

D. R. DOSSETOR LECTURE

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Sydney

Bob Day

Home Australia

Australia's Housing Industry:
Freedom in Action.

I am both delighted and honoured to deliver this address today. The D R Dossetor Housing Lecture is one of the major events in our organisation's calendar. Through the Dossetor Address we pay tribute to one of the giants of our industry but, more importantly, we take out some time to reflect on who we are, where we have come from and where we are going.

Randal Dossetor OBE DFC was one of that great generation of Australians who fought the Second World War. His generation was first shaped by the grim experience of the Great Depression and which then attained maturity in the great global conflict which began in 1939. He served his country with valour and distinction and was awarded the Distinguished Flying Cross.

Randal could have easily rested on those laurels. The men who carried the burden of World War II never enjoyed a care-free youth. They were tempered by war. In a sense they were forced to grow up too quickly. But their trials enriched them rather than diminished them. His generation returned from war and quickly assumed leadership positions in our society where they created that marvellous post-war period characterised by growth, achievement, prosperity, and widespread happiness. If the fifties and sixties could be described in four words; it was the era of the family.

In Randal's case his contribution lay in the area of housing. Over his long working life he excelled in every facet of our diverse industry. At various times he was involved in construction, finance, land development, building supplies, and of course the formation of this great industry association of ours. It was a measure of his personal qualities that he was successful at whatever aspect of the industry he directed his efforts towards.

Like many in this audience today, I was privileged to have known him personally. His dedication, integrity and wisdom should continue to be our 'permanent survey mark.' We can offer no greater tribute to Randal Dossetor than to dedicate ourselves to building on his splendid legacy of service. I hope that my words today are fitting in every way as a tribute to him.

Randal Dossetor's association with HIA began with the formation of the Builders & Allied Trades Association (BATA) in 1946. This was the forerunner to the establishment of the Housing Industry Association (HIA) in 1964. This year therefore marks the fortieth anniversary of the founding of the HIA that we know today.

In 1964 the concept of universal home ownership, as the embodiment of the 'Great Australian Dream', was one of the potent symbols of our national ethos. Today we face a great challenge - some might use the term 'crisis' - to describe the circumstances now confronting us. That great challenge is to keep the reality of universal home ownership alive. The reality of

yesteryear is now becoming an impossibility for an increasing number of Australians. Access to the housing market has become impossible for far too many Australians. The Australia that Randal Dossetor helped to build is fading into memory. In its place is emerging a society where home ownership is becoming the privilege of the few, rather than the birthright of the many. This has profound, and I would argue serious, consequences for our nation.

My aim today is to analyse the nature and the causes of this crisis, and to offer some proposals about how we should fix it.

As I said, home ownership is central to our conception of who we are, and what kind of people we are. An Australia in which home ownership is the privilege of the few rather than the birthright of the many, is not the Australia which Randal Dossetor went to war to defend, and to which he dedicated his working life. If we meekly acquiesce in the emergence of this new state of affairs, we are derelict in our defence of the legacy which Randal Dossetor and his generation bequeathed to us. And while every industry clothes its own agenda with the mantle of representing the national interest, I believe that we in the housing industry can properly claim that a healthy, competitive housing industry; building homes which become the property of the people who live in them; is essential if we are to have a healthy, vibrant, growing Australia.

There are some very distinguished Australians who agree with this claim. In his celebrated 'Forgotten People' address in 1942, Robert Menzies identified the moral component of aspiration to ownership of a home. Menzies saw with simple clarity the moral, social, emotional and indeed spiritual, importance of the family home. His words are still true:

"The material home," said Menzies, "represents the concrete expression of the habits of frugality and saving 'for a home of our own.' Your advanced socialist may rage against private property even whilst he acquires it; but one of the best instincts in us is that which induces us to have one little piece of earth with a house and a garden which is ours, to which we can withdraw, in which we can be among our friends, into which no stranger may come against our will."

Menzies understood that the human instinct to build and bequeath a home to our offspring sent lasting ripples of frugality, responsibility, and a care for property, through every aspect of our social life. One of his most profound observations was:

*"I do not believe that the real life of this nation is to be found either in the great luxury hotels and petty gossip of so called fashionable suburbs, or in the officialdom of organized masses. It is to be found in the homes of people who are nameless and unadvertised, and who, whatever their individual religious conviction, see in their children their greatest contribution to the immortality of their race. **The home is the foundation of sanity and sobriety; it is the indispensable condition of continuity; its health determines the health of society as a whole.**"*

When Menzies regained office in 1949 he matched his rhetoric with deeds. He presided over an Australia with enviable levels of home ownership. Nor is it any coincidence that this was an Australia with low levels of unemployment, low interest rates, high immigration, and a high degree of social cohesion.

With the traditional family, secure in its modest home, as the basic building block of community, Australia was a nation much envied by other nations. During the Menzies era many hundreds of thousands of immigrants came to Australia and they and their descendants have, beyond all proportion of their numbers, helped to make this nation what it is today. But the Great Australian Dream is slipping away from a rapidly increasing proportion of our people, and we must reverse this process. Failure to do so will lead to grave consequences. As Menzies said, the virtues of frugality and responsibility are the hallmarks of a society which extols home ownership. People save to buy homes. When they own their home they express their values within it; they improve it; and they instil a respect for property to their families which permeates the entire national culture. And the family home becomes the first symbol of the continuity of family life from one generation to the next.

The ripple effects from these important values of labour, frugality and loyalty, permeate every level of society. Homes are havens for raising children. They are our best schools and our most efficient hospitals. They give people a sense of belonging, of security and of having a real stake in our democracy.

In the absence of high levels of home ownership, or indeed any realistic aspiration towards home ownership, our society would be unrecognizable from the nation built by Robert Menzies, Randal Dossetor and their contemporaries. Immediate gratification and ephemeral consumption will replace thrift. The incentive to work hard, to save, and to become engaged as a citizen will decline. The widespread understanding throughout Australian society of the centrality of property rights, which is based on home ownership, will diminish.

The moral effect of all this is potentially serious. The diligent middle class and the aspiring working class constitute a sobering restraint on the recklessness of governments and the social engineers who occupy positions of power within the bureaucracy. The nexus between interest rates and housing affordability is well recognized. However, too few commentators understand how this contributes to the common sense conservatism of the average hard-working Australian. People who toil to put a roof over their families' heads have little time for extravagant schemes that squander their taxes and push up interest rates. This acts as an important reality check on fiscal adventurers. It is the cornerstone of our democracy. If we become, in the main, a nation of itinerant lodgers, with no sense of place or belonging, this vital check will be removed.

The changes we now observe with concern are not the consequence of forces beyond our control. They have come about because we have passed the wrong laws and pursued the wrong policies, and culpability for that must be laid squarely at the feet of all spheres of Government – Federal, State and Local, who have, through a plethora of arrogant and foolish policies, undermined the foundations of the Australian dream of universal home ownership.

Let me make my position crystal clear: - I believe in the free market. The free market is morality in action. It thrives on freedom of choice, the honouring of contracts, and respect for property. The free market, and the institution of private property which is the foundation of the free market, is arguably the most important element of Western society. One of the great achievements of the common law of property and the common law of contract, as it has developed over the last two centuries, has been the reduction in levels of inequality, and improvements in the standard of living within the West, which are without precedent in the

history of mankind. This explosion in prosperity has more recently moved from the West to those nations in East Asia who were able to adapt their institutions to accommodate the basic ideas of property and contract.

Since the mid 19th Century however, a myth had grown that under free markets, and the property rights which support the private enterprise system, the rich would get richer and the poor would become poorer and more numerous, and that this increasing gap between the rich and poor was the consequence of private property, and the inevitable exploitation of the poor by the rich. Private property was the chief villain in this drama, and one of the reasons behind Robert Menzies' determination to foster a nation of home owners in Australia was to inoculate, through home ownership, the Australian people against the socialist myth.

This abhorrence of private property was the central pillar of the socialist dogma, and we saw its culmination with the fall of the Berlin wall in 1989.

Wherever the free market has been permitted to operate; wherever property rights were secure and contracts were honoured; the average citizen has been able to attain a standard of living never dreamed of before. Nowhere is the gap between rich and poor wider, nowhere are the rich, richer, and the poor, poorer, than in those societies that do not respect private property, and do not understand, let alone believe in, the sanctity of contracts.

In Australia however, the free market, and respect for property rights particularly, have been gradually and steadily diminished by government regulation. This has been manifest particularly in environmental regulation, where recent legislation imposing restrictions on the rights of farmers to replace native grasses, for example, with far more nutritious exotic grasses, has effectively destroyed the value of the farm and bankrupted the farmer. The complete indifference of regulators to the destruction of property values in rural Australia is simply breathtaking.

In the housing industry we are faced with similar indifference by regulators to the economic consequences of the activities. New regulations in Victoria, due to come into effect on July 1 next, will increase the price of a typical suburban house by \$20,000. This is regulatory madness.

The crisis in housing affordability contains within it an inescapably moral dimension. Governments of all persuasions have created gross distortions in the housing market - in both the supply and demand sides of the equation, but particularly in the supply side. At every turn they have been motivated by that presumption of the committed social planner which finds its expression in the words: 'We know what's best for you!'

There is no greater insult to the integrity of a human being than for the State to presume to know better than the individual about his or her ambitions and his or her interests, and then to act on that assumption in telling the individual person how he or she should conduct their lives. Yet, it is the State, arrogant and seemingly all-powerful, which is threatening our industry today.

Let me point to two aspects of this problem that are particularly galling. I know that there are many more, but in the interests of time I will deal with two of the more blatant. The first is land. This is currently the single most important determinant of housing

affordability. In no other area of the housing market has the intervention of Government been so pronounced, so unsuccessful in its implementation, and so pernicious in its effect.

In my home state of South Australia, the South Australian Urban Land Trust (SAULT) stands as a shining example of government mismanagement of land supply. The activities of the South Australian Urban Land Trust exhibit all the worst tendencies of government substituting its own wisdom for that of the market. In South Australia, as in other parts of Australia, government land management agencies were formed to acquire and hold large tracts of land so that a plentiful supply of affordable land would be available to meet homebuyer demand. Their stated objectives were to “*stabilize land prices*” “*provide an adequate supply of land*” and “*maintain land affordability*”

Over the past decade however, there has been a seismic shift in the approach taken by government land agencies. The emphasis has shifted from providing an adequate supply of affordable land, to “*maximising returns to Government.*” The temptation to reap monopoly profits which, as the statutory monopoly supplier, were available to government, became irresistible. Supply slowed to a trickle; land prices went through the roof; and governments reaped huge rewards from land for which they compulsorily acquired at bargain basement prices.

Governments have lined their own pockets, instead of meeting the needs and aspirations of people seeking to purchase a home. Among the goals of the Land Management Council in South Australia (the old SAULT) now is to “*maximize financial return for Government*”. Note the not-so-subtle shift of emphasis from the buyer to the seller. There’s an old saying in business, “Customers can spot in a minute when you’re trying to solve your problems, not theirs.”

The Government’s approach to land management has been a disaster. In 1973 the cost of building a 15 square (135sq/m) house in Adelaide was about \$12,000. In today’s money that is equivalent to \$78,000, and to build the same size house today, in Adelaide, would cost about \$90,000, a real increase of 15 percent. Today’s house and the house of 1973 are rather different products, but let that pass. The real cost of land however has increased more than 10 fold with the average price of a 600sq/m allotment in SA increasing from \$13,000 to \$140,000, both prices in 2003 dollars. Let me repeat that data. In 1973 an allotment in SA cost \$2,000 in 1973 dollars or \$13,000 in 2003 dollars. It costs \$140,000 today.

It’s the same in every capital city. Thirty years ago the land component of a house/land package represented 20% of the total cost – today it is more likely to represent 60%. Little wonder that first home buyers cannot get a foot in the door.

These facts speak for themselves. State Governments have failed miserably in their purported objective of managing the timely release of land to ensure affordable access to home-ownership, and their urban growth boundaries have constricted land supply to the point where demand is now vastly in excess of supply. And to add insult to injury they are now profiteering through up-front charges and Stamp Duty.

Boosting immigration numbers, maintaining low interest rates and easy access to credit, bulldozing entire inner suburbs for urban renewal and yet at the same time holding back thousands of hectares of broadacre land, has to be one of the most outrageous examples of

government failure seen in decades. And the general response by the Productivity Commission to this 'supply side' crisis is so unsatisfactory that it beggars belief. It is certainly a far cry from the strong statements it made in 1993 when it examined the impact of Government participation in land markets.

The irony is that State Governments took on the role of monopoly broadacre managers because they said the private sector (although never a monopoly) couldn't be trusted with that role! And yet when one compares these land prices (under public control) over the past 30 years with house building prices (under private sector control) over the same period we can see quite clearly where the blame lies for the spiralling cost of home-ownership. In other words, if the private sector had been allowed to manage land supply as it has managed housing supply, we'd be enjoying land prices much, much lower than they are today.

State governments have been pocketing huge monopoly profits so we should not be surprised that they denigrate those of us who urge the unlocking of large tracts of land for housing development. Town planners, in a vision they have inherited from the Belgian architect and socialist visionary Le Corbusier, believe we'd all be better off in huge apartment buildings. Those of us who wish to build or buy houses on the urban fringe are portrayed as environmental vandals who do not appreciate the charm of cosmopolitan inner city life.

This hostility to urban expansion is dangerous nonsense. If these doctrines had governed decision making fifty years ago, our great cities would be one quarter of their present size, and our lives would be much poorer as a consequence. The people who live on the urban fringe of our cities today are contributing to city and national life just as much as those who live in the inner suburbs, which in previous times, were new, outer suburban developments. People in the today's outer suburbs love their homes and enjoy their lives. Visit any of Australia's leading homebuilders' display homes and you'll find a dazzling array of state-of-the-art home designs incorporating the very latest in energy efficiency, home security, interior design, home-theatre entertainment and 'smart wire' technology.

Furthermore, brand new, state of the art infrastructure is far better equipped to accommodate larger populations than the ageing, existing and sometimes decrepit, infrastructure of our inner cities. A Parliamentary Report a few years ago found that "*.... the cost to the community of urban consolidation could actually be greater than fringe expansion because the cost of upgrading services in the inner suburbs is higher than building them new on the fringe.*" In other words, replacing or upgrading old water and sewer pipes and old electrical cables which were designed to accommodate 'x' number of people per square kilometre, to now cater for twice that number is more expensive and more problematic than building brand new services on the fringe.

I appreciated the Federal Treasurer's recent criticisms of the States for their excessive land taxes and stamp duties. But I believe the attack on stamp duties is only tinkering at the edges of the problem. I believe that the Federal Government has more formidable weapons in its arsenal to unlock affordable land for housing. I urge the Prime Minister and Treasurer to use them. State politicians are adept at blaming Canberra for their own misdemeanours. These misdemeanours should be brought into the clear light of day.

One powerful step would be to use the Grants Commission to punish the States for the rapacious profiteering that is currently taking place. If states persist in skimming monopoly

profits through their control of land supply the Commonwealth should reduce their fiscal grants accordingly. Further the ACCC should be asked to address the States' behaviour with respect to the Trade Practices Act. If a private company were to acquire a monopoly position in land supply, and then abuse that position to exact monopoly profits, we can imagine the outrage which would emanate from the ACCC's Chairman.

Even if the ACCC is not interested in this monopoly, we should be outraged at this situation. It is robbing an entire generation of Australians of the opportunity to build and own a decent home.

Second, and on the demand side, there are many solutions to improve the ability of the forgotten and voiceless to gather the money together to enter the housing market. First and foremost is the unlocking of individual superannuation accounts to allow people to put down a deposit on their first home. We should not forget that most of those Australians who were compelled to give up a significant percentage of their wages to superannuation funds, and who had no say in how those funds were to be invested, saw the value of their assets decline, some seriously, during the 2001-2003 period.

This goes to the heart of the issue of whether autonomous human beings are the best judge of their own interests and what enhances their lives. It begs the question, "Can the Government plan your life for you better than you can?"

It is now widely understood that the existing compulsory super schemes will find it very difficult to achieve their stated objective of giving Australians a decent retirement income. With the level of taxes and surcharges on superannuation inputs and outputs, the real winners will be the fund managers and the retired union officials who have populated the various boards of trustees of these funds.

I used to run a newspaper advertisement with the headline, "*If you do nothing else, make sure you own your home by the time you retire.*" There is no better hedge against poverty in one's later years than to be in one's own home. It is absurd to deny people access to their own money which has been compulsorily channelled into some poorly managed scheme, when they could be making significant inroads into home-ownership.

It has to be emphasised, again and again, that by forcing young people to forfeit nine percent of their wages into superannuation funds over which they have no control, the Government is making it much harder for young people to save for a home deposit.

And here we have the link to the intergenerational debate.

The paucity of housing stock is influenced by the fact that Australians are living longer. But rather than a problem, this significant fact contains the germ of a solution. While access to land and the capacity to accumulate a deposit are constrained; the two great obstacles to first home buyers seeking to enter the market on the one hand, our ageing population reduces supply at the other end of the market, on the other.

Take an all too typical example. An older woman is living alone in a large home in which she and her late husband raised their children. She may be becoming frail and the task of maintaining the garden and the large dwelling is taking up a lot of her time and resources.

She may feel insecure about her personal safety or, at the very least, lonely as the neighbourhood undergoes demographic changes. The problem is, she has nowhere to go. Suitability, rather than affordability, is the defining issue for her. As an industry we must adapt to this emerging social phenomenon and become part of the solution. We must be the facilitators in this generational mismatch. Older people want to move out. Younger people need to move in.

The solution is to build more suitable accommodation for older people. Independent living units, adaptable housing for in-place care, apartments for life, new cottages with access to technology, user-friendly appliances – or as my good friend Mike Rungie of ACH might say – “*Leading choices for older people.*” We are already building housing which can be adapted to allow the provision of short-term nursing assistance if and when a resident needs it. The emphasis must be on enhancing autonomy and pride of ownership among older people by allowing them to make informed decisions to leverage their home equity to change their lifestyle.

This is choice. This is the market offering the best available solution. This is the market doing what governments and bureaucracies cannot do; namely allow individuals to reap the benefits of a life of hard work, frugality and wise planning to live in the manner which they choose. I can almost hear Randall Dossetor's saying: "We are never too old to dream dreams!"

We will shirk our responsibilities in this sensitive debate at our peril. The task before is daunting. By 2010 there will be 200,000 people needing beds in aged care facilities – up from 140,000 today. That's an extra 60,000 new places needed over the next 6 years.

There are currently 3,000 aged care facilities in Australia. Of those 3,000 facilities, 1,000 of them are in good shape – the other 2,000 will need to be substantially re-built or replaced between now and 2008 when the new Compliance Rules come into force.

In 1986 the Commonwealth Government spent \$800m on aged care. This year it will spend \$6bn. The problem isn't going away. Let's face it, the pace and scope of change in this area is outstripping the ability of Governments to manage it. Aged Care Bonds may or may not be the answer, but it is time that we were able to examine such options without the hysteria that has so distorted the debate.

We must do much more to link social policy with housing policy. We need to build 1 million new homes over the next five years to meet across the board demand.

To meet this challenge we must vigorously defend our core values. In particular we must attract, recruit, inspire and train a veritable army of entry-level trades people and professionals to ensure that we can meet the demands upon us. In that regard we cannot allow the reversion to the bad old days of labour market regulation and rigidity that is being touted in some quarters to become a reality. The back-bone of this industry has always been the self-employed trade contractor – “the subbie.” He needs no introduction to any of you. For 50 years he's been the quintessential symbol of the small business owner. Independent, self-reliant, heading out of their driveways at six in the morning, cement mixers and generators in tow. We've always admired them and never begrudged them the money they make for their

risk and effort.

I regard our trade contractors as prime symbols of the Australian spirit. They embody not only the values that make our industry successful, but we would be a better, healthier much more prosperous nation if their attributes were more widely revered. It's because of these independent contractors that our industry developed a de-regulated labour market despite deep hostility from the unions and their friends in the arbitral tribunals. No awards, no minimum rates of pay, no specialist tribunals and yet at the same time, no strikes, no demarcation disputes, no industrial action at all. It has been one of the very few sectors of the economy to have escaped the clutches of the centralised wage-fixing system. The housing industry operates almost entirely on the basis of individual contracts between individual trade contractors and builders. As a result we have the most efficient, cost-effective and dispute-free workplace arrangements in the country – and, consequently, world-class standards of housing.

Freedom and prosperity always go hand in hand.

The independent contractor with a home of his own is a formidable combination. And it is an image of self-reliance, thrift and honest toil that we have been too coy in extolling. Who knows, maybe the Government will see this as an opportunity to solve the retirement age dilemma. The Federal Government could actively promote independent contracting as an alternative to traditional employment arrangements. Retirees could become contractors and consultants, working from home - thanks to new technology, and arranging their workload and time to suit themselves.

The challenge of changing demographics, particularly the gradual ageing of our population poses the greatest test our industry has faced since the enormous wave of migration that commenced in the aftermath of World War II. But I am not here today to bemoan the darkness, I am here to light a candle.

We live in a dynamic and challenging time. The Australia of today is unrecognizable from the sparsely populated continent that Randal Dossetor left in 1940 to share in the task of defending freedom and his country.

In our own day we must act to defend and promote that freedom, and it will require energy and determination. Our adversaries are not as formidable as those over whom the youthful Randal Dossetor and his generation prevailed, yet it is not melodramatic to suggest that in many ways the stakes today are just as high as they were in that epic struggle. The outcome will, in a very real sense, determine what sort of nation we become.

In the name of our great founder I commend you to reflect on that central truth of our national ethos. We dare not fail him in meeting this challenge. Were we to do so we would have proven to be unworthy of the legacy of Randal Dossetor. More importantly we would have failed ourselves and failed our country.