improve our welfare [Academic A7].*

6.3 The flexibility and efficiency of housing, financial and labour markets

6.3.1 Experts' views: Online survey results

Research participants tended to agree with the proposition on this topic – see Table 6.2. Half of survey respondents (50%) agreed, while only 20% disagreed. However, substantial numbers expressed neutrality or 'no opinion'. Interviewees clearly found this proposition a complex statement. Thus, many had focused on different aspects of the statement to frame their response.

Table 6.2: The key difficulty is an unreformed, inflexible housing system set within more flexible and efficient financial and labour markets (%)

	Strongly disagree	Disagree	Neutral	Agree	Strongly agree	No opinion	Total	Average score
Economist	2	23	28	36	9	2	100	**3.26**
Non-economist	3	13	18	45	13	10	100	**3.58**
All respondents	2	18	23	40	10	6	100	**3.41**
Interviewees	10	20	25	40	5	0	100	**3.10**

Source: Authors' survey

6.3.2 Experts' reasoning on the relative flexibility of housing, financial and labour markets

While many of our interviewees argued this general case, there were distinct differences of view in terms of their analysis of 'the problem' and their prescriptions for desirable change.

A general presumption in favour of deregulation

Several interviewees expressed their support for the proposition mainly in terms of a general belief that allowing more untrammelled operation of market forces in housing would result in superior outcomes:

> *[W]e fought really hard [in the 1970s] to deregulate the Australian financial system on the basis that once you got the politicians out of it and you had the market determining interest rates, exchange rates and so on, you'd have a discipline that would drive other markets and it would drive centralized wage determination more towards enterprise bargaining, it would drive micro reform … But it never carried through to housing … And [housing is an] area where governments play politics quite openly. So they stuff up what might otherwise be sensible price signals for short-term political benefit [Academic A4].*
>
> *We have made financial markets more flexible. We have made our labour markets more flexible. But you could argue that the housing and planning system is very heavily regulated and controlled so it's that inflexibility which, you know, has made the market become uncompetitive [Academic A7].*

Whether or not explicit, it was clear that some respondents conceptualised the need for 'housing system reform' substantially in relation to a belief in relaxed land use planning regulation. Others, however, specifically argued for a wider perspective:

> *We have done amazing reforms in all sorts of areas across all sorts of industry sectors. But we just don't seem to be able to tackle this one. There are a lot of people with ideas but … maybe it does require people to say more than we need to do something about [the] planning system [Consultant C4].*

Advocacy for elimination of stamp duty

A number of interviewees interpreted the issue of housing system 'inflexibility' largely in terms of the frictional effects of stamp duty on property transactions. In advocating 'greater flexibility', their main aspiration was the elimination of this charge, as a revenue-neutral package also involving the introduction of a broad-based land tax:

> *Is there an economist who doesn't want to switch to land taxes? Just in terms of efficiency, it's a better option [Consultant C4].*

Nevertheless, others were somewhat less emphatic on this point. For example, while not challenging the argument that exchanging stamp duty for land tax would create a generally better functioning system, one respondent commented more sceptically:

> *[E]veryone says the best value you can get is from changing taxes an inefficient to an efficient tax and Land Tax is good because it ensures land is used rather than unused and ensures that it's used for something of high value, whereas stamp duty penalizes people for moving. Okay, they say that, but I've yet to see evidence that Australians don't move. And also the reason why is because the stamp duty, big as it is, doesn't mean that much to them when they buy and sell because [the cost is packaged into a buyer's] loan [Consultant C5].*

Other housing system reform priorities

Arguing that Australia's housing system was overdue for fundamental reform, one academic contended that enhanced renters' rights should form an important component:

> *[Homeownership aspiration is] ingrained into the Australian psyche … but there's been reasons for that … I mean other than the house prices going up and being quite resilient against economic downturns. There's been little meaningful reform that I can see in the private rental sector. That's a problem. I think if we can improve security in the private sector that will really help [to provide a viable alternative to owner occupation] [Academic A8].*

A broader perspective was that a housing system reform agenda needed to encompass property owner tax concessions:

> *[I]n a fairly dynamic economy like Australia's where we have embraced micro-economic reform a fair bit over the past four decades we've never been brave enough to touch housing markets. So, you know, the tax privileged nature of housing. We haven't gone there. The whole question of access to home ownership, as distinct from access to decent housing, we haven't gone there. So it's almost like a stake in the ground that everything else can change, but this is not going to change [Consultant C2].*

The housing system is efficient

Confounding the views outlined above, and perhaps representing the significant minority who disagreed with the relevant proposition, one respondent argued:

> *I think the housing market in Australia is highly efficient … because house prices encapsulate information really quickly. You look, for example, at what happens to house prices when interest rates change, or when planning changes or when taxation changes – in a nanosecond it's reflected in real estate prices. That's an efficient market. When I first got to Australia I was struck by how efficient housing markets were compared with other places I've been. It's probably the most efficient part of the Australian economy [Academic A2].*

Wider contemplation

Beyond the contestation of 'housing system inflexibility' and what actions could or should be prioritised in response, several other respondent perspectives were advanced in discussing this proposition. Some challenged any implication that housing markets could be configured with flexibility equal to financial and labour markets:

> *Well, you can't just go and sell a house like you can an equity. And then I mean, for most people, that's their biggest asset. People have an attachment to their homes [Academic A9].*
>
> *The bit that I think's missing is government playing its stewardship role in relation to the group of people who it thinks need housing support. And on this I think the key bit is that the housing system is always going to be less flexible than the financial and labour market system …... I don't think you can design a housing system that is as flexible [Government G3].*

Others disputed the proposition's implication that Australia's labour markets were essentially flexible and efficient (casualised):

> *I don't believe we have efficient labour markets … I think we actually have quite a highly regulated, you know, labour market … I think there is a lot of inefficiency [Government G2].*
>
> *I mean, people talk about casualisation and everything. There are actually a few studies done by some pretty good labour economists at the University of Melbourne, which suggests that that is probably a bit overstated. But nonetheless, you did get it in the 90s and they were making the point that you had this structural change, but then in the more recent decade or two, there's actually been no perceptive trend towards casualisation. It's like it was sort of a product of the 90s [Academic A7].*

A particular angle here was that voiced by respondents who challenged the proposition in terms of the bracketing of flexibility and efficiency:

> *I was a little bit uncertain about whether [we actually have] more efficient labour markets and financial markets. There is a presumption that … deregulated financial markets will necessarily be more efficient. Okay, so there are good arguments. But, on the other hand, you know, there are some negatives. You know, if we allow deregulation to go too far we can get … moral hazard issues with too much risk becoming embedded within the housing system. That's not …necessarily efficient. Yes, there can be deregulation which improves efficiency but [it can be] taken too far … [B]anking and financial institutions are very powerful lobbying groups and you know they can push governments to … deregulate to, to an extent, whereby we get too much risk embedded within the system. And that's not efficient [Academic A3].*

Finally, applying a more historical perspective, a respondent reflected on the ways that financial system de-regulation under the Hawke/Keating governments, and the failure to accordingly reform property owner tax settings had contributed to contemporary housing system failings:

> *If you go back to the 50s, when we had the same kind of housing system that we've got now and [a] more regulated financial system [which, through deregulation] we made … more efficient. [But this] created huge problems in our housing system as a result of that … partly because we made finance available and that made people borrow and that made house prices go up, and then we had a tax system that let people capture the gains … So what's inflexible? Is it the tax system, [or] is it the housing system? They're all so interlinked that I don't know that you can actually pinpoint inflexibility in one or the other. The tax system wasn't a problem in the 1950s because we didn't have … asset price inflation. Once [this] came into it the kind of tax system we had became a problem and we didn't change it [Academic A6].*

6.4 Official appreciation of housing system effects on economic performance

6.4.1 Official appreciation of housing system effects on economic performance: Experts' online survey responses

In one of the most decisive results across all 54 survey propositions, 85% of respondents backed the case that governments fail to properly appreciate the importance of housing system outcomes in influencing economic performance. As shown in Table 6.3, less than one in thirty respondents (3%) dissented from this view.

Table 6.3: Policymakers should pay greater attention to the economic productivity effects of housing market outcomes, such as costs, tenure, quality and proximity to work (%)

	Strongly disagree	Disagree	Neutral	Agree	Strongly agree	No opinion	Total	Average score
Economist	0	4	13	43	36	4	100	**4.16**
Non-economist	0	3	5	35	58	0	100	**4.48**
All respondents	0	3	9	39	46	2	100	**4.31**
Interviewees	0	10	5	40	40	5	100	**4.16**

Source: Authors' survey

6.4.2 Experts reasoning on why economic policymakers should pay greater attention to housing system outcomes

Since the majority of respondents supported the proposition, most of the relevant interviewee testimony involved explanation of what respondents saw as important housing system impacts on economic performance – impacts generally believed to be under-recognised by economic policymakers. Some supporters of the proposition also reflected on the possible reasons for what they saw as official under-estimation of housing system effects on productivity and growth.

Finally, two respondents took a much more sceptical view of the proposition.

Spatial mismatch and the wastage of human capital

By far the most frequently cited instance of housing system impairment of economic productivity as it affects Australia concerned the spatial mismatch of employment and housing, particularly housing for low to middle income workers:

> *As long as we're above some minimum [housing] standard, the main productivity effect [of the housing system] is proximity [to employment] [Academic A5].*
>
> *Obviously if particularly lower income groups are compelled to reside in locations distant from employment opportunities that that suit their skills … then the labour market will operate less efficiently than would otherwise be the case [Academic A3].*
>
> *[T]here's an awful lot of time that's being wasted by people having to commute. And I think that's now been very starkly recognized at least by white collar workers, for whom working from home is an option … there are better things to do with an hour or two at the top and tail of each day than … sitting on crowded train sniffing other people's armpits, or, you know, getting frustrated at, you know, sitting in traffic jams … And … clearly people … are wasting more time commuting because of the inability of the housing system to deliver them housing prices they can afford in reasonable proximity [to their] work [Consultant C7].*

[I]f we look at [Sydney and Melbourne], the type of commutes [that] happen, we know that, for example, the so called 'spatial leash' effect that women are the primary carer so you get people who are either not working or working in jobs for which there are overqualified because of distance and that obviously is a loss to productivity [Consultant C4].

Academic A3 also reflected that, historically, there would have been a strong case to argue the damaging economic effects of 'housing outcomes' being transmitted by the health impairment resulting from poor physical housing conditions. In modern Australia, however, this may be less of a concern.

As contended by another interviewee, this was not a static situation; rather, the spatial dynamics of housing and labour market in Australia's major cities are acting in opposition to one another:

[I]t's about efficiency of labour markets and the fact that the housing supply systems that were put in place [are] forever pushing people further and further away from where the jobs are. So there's a centrifugal force to housing production and a centripetal force to job creation. And I'm talking here more about knowledge intensive jobs that I think, even post-COVID, will continue to be drifting in towards CBDs and other agglomeration situations. Whereas, we're still building half of our housing out on the urban fringe at ever more distant location. So what that's doing is wasting human capital, and we can't afford to waste human capital [Consultant C2].

Some respondents argued that, to address such challenges, governments should more actively seek to encourage the decentralisation of employment and/or the densification of residential development:

[F]rom an environmental and social perspective, there's lots to be gained from having higher density. So, analyzing which suburbs reasonably have more density where you won't clog up the existing road and rail networks, understanding what that looks like and then understanding what the balance is. Do we need to provide more incentives for firms to locate to Parramatta or Liverpool? Maybe that's part of the equation. Because if you let a city just naturally progress, it's going to take a very long time and you will have less than optimal outcomes [Consultant C4].

Unproductive investment and the exacerbation of inequality

A different concern voiced by one respondent was the contention that excessively expensive housing diverted investment into an inherently unproductive asset:

Take mining out of the picture, all of the [other] investable surplus goes into sphere which is like a black hole. So that is just absorbed into house prices. …. So … we need to redirect investment away from unproductive housing into productive industry. And then finally, in terms of inequality. Considered as a as a determinant of economic performance … it also, of course, has massive economic consequences in terms of acting as a drag on the overall potential of the economy [Consultant C6].

Explaining the under-estimation of housing system effects on economic performance

A number of interviewees reflected on the underlying factors that might explain how it is that economic policymakers – and economists in general – have tended to under-appreciate the significance of housing outcomes on the economy. Several respondents saw this as partly a result of a data – or evidence – gap:

> *I think [economic policymakers under-appreciate housing system effects] because it's so hard to measure some of these outcomes … One of the reasons why they don't get the kind of attention they should get is this is not easy to put a single number on anything. And it's too many alternative explanations and policymakers really need to have a nice clear unambiguous explanation … How do you measure insecurity? How do you put a dollar value on insecurity? [Academic A6].*
>
> *Part of it [is] because we haven't yet got the … solid evidence base that we can put underneath the noses of policymakers [to say] 'With … a considerable portion of our housing stock inadequately supplying that kind of infrastructure, these are going to be the productivity effects of that down the road in terms of percentage points in economic growth that we're gonna forgo'. I don't think we've quite got that evidence based nor in a micro-economic setting, you know, we haven't got the kind of … natural experiment type studies. [[Academic A3].*

A slightly different take on this was the view that members of the broader economics community (as opposed to housing economists, specifically) are more attuned to housing system impacts from a macro-economic perspective:

> *I think economists these days, generally acknowledge that housing has an impact on the economy, but really from a very macro sort of perspective … [F]or instance, that if house prices are rising that people feel wealthier. So, you get that confidence effect, which would then, in turn, perhaps promote spending. But those are all very macro level type of arguments. [But] because I'm a micro economist, I like to think about the micro processes and the community … Intricate things like whether you're a homeowner versus a renter and [how this affects] your labour market mobility. Those are really important, but they are not usually the headline findings in the media [Academic A8].*

Finally, an alternative perspective to this debate offered by a Government interviewee was the point that official institutional structures disadvantage housing:

> *Interviewer: Why is housing, in particular, overlooked [in terms of] the connection between the housing system and economic productivity?*
>
> *Well at the Commonwealth level because there's really no area that looks after housing. So … you've got a Department of Education, you've got a Department of Health, even though these are serviced delivered through the states. [Whereas, for housing] it's … a little … part time group of relatively junior people in Treasury. [A dedicated housing focused team] is just completely missing at the Commonwealth level [Government G2].*

Challenges to the proposition

Two respondents challenged the proposition – or, at least, their interpretation that the proposition implied a need for more active 'market management':

> *Well, I wasn't quite sure what this means, to be honest ... In an idealistic way, you know, you want policymakers to take into account all those things. But I'm not quite sure how they are actually going to do it … I mean, how are they going to do that? I mean, I've read lots of housing reports by public servants who are very good at writing noble looking statements and where they will talk about all these things. Beneath that there's actually no substance … So that's me being a little bit cynical [Academic A7].*
>
> *[My online survey] answer [on this proposition] reflects more of a philosophical position. Government should be about reducing red tape and letting the free market take a lead. Let the market decide the outcomes [Consultant C3].*

6.5 Chapter summary

High and/or rising house prices were generally considered as economically damaging, despite the acknowledgement that they could boost consumer confidence. But for many of our experts, any associated benefit was outweighed by the likely aggravation of inequality that results from sustained asset inflation. Similarly, high and/or rising house prices were problematic because of the resulting suppression of home ownership rates – detrimentally affecting population welfare.

The balance of expert opinion saw the housing system as 'unreformed' and relatively inflexible and/or inefficient by comparison with finance or labour markets. For some, this reflected a belief that governments had lacked appetite for necessary de-regulation of housing (e.g. in relation to planning constraints). For others, more important arenas of inaction concerned tax settings – especially stamp duty, but also property owner income tax concessions. While historically benign, changing socio-economic conditions had rendered them in need of reform that had been so far eschewed:

> *The tax system wasn't a problem in the 1950s because we didn't have … asset price inflation. Once [this] came into it the kind of tax system we had became a problem and we didn't change it [Academic A6].*

A number of different perspectives underlay the overwhelmingly dominant view that Australian governments need to pay greater attention to housing system effects on economic performance. The housing system's tendency to exacerbate spatial mismatch was noted by many. Another concern was the opportunity cost (as well as the financial stability risk) arising from the channelling of debt-fuelled investment into housing stock as an essentially unproductive asset. Officialdom was seen to under-rate the importance of housing in this realm partly because of the relative absence of quantitative evidence for resulting economic impairment, but also because of the lowly and fragmented status of housing in the institutional structures of government.

7 Conclusions

The research for this report was undertaken at the end of 2020. Six months have passed since then, yet many of the expert observations summarised in this report are remarkably prescient. For example, while the acceleration in property prices in the last six months has perhaps been a surprise to many given the pessimistic expectations as the pandemic took hold earlier in 2020, our experts foresaw the impact of both QE and exceptionally low interests rates as likely to drive asset prices rather than boost productive enterprise. This is indeed what appears to have transpired. In the process, this stimulus has been seen to widen inequality as those with the largest housing assets have benefited the most.

Given the survey timing, we spent some time exploring expert expectations of the post-pandemic recovery under likely policy settings. While views were mixed, overall, it was felt that immigration would not recover until at least 2022, if not later, in part to ensure unemployment rates are kept low. This also appears to have been borne out by current government policy, with international boarders not due to reopen until at least mid-2022. However, it should be noted that pressure for earlier border relaxation is already building from the residential developer lobby, seeing this as a major impediment to returning to viable business models driven by maintain high immigrant numbers.

While it was generally expected that QE would continue for several years to come, a strong message was that government will need to commit to additional economic policy initiatives, other than monetary policy measures, to maintain the post-pandemic recovery. And, despite some scepticism that interventionist policies can be inefficient and slow, there was an equally strong message that any further stimulation of the housing market needed to be in the form of direct investment in the supply of social and affordable housing, not demand-side stimulation which was seen to simply be capitalised into house prices.

There was also much debate on the possible threat to the viability of central business districts as workers and employers realised that working from home was an acceptable and preferable option for those whose jobs and homes enabled them to choose this option. At the time of the interviews, anecdotal evidence of surging regional house prices and rents seemed to point to a more fundamental urban exodus. Expert opinion was split between those seeing this as a pivot point for our cities and those who took a more optimistic view on urban attractiveness. While the evidence is not yet in on the extent to which our central cities will be impacted by COVID-inspired changes to working practices, those who doubted a major reduction in agglomeration economics may be closer to the eventual outcome.

But while these immediate impacts of the pandemic were very much to the forefront of experts' thinking, the research also emphasized that the housing market poses potentially much more significant longer-term threats to the stability of the Australian economy. Most importantly, many noted clear negative economic productivity impacts from the rising housing costs which have typified our economy since the 1990s. The growing influence of 'spatial mismatch' loomed large. This references, on the one hand, the location of new housing development and an increasingly polarised housing market between high and lower value areas, and on the other hand, the location of employment opportunities stemming from agglomeration economies. This was seen to impact labour market efficiency and human capital formation. The diversion of financial flows into largely unproductive and over inflated patterns of housing consumption rather than into productive enterprise (new housing development aside), aided by both cheap money and long-established and largely regressive taxation settings, was also recognised. And particularly for renters and first homebuyers, the high cost of housing in displacing general household consumption into paying for expensive housing, thereby reducing overall levels of demand in the economy, was also noted.

A further facet of current policy approaches is the policymaker belief that a major part of the housing supply, and therefore housing affordability, problem is the constraining impact of the planning system. On this controversy expert views were mixed. While most disagreed that local planning was a major housing supply constraint, it was seen to inhibit market efficiency and present barriers to more rapid development, especially in key locations. But in addition, the role the development industry itself played in controlling the rate and location of housing supply, and therefore its price, was also widely recognised. Clearly, the land use planning and housing development process defies recourse to standard economic nostrums. But there was greater agreement that strategic planning processes had been historically unsuccessful in managing our urban areas to deliver coordination between housing development, infrastructure provision and employment growth - especially within a dynamic market driven context coupled with short-term political decision making.

But an overarching conclusion from the analysis of the responses of the 20 economists and housing observers presented in this report, supported by the response to our on-line survey of 87 experts, is the failure of policymakers and governments across Australia to fully grasp the importance of housing market outcomes in influencing national economic performance. There was also widespread acknowledgement that governments continue to pay inadequate attention to the potential negative economic repercussions of growing inequality, largely defined by housing wealth and location - despite international recognition of this issue. Those commenting on this saw it largely as reflecting entrenched beliefs about private property ownership and an adherence to ‘trickle down’ economics, as well as a reluctance of both sides of politics to face up to the implications of acting to restrain wealth creation from property ownership.

Perhaps the most telling criticism of policy making with respect to housing was the observation that while labour and financial markets had been subject to several decades of micro-reform, little had been done to reform the housing market. Tax and subsidy settings had remained basically intact over many decades in their support for property ownership; initially for home ownership but more latterly for rental investment as well. Some of our experts considered this to reflect an ingrained political reluctance to address the increasingly negative effects of continued house price inflation. Others saw a political reluctance to deregulate housing supply; for example, by relaxing planning controls. Either approach would be a political minefield, of course.

We concluded that government reluctance to fully face up to the role and impact of the housing system within the economy was in part due to the lack of quantitative evidence of the negative impacts involved . Subsequent reports in this series will consider this evidence in detail.

But perhaps a more fundamental cause of this policy lacunae identified by our experts was the fragmented institutional structures within which housing policy is undertaken in Australia, both at Federal as well as State and Territory level. The split of policymaking between various departments and agencies and across various levels of government detracts from any proper appreciation of housing as an interconnected system. This has resulted in key economic policymaking agencies with little in-depth institutional knowledge of housing as an integrated and spatially diverse policy domain. There are signs this may be changing: at Federal level in the formation in 2018 of the National Housing Finance Investment Corporation, for example. But there is no Federal expertise in land use planning, while private rental policy is a sub-set of the social welfare benefits system and social and affordable housing is largely relegated to offshoots of broader social services departments at State and Territory level. Without an integration of housing policy responsibilities across these governance levels, it is likely this malfunctioning policy environment will persist.

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Appendix 1 – Online survey methodology details

Questions

The questionnaire was designed to solicit the participants' level of agreement to 54 statements, structured under the following headings:

1 Likely effects of the COVID-19 recession in Australia

2 Australian Government responses to the COVID-19 recession

3 Macro-economic policy

4 Housing and macro-economic policy

5 RBA monetary policy

6 Housing and demographic outcomes and their possible impacts on the national economy

7 Housing and urban economic productivity

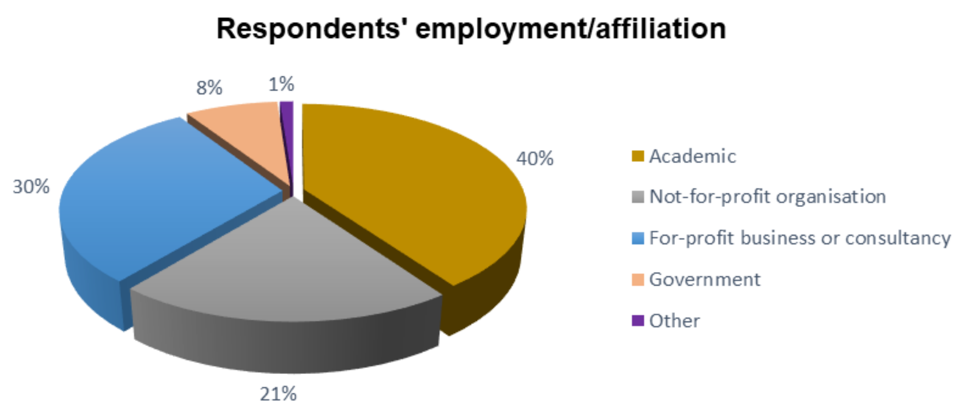
8 Possible new thinking on housing and the economy

9 Explaining and countering house price inflation

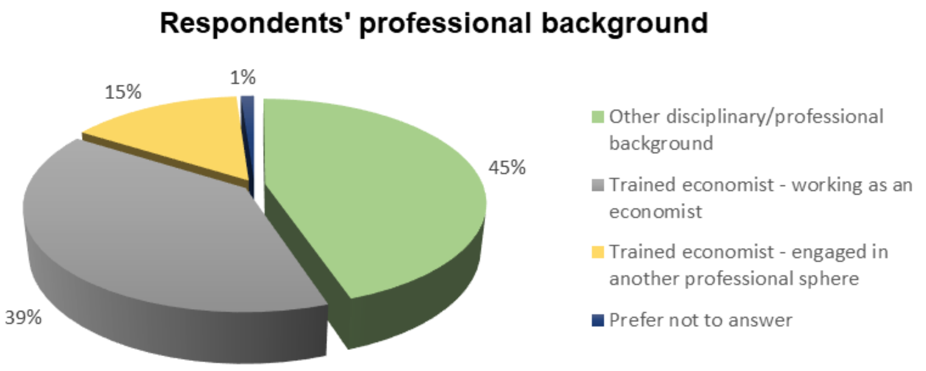
A Likert scale was applied to the questions with five levels (1 to 5), including "strongly disagree, disagree, neutral, agree, strongly agree". An additional option of 'no opinion' was provided in case the respondent is out-of-scope for that question.

Participants

In total, 169 were invited to participate (Female no=52, Male no=117) including 47 Conversation panellists. Eighty-seven valid responses were returned, representing a response rate of 51%. Seventy participants declared their name, indicating willingness to participate in a follow-up on-line interview. The respondents included 35 (40%) from academic sector, seven (8%) from government sector, 18 (21%) from not-for-profit organisations, and 28 (30%) from for-profit business or consultancy.



The majority of respondents (54%) were trained economists with 39% working as economists and 15% engaged in another professional sphere. Less than half of participants (45%) were from other disciplinary/professional background.



About two third of participants were male (71%) with only one-third (26%) female. More than half (61%) of respondents are middle-aged (between 45 and 65), and only 11% less than 44 years old.