COMMENT ON JIM KEMENY'S 'HOME OWNERSHIP AND FINANCE CAPITAL'

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Housing is of crucial concern to all Australians. Some 20-30 percent of average incomes is spent on housing, and the house is the centre of most of time every day. Recently, there has also been an upsurge of political action based on housing — in struggles over urban renewal and freeway development especially. Yet, curiously, there has been little radical analysis of housing.

As Jim Kemeny notes at the start of his paper, this situation is beginning to change. David Harvey in the States and Manuel Castells in France are leading in new and important directions. Jim himself has started the ball rolling here in Australia in recent articles. But still much needs to be done.

In this situation, both practical and theoretical, more work on housing is to be welcomed. In doing so, however, it is important that problems are properly set out and analyses tackle them clearly and concisely. In my opinion, this particular paper fails these standards.

The central theme of the paper is the relationship between home-ownership and finance capital. The post-war housing boom was closely associated with more houses becoming owner-occupied. The percentages settle down in the 1960's (1947, 53 percent owner-occupied; 1961, 70 percent; 1966, 73 percent; 1971, 69 percent), but there is still a vastly expanded proportion of owner-occupation. This in turn involves finance capital on a large scale, providing loans and mortgages to help home purchase. So far, this is indisputable, and also fairly obvious.

In trying to extend the analysis beyond this, Jim runs into trouble. Home-ownership certainly does expand finance capital's activities, and there is much interesting data here on the shares going to banks, savings banks, building societies, etc. There is, however, a clear implication in the paper that the move towards home-ownership has been engineered by finance capital (see page , "the importance of home-ownership for maximising the exploitation of housing for profit," and page , "the relationship between the government and finance capital in the housing market").

My contention is that this theme is basically incorrect, and that it relates closely to other major problems with the paper: the comparison of home-ownership with non-profit renting; the conception of profit; and some technical points on the use of maths.

Jim starts by dismissing a purely value-orientated approach as "simplistic" — "the explanation rather involves the need for finance capital to maximise the size of its markets and to increase the rate at which these are exploited" (page). Yet at the end of the article we read, "It is less easy, however, to demonstrate that such interests [i.e. finance capital] have actively promoted home-ownership in Australia during the post-war period..." (page) — and we are back to political and social values.

Two points. Firstly, the major drive towards home-ownership after 1945 was closely associated with the dramatic rises in real incomes in these years.

More people could now afford the high initial costs of ownership (deposit, legal charges, etc.) and, given the dominant ideology of home ownership, shifted into their own places. This move was reinforced by a government keen to see "social stability" in the early 1950's and therefore cheapening the real costs of housing still further. It is ability to pay that is crucial in peoples' entry into owner-occupied housing.

Secondly, home-ownership has more than just ideological benefits. There are very sound economic reasons for owning your own home — low house payments in old age and security of tenure being two of them. Further, let us consider a house worth $10,000 in 1968, increasing to $20,000 in 1978. Rents, at 10 percent of the current value of the house each year, total some $15,000 over the ten years.

Against this, the home owner has two payments to make: initial charges (say $2,000 deposit, and $1,000 legal fees, etc.); and payments on a mortgage of $8,000. At 10 percent interest over twenty-five years, a table mortgage of $8,000 costs $880 per year. Over the ten years 1968-1978 then, the home-owner pays $3,000 initial costs and $8,800 mortgage costs — a total of $11,800. Compared to the $15,000 paid out for rents (and completely ignoring the economic value of increased equity in the property, or security), the home-owner is making a real saving over the renter, even in the short term.

There is therefore a fundamental disagreement with Jim's statement that "The benefits of home-ownership therefore accrue not to ordinary households but rather to finance capital" (page). Home-ownership gives very real gains, economic as well as ideological, to the owner-occupier. Further, the movement into home-ownership is explained in terms other than "engineering" by finance capital.

This leads us on to the second point. In his recent article "The Political Economy of Housing" (Arena 49, 1977) Jim argued out the merits of non-profit renting, of governments paying for housing out of revenue rather than by loans. Here the clearest statement of the home-ownership/non-profit renting comparison comes on page , noting the merits of non-profit renting: "This is a somewhat startling conclusion to come to, particularly in view of the potent ideological backing which home-ownership gets in Australia".

Certainly, interest charges do add considerably to the cost of housing, and if housing was paid for by cash out of government revenue, this would reduce housing costs considerably. But, as Jim notes in the closing sentences, this is not a feasible solution in present capitalist society.

This being the case, why is mortgaged housing continually compared with non-profit renting? This is not the situation facing people wanting a house. They choose between rented and mortgaged dwellings. From the arguments developed above, far from finance capital being the villain of the piece, it is assisting people make the better choice in a given political and economic system. It is that system which ensures housing is expensive, not finance capital.

From non-profit renting, we move to the third criticism; of Jim's use of the concept "profit". Take one example: "At current rates of interest, 25-year mortgages produce profit in the form of interest which amount to about three times the cost of the house" (page). Throughout the paper, Jim equates "profit" with "interest". This is really confusing. As he notes on page , finance institutions have to raise money as deposits to lend out on mortgages. Now, if the bank pays, say, 9 percent on a deposit, and charges, say, 11 percent on a loan, it follows that it is making a gross profit of only 2 percent. Take away from this the costs of running the bank, etc., and the net profit is still lower. Eleven percent therefore does not represent the profit to the financial institution. This point significantly reduces the $400 million "profit" each year on new housing for finance capital (cited on page).

Of course, even if this $400 million (and from Jim's figures, this should actually be $550 million) is not all profit, it still represents a very real and noticeable payment from home-owners. This is essentially a payment "for a service" which is by no means necessary. The service exists because of the power of finance capital within the capitalist economic system. In directing anger at that, Jim is well on target.

The last criticism is to dispute the figures Jim produces on page . He starts with one house, valued at $10,000, with a 75 percent mortgage, or $7,500. With 100 percent inflation, and a "trade-up" of premises, a second house is worth $40,000, with a mortgage of $30,000. Hence Jim argues "in this case a doubling of house prices has resulted in a quadrupled mortgage debt".

This is quite wrong. We start with two houses, one worth $10,000 and the other $20,000. After inflation, they are worth $20,000 and $40,000 respectively. If each is mortgaged at 75 percent of its current value then the total mortgage level (for both houses) increases from $22,500 to $45,000. If the mortgage percentage stays the same, a general doubling of house values gives a doubled mortgage level. The particular movements of individual households within this pattern are not really at issue.

This is a minor point, but one worth the making. It fits in with the major criticisms made here of Jim Kemeny's paper — that of a rather sloppy analysis. The general attack on finance capital is misdirected at several crucial points. The comparison between non-profit renting and home-ownership is not really germane to this discussion. Finally, the conception of "profit" needs to be tightened up.

Given the importance of housing, decent analysis of its recent development in Australia and the current situation is vital. This paper does have some interesting material and ideas, but because of the flaws discussed here, it fails to really get to grips with housing experience.