

# **REFRAMING AUSTRALIA'S HOUSING AFFORDABILITY PROBLEM: THE POLITICS AND ECONOMICS OF NEGATIVE GEARING**

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In the decade since the 2007-08 Global Financial Crisis, the impact of rising house prices, rental costs and the broader issue of 'housing unaffordability' have risen to the forefront of media attention. Newspapers and popular media sources have run countless stories highlighting the apparently vanishing opportunities for young people and low-income earners to access homeownership in Australia's cities (Wade 2015; Burke 2016). In a 2016 editorial, the *Sydney Morning Herald* (2016) voiced 'mainstream opinion' in highlighting concern about this situation and in advocating for specific policy responses:

The federal government should wind back negative gearing and reduce the capital gains tax discount in tandem with closer focus on land supply and development rules at state level. As the *Herald* has long argued, the lack of affordable housing creates intergenerational poverty.

This commentary reflects the heightened concern that tax concessions such as negative gearing – through their impact on property prices – drive a wedge between the prosperity of generations past, present and future (Browne & Wade 2015; Aly 2016). To the surprise of many commentators, the Australian Labor Party (ALP) compounded media pressure on the Coalition by committing to limit negative gearing on housing in the lead-up to the 2016 election, rendering itself the 'socially aware' political opposition. It is worth noting that some commentators continue to argue that negative gearing supports housing supply, is

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preferable to the ‘distorting’ effects of direct government interventions to encourage affordable rental housing investment, and is consequently a logical response to housing affordability concerns (Sloan 2014). However, these arguments are in the minority, with ‘the majority of economists’ of the view that the policy is ‘an inefficient and inequitable tax arrangement’ (Blunden 2016: 346). Despite this unusual consensus, the Coalition Government has stood its ground throughout the period in question, ruling out reforms to negative gearing in 2017 and largely ignoring further calls for relief for first-time buyers in the 2018 budget (Massola 2017; Ong 2018).

This article sets these policy debates in the context of a more critical and theoretically informed understanding of the forces shaping housing policy change in Australia. The first section outlines dominant narratives that ascribe the resilience of negative gearing to its virtue as an economic idea. The second section situates this trend within broader accounts of the shift towards ‘neoliberal’ and ‘market-based’ housing policy, emphasising the way in which ‘ideas’ have been understood as the key drivers of policy change. The article then develops conceptual tools to form the basis of a more materially-based ‘political economy of housing’, arguing that the competing forces of crisis, struggle, and capital accumulation are key factors that shape housing policy in Australia. It then applies these tools to explain the resilience of negative gearing policy, before commenting on the capacity for reform today.

### **The supply narrative: a policy failure?**

Negative gearing provides landlords with an exclusive tax shelter. Under negative gearing, any revenue ‘loss’ incurred by a landlord investor may be used to reduce the tax paid on their non-landlord income. The rationale underpinning this policy is that these incentives encourage investment in construction and new housing which bolsters the housing supply and thereby places downward pressure on rents.

Existing scholarship implicitly attributes the resilience of negative gearing to the broad policy paradigm that shapes the government’s approach to housing. This paradigm is one of ‘market-based welfare’, designed to replace the role of government with privatised modes of social provision (Nicholls 2014). Within this, negative gearing plays a key role to encourage *private* investment in housing and to generate

sufficient levels of supply. Peter Phibbs and Nicole Gurran (2015) highlight that this 'mantra' of supply-side policy logic has become the conventional wisdom in government departments. They define this as 'a policy turn towards inadequate housing supply as Australia's defining housing problem, and regulatory reforms to alleviate 'barriers' to supply as a paradigmatic solution' (Phibbs & Gurran 2015: 718).

To support their argument, these scholars highlight the way in which different governments have referred to housing affordability as a 'supply' problem over the last decade. While they trace the origins of the idea back to the findings of a 2004 Productivity Commission report, they point out that many inquiries since 2004 have re-emphasised the role that regulatory and spatial constraints play in limiting the housing supply and causing rising prices. For instance, as Phibbs and Gurran (2015: 719) note, in 2008, the Senate Select Committee on Housing Affordability published its final report following an inquiry into affordability issues, arguing that 'state and local governments' planning processes are too complex and often involve long delays and high costs' (Parliament of Australia 2008: 2). These scholars suggest that the persistence with which the 'supply mantra' is invoked demonstrates its causal power as a policy idea (Nicholls 2014; Phibbs & Gurran 2015). Although these narratives acknowledge that 'market-based' policies have received support from powerful lobby groups (discussed below), they locate their resilience within a more general belief held by state officials, who perceive 'the market as an effective allocator of resources subject to minimum interventions to ensure a safety net for the most disadvantaged in society' (Nicholls 2014: 334). Dominant narratives thus implicitly ascribe the resilience of negative gearing to its power as an economic 'idea', and its situation within a powerful 'market-based' policy approach.

According to these arguments, Australia's housing affordability problem is the product of a growing consensus within the state favouring market provision. Scholars have thus suggested that a 'policy paradigm' has shaped housing policy and weakened its amenability to new research (Hall 1993). This explanation suggests that housing policies are direct manifestations of a particular body of theoretical policy prescriptions, and subject to change only through punctuated shifts and a 'fracturing of [housing] policy consensus' (Burke & Tiernan 2002: 14). The state's claimed unreceptiveness to evidence-based research in housing (Jacobs 2015; Phibbs & Gurran 2015) is thus implicitly attributed to a hegemonic

paradigm of ideas, existing within and across the state apparatus. This article now analyses this view with reference to broader arguments around the development of housing policy and problems in Australia.

### **A Policy Paradigm?**

The explanation implicit in existing scholarship and housing discourse is that a ‘policy paradigm’ of market-based welfare underpins negative gearing and the logic of housing policy more broadly. This argument is situated within broader accounts of Australia’s transition towards ‘neoliberal’ models of housing provision. For Jago Dodson (2006) and Seth Nicholls (2014), the rise of ‘neoliberal’ or ‘market-based’ policy paradigms – actively adopted by Australian governments over the past two decades – is portrayed as responsible for the fact that ‘governments have failed to respond adequately to the problem of housing affordability’ (Nicholls 2014: 337). They thus suggest that state actors’ disregard for expert opinion is a result of the power of policy ideas once ‘within’ the state and established as dominant tools of economic and social organisation. Nicholls suggests that:

[T]he prevailing neoliberal policy paradigm ha[s] not only failed to address the problem of housing affordability successfully, but ha[s] also significantly intensified the problem. It is further suggested that policies designed to mitigate the problem of housing affordability will continue to founder until the economic, neoliberal assumptions and presuppositions on which they are based are recognised and a number of political and ideational obstacles are addressed (Nicholls 2014: 338).

The above comments suggest that the housing problem is a product of policy prescriptions that have been proven insufficient for providing socially beneficial outcomes. For Dodson (2006: 12), these pro-market ideas have largely dictated contemporary developments in Australian housing policy, with ‘the rise in demand subsidisation as the dominant method of providing housing assistance [signifying] the encroachment of neoliberalism’. This argument is echoed implicitly in a broader tradition of housing scholarship that has characterised housing policy of the past two decades, throughout the developed world, as the product of neoliberal ideas (Ronald 2008; Rolnik 2013; Forrest & Hirayama 2014).

The first problem with this argument is that it provides only a partial picture of the causes underlying the shift towards a ‘neoliberal’ policy

program, as well as the apparently unreasonable commitment to these policies despite their failure to deliver necessary social welfare. According to Dodson (2006) and Nicholls (2014), key 'tenets' of neoliberal doctrine have been deliberately applied to manage social and economic policy over the past thirty years, meaning that developments in housing and welfare are the direct result of pro-market – or 'neoliberal' – policy prescriptions. However, this view fails to draw on the growing literature that centres neoliberalism as a set of complex political practices born out of material pressures, rather than a unified approach to economic organisation (Cahill, Edwards, & Stilwell 2012; Gamble 1994). While identifying important correlations between neoliberal ideas and the state's reduced role in housing provision (Nicholls 2014; Dodson 2006), these scholars somewhat neglect the underlying causes of so-called 'paradigmatic' shift, overlooking the material conditions that create the constituency for particular ideas to become dominant templates for policy action. The idea that housing affordability issues persist as a result of 'obstinate ignorance' is thus largely underdeveloped.

A second problem with this argument is the implication that the state has a consistent and coordinated approach to managing the housing system. The argument presented suggests that, although Australian governments have implemented largely *misguided* housing policy programs over the last twenty years, they have nevertheless sought to mitigate housing problems by applying a considered set of policy ideas within the housing sphere. However, this view is based on an artificial separation between what the state does in 'housing' and its activities in sectors such as welfare and taxation, which – among other factors – also shape pressures on the housing system. As David Madden and Peter Marcuse have argued, the very term 'housing policy...suggests the existence of consistent governmental efforts to solve the housing problem. But a historical analysis of government actions and inactions affecting housing reveals nothing of the sort' (Madden & Marcuse 2016: 119). Although there is not space here to unpack the varied examples that they use to illustrate this point, Madden and Marcuse's core argument is that housing policy is shaped by broad political, economic and social structures, rather than independently of contextual factors. This suggests that a more satisfactory explanation of the resilience of negative gearing would need to be rooted in a broader appreciation of the structural pressures that shape and mediate housing within the contemporary political economic context. It is to developing a 'political economy' of housing that could

form the basis of this more conceptually adequate approach to explaining housing policy in Australia that this article now turns.

### **The Political Economy of Housing**

The arguments presented thus far are characterised by an implicit assumption that the state generally operates benevolently, with a primary focus on constructing a policy mix capable of serving the economic and social needs of its citizens. In making this argument, scholars imply that state officials have become captive to the proposed efficiencies of market provision, and that housing affordability problems are a result of policy ideas that remain in place despite failing to provide beneficial social outcomes. This analysis is largely underdeveloped and unable to account for the causes underlying the shift towards a ‘market-based’ housing approach.

### **Ideology, Structure, and Commodification**

In recent years, scholars have drawn on insights from political science and political economy to explain the persistence of policy problems and the failure of states to respond adequately to them. As Keith Jacobs (2015: 54) writes:

An argument often made by Australian social policy researchers is that the crisis is attributable to a failure of government implementation. Put simply, affordability policies fail – we are led to believe – because of factors such as bureaucratic inertia and mismanagement. Over the last twenty or so years government policies that are implemented have been small in scale, usually focused on planning regulations or extending subsidies to first-time homeowners. Yet, for understandable reasons, researchers still adhere to a view that governments are amenable to evidence-based research, and that at some point policy makers will be swayed to adopt appropriate reforms.

Here, Jacobs identifies the broad tendency existing within housing scholarship to underplay the *active* role of the state in maintaining – rather than failing to tackle – housing affordability problems. Jacobs (2015) argues that the general view of the state as a neutral arbiter, characteristic of scholars in the housing field, ‘precludes us from

providing insightful diagnosis' and interrogating the various and often contradictory intentions underlying state policy. This view is echoed by Julie Lawson (2012: 188), who points out that much of housing research does not interrogate the nature of the state nor the material political economic context in which policies are planned, implemented and entrenched.

Coupled with the empirical reality of worsening housing problems, this scholarly 'call to arms' has produced a number of interdisciplinary contributions that seek to explain the active role of the state in perpetuating housing problems in Australia and other advanced economies. Jacobs (2015) himself has argued that the state's priority of 'wealth creation' has guided a deliberate attrition of the quality and funding of Australia's public housing system, in order to maintain incentives to buy into the private market. Public housing thereby plays a fundamental role in bolstering the increasingly *privatised* homeownership system by institutionalising a social divide between 'dependent' and 'independent' members of society. These arguments suggest that the state (in Australia, the United States and throughout the OECD) has been actively concerned with manipulating social perceptions of poverty through discursive strategies, in order to insulate itself from democratic pressure during marked retreat from housing assistance. From this perspective, negative gearing is explained as part of a deliberate and coordinated strategy to enhance the wealth of homeowners and private investors.

As Hayward (1996) notes, there is certainly strong evidence for the pervasiveness of this ideology within State housing departments and the federal government in Australia. Within this body of work, however, there is a tendency to ascribe a semi-conspiratorial role to the state, and argue that policy makers have 'intentionally' and 'successfully' eroded the foundations of Australian public housing (Jacobs 2015: 55-6). This assumes that the state easily and deliberately circumvents complex social pressures in order to sustain an ideological commitment to fiscal discipline:

The withdrawal of funds from state authorities from the late 1970s can be traced to the hegemony of neoliberal ideology and its influence within Australian government networks...the withdrawal of funds for state housing authorities was of course presented as an economic necessity by

the Commonwealth government, but it was a policy that prevalingly benefited the finance and real estate industry (Jacobs 2015: 58).

Jacobs' point highlights that there have been important 'ideological' motivations underpinning the commodification of housing, echoing the ground-breaking work of Jim Kemeny (1977). However, it is worth also considering the extent to which ideology is fundamentally connected to the pursuit of vested interests by social forces, rather than an independently causative force.

While Jacobs situates housing within the political-economic structure, he does not adequately explain how particular ideas have gained traction in the housing sphere, sometimes implying that ideas have independently influenced the trajectory of housing policy. This view has been convincingly critiqued by Madden & Marcuse (2016), who reject the conception of housing as a technical issue potentially solved through isolated measures such as better construction technology, fewer planning laws or different zoning regulations (Madden & Marcuse 2016). They argue that this view overlooks the systemic character of housing problems and the forces that shape the state's policy responses. By neglecting the historical development of policy and the structural tendencies of the economic system, existing scholarship is unable to explain the roots of housing problems and the relative failure of state policies to tackle them.

In tandem with Jacobs' insights, this work sheds light on the broader structural pressures on the housing system and the forces driving policy responses. Whereas Jacobs highlights how the priorities of 'wealth creation' and 'profitability' have trumped effective social policy, Madden & Marcuse (2016) analyse structural tendencies that institutionalise these goals. They argue that housing is currently undergoing a process of 'hyper-commodification' in which 'a structure's function as real estate takes precedence over its usefulness as a place to live'. As they put it:

When this happens, housing's role as an investment outweighs all other claims upon it, whether they are based upon right, need, tradition, legal precedent, cultural habit, or the ethical and affective significance of the home (Madden & Marcuse 2016: 17).

As argued later, this argument closely reflects trends in the Australian housing market whereby housing exchange has grown steadily as a proportion of national income and where prices have become increasingly dissociated from incomes. Crucially, however, Madden &

Marcuse (2016) situate this trend within the broader context and advance on the argument that it is an entirely coordinated and deliberate shift. For example, they make the point that 'our era's growing inequality...multiplies the power of economic elites, who benefit from the commodification of housing and then promote its further growth' (Madden & Marcuse 2016: 27). This is part of a broader argument that wage stagnation for low and middle-income groups has placed housing further out of reach but has fuelled a trend towards wealth creation *through* housing for the upper classes. More broadly, these scholars highlight the combination of 'deregulation, financialisation and globalisation' that has ensured 'housing functions as a commodity to a greater extent than ever before' (Madden & Marcuse 2016: 35). Their overall point is that 'housing problems are not the result of greed or dishonesty', but rather produced by the 'structural logic' of the housing system.

The question of *why* states have been so amenable to the shift towards housing commodification is left largely unanswered. Indeed, there is an underlying implication that states have *embraced* a project of commodification, by adopting the guiding principles of deregulated finance and investment. Yet this is inconsistent with Madden and Marcuse's argument that housing is mediated by broad political-economic structures, rather than shaped through the independent will of state managers. Drawing on the work of Edward Soja, Bob Jessop, Jamie Peck and David Harvey, we can strengthen their argument and ground it in some fundamental principles around the role of space and the state in capitalist societies.

### **Housing workers, spatial fixes, and economic crises**

The argument that housing policy is shaped by powerful ideas rests on a broader 'spatial fetishism' (Anderson 1973), in which space is treated as ontologically separate from economic, social and political structures. This implies that space can be managed through a series of coordinated decisions to satisfy a given set of goals, such as to house, provide leisure, and to ensure adequate transport. However, this view overlooks the idea that the capitalist system is based on a particular set of spatial arrangements, and survives 'by occupying and producing space in a particular way' (Soja 1985: 61). Drawing on Lefebvre, Soja (1989: 80)

has argued that 'space is a social product that arises from purposeful social practices', rather than a 'separate structure with rules of construction and transformation that are independent from the wider social framework'. Soja (1989: 81) thus makes the case for understanding the *internal relations* between the capitalist mode of production, spatial organisation, and the way they are 'dialectally inter-reactive' and 'interdependent'. As Castells (1977: 115) writes, 'there is no theory of space that is not an integral part of a general social theory'. These arguments require us to consider how the underlying logic of capitalism exerts a variety of pressures on the state and spatial organisation.

It is important to establish the basic role of the state in capitalist societies – particularly with reference to space – as a basis for exploring how its activities are structured by social and economic imperatives. As Jessop (2002: 8) argues, the reproduction of capitalist social relations is 'improbable' without something at least partially outside of them. This is because the inherently antagonistic relationship between labour and capital – essential to the production process – requires mediation to protect the process from social struggle. Furthermore, the *conditions* of production – such as land, labour and housing – are not reproduced by the capital relation itself. The capitalist economy is therefore not a self-supporting institution. Instead, it is constantly in need of state regulation and reproduction. In turn, the state itself is predicated on the existence of a working economy that provides its citizens with necessary goods and services (Dunn 2006: 54-5). Cahill (2014: 69) argues that states are 'integrally related to the process of capital accumulation', and bound by a necessity to reproduce capitalist social relations.

Peck (1996; 2012) has extended this point to highlight that the state plays a critical role in 'making workers'. While labour power is fundamental to the production process, it is produced socially, rather than by profit-driven firms (Jessop 2002: 14). As a result, the state is integral to the 'making' of the capitalist workforce, ensuring the provision of education, healthcare, and *housing* (Peck 1996: 23). The most obvious presence of the state in housing is in the form of *public* housing. By providing a stock of non-market residences, the state plays an active role in sustaining a labour force capable of entering into production relations. However, the state is not only a housing provider of 'last resort'. Rather, the way in which accumulation is secured is both historically and strategically

flexible, and expressed through a myriad of different market arrangements. As Madden and Marcuse write:

The government is involved in making housing possible in multiple ways. The state plans and builds the streets on which homes are located...certifies the materials and techniques out of which houses are constructed...provides the means to enforce contracts...[and] constructs and protects the property rights that make landlordism and tenancy possible (Madden & Marcuse 2016: 141-142).

The important theoretical point here is that there is *always* a requirement for the state to 'make' and thus 'house' workers.

However, Harvey illustrates how this process interferes with the more general logic of capital accumulation that the state is bound to uphold. Harvey argues that 'the creation of spatial configurations is a highly active moment in the general processes of crisis formation and resolution' (Harvey 1982: 398). The commodification of space – central to the process of 'fixing' accumulation problems – are liable to exacerbate social unrest by shaping spatial arrangements according to the returns they provide to capital, rather than to satisfy the reproduction of labour. The state must therefore mediate between the abstract tendency to commodify space and the concrete realities of those who rely on housing as a social good:

The general purpose of [spatial] arrangements is to establish independent means and independent forms of circulation which can shape the spatial configurations of the built environment to the variegated requirements of capital and labour in general (Harvey 1982: 397).

However, regulation cannot absolve capitalism of its abstract tendencies. The history of capitalism is characterised by the *constant* search for spatial 'fixes' through the creation of new markets that serve as outlets for surplus capital, particularly in situations of real or perceived crisis. For Harvey (1982: 398), the dual functions of space are 'necessary evils' because the requirements of capital and labour are inherently contradictory: 'rampant speculation and unchecked appropriation,...life-sapping as they may be for labour, generate the chaotic ferment out of which new spatial configurations can grow'. These points highlight that housing policy, as a spatial configuration, is continually subject to the expanding logic of capital accumulation that the state is bound to uphold. More broadly, they illuminate that spatial arrangements are socially constructed and shaped by social struggles, born out of the contradictory

role that housing plays to 'house workers' and to serve as an investment good.

Housing policy can thus be understood as shaped by an ongoing contradiction *between* these different roles. As O'Tuathail (1996: 1) argues, space 'is a product of histories of struggle between competing authorities over the power to occupy, organise and administer it', configured to meet the *structural needs* of a particular socioeconomic system (see also Lefebvre (1991/1974)). The commodification of housing is thus embedded within the very architecture of capitalist development, deliberately exercised by the state in order to resolve systemic contradictions. The potential to challenge the commodification of space lies in the capacity of social forces to mobilise in a given 'crisis', which threatens the legitimacy and durability of the existing system of production. As Stilwell (1980: 72) notes, 'the essence of an economic crisis is a period during which restructuring, reorganisation and relocation take place'. Ultimately, the housing system must be understood as shaped by the competing forces of social struggle, economic crisis, and the underlying logic of capital accumulation. These insights will now be applied to explain the resilience of negative gearing policy in the context of what is now widely understood as Australia's housing 'crisis'.

### **The Structural Roots of Negative Gearing**

As argued above, housing is a 'spatial fix' to the accumulation problems facing capitalist states, serving as a site for the reinvestment of surplus value (Harvey 1982: 398). The practice of 'home-buying' and the general celebration of house price rises can thus be considered part of a *social structure* of accumulation (Kotz 2004), the institutional ensemble that facilitates capital accumulation within a specific historical period. Negative gearing plays an integral role within this structure by encouraging the reinvestment of capital through the housing market. By incentivising private investment, negative gearing helps to satisfy the conditions for capital accumulation and is thus tied to deeper structural imperatives for the state to reproduce the system of production.

This argument is reinforced by highlighting the fundamental role played by property in propping up Australia's economy. The state has a material interest in maintaining negative gearing because of the role it plays in

accumulation. Indeed, as noted by the Property Council of Australia, property is among the largest contributors to economic growth (Carter 2015). This highlights that the general practice of ‘speculating’ on housing is integral to Australia’s current accumulation regime. Moreover, it reflects the crucial role played by state-instituted regulations in protecting the prospect of house price rises – as through negative gearing and capital gains tax policy. Dominant narratives thus mis-diagnose the roots of negative gearing policy by assuming that its durability is simply due to state elites perceiving it as a virtuous economic idea. The notion that negative gearing is merely a response to housing supply issues belies the *active* role that it plays in encouraging housing demand, and sustaining wider confidence that house prices will continue to rise.

The structural roots of negative gearing are cast into stark relief when one considers the distribution of government expenditures to assist housing access. Dominant narratives highlight that negative gearing is used to bolster the housing supply, but this overlooks the way in which housing policies have been used to engineer an upward redistribution of benefits to wealthy Australians, and to manufacture the conditions for accumulation *through* housing. A statistical study by Yates (2010) illuminated the distribution of public funds to support homeowners, rental investors and renters. Yates estimated that the overall tax expenditures on housing are around \$53 billion per year, but that the vast majority of this – \$45 billion – flowed to existing homeowners as imputed subsidies. A further \$5 billion was provided to rental housing investors, while renters were subsidised by only \$3.2 billion (Yates 2010: 87).

There are also stark asymmetries in the proportion of benefit allocations *within* the category of homeowners. Yates (2010) herself does not disaggregate this group, but the Australian Broadcasting Company (ABC) has illuminated the extent to which negative gearing ensures an upward redistribution of benefits to the wealthiest Australians. Although Coalition Ministers have suggested that ‘two thirds’ of negative gearing users have an income of ‘under \$80,000’ (Morrison 2016; Turnbull 2016), this view is based on highly selective data. Because 82% of *all* taxpayers have a taxable income of under \$80,000, it is not surprising that most users fall into this category. However, within this group, the *distribution of benefits* from negative gearing is top heavy:

Only 8 per cent of people with taxable incomes less than \$80,000 use negative gearing, compared with more than double that proportion

among people with taxable incomes above \$80,000. Similarly, people with taxable incomes over \$80,000 receive 42 per cent of the negative gearing benefit, but they only represent 33 per cent of all negative gearers (ABC 2016).

Recent research shows that gains from negative gearing flow disproportionately to those on high incomes and with multiple properties. In the 2017 budget, Treasurer Scott Morrison repeated his oft-cited claim that negative gearing is a policy utilised first and foremost by ‘mums and dads’. Morrison’s claim was designed to legitimise the benefits provided to those that negatively gear by appealing to the sentiment of the broader Australian community; who would want to deny hard-working parents a leg-up in meeting the expenses involved in raising children? Research by the Grattan Institute shows that a mere 9% of nurses and 12% of teachers negative geared in 2013-14. In contrast, 29% of both surgeons and anaesthetists – the two professions with the highest average income – used negative gearing and achieved a much higher average tax benefit. Whereas these highly paid professions received an average of over \$3,000 in benefits from negative gearing in 2013-14, nurses and teachers both received under \$300 (Daley & Wood 2016: 29).

The above figures show that negative gearing increases the regressive impacts of Australia’s tax system and contributes the upward redistribution of wealth and income. More broadly, negative gearing is one component of a housing strategy in which benefits to homeowners greatly outstrip direct assistance for renters, and which is a key organ of growth and capital accumulation in Australia. Dominant explanations have highlighted the independent, causal power of negative gearing as an idea, but the policy is better understood as satisfying these deep material imperatives, and serving the interests of capital.

### **The supply mantra; *cui bono*?**

This article extends the latter argument by showing that record increases in supply have *not* served to dampen house prices or rents. These increases have further facilitated the accumulation of wealth *through* housing, because tax concessions continue to drive investment from existing homeowners and property developers, and inflate demand for the ‘new’ supply. Housing scholars have generally treated this as a ‘deficient’ policy approach rooted in the obstinate ignorance of state actors, but ‘supply-side’ housing policies also act to facilitate capital

accumulation and are underpinned by the interests of powerful social forces.

The argument used to justify negative gearing is that increases in the supply of housing will place downward pressure on rental prices. The gains that the concession provides to those who use it are considered one component of a wholly beneficial policy program, where the benefits of increased supply trickle down to low-income groups and first-home buyers. This is part of a broader argument about the merits of increased housing supply for house prices in general. However, recent research has shown that the actual impact of supply increases on house prices and rents does not conform to such claims.

Between 2012 and 2016, dwelling starts in Australia rose from 153,000 to 228,000 per annum, a growth of around 50% and a record increase in the supply of housing (HIA 2017). In New South Wales, where median prices are the highest in the country, dwelling starts have doubled over the same period. Steven Rowley, Nicole Gurran and Peter Phibbs (2017) have pointed out that these increases make Australia a 'world leader' in home-building. Dwelling completions in Australia are 'second only to South Korea', with 'two-thirds more homes per 1,000 persons than the US and four times more than the UK' (Rowley *et al* 2017). House construction has grown faster than population growth in Australia, and at a higher rate per new head of population than in the US or the UK.

Over the same period, aspiring homeowners and renters have seen little relief to affordability pressures, with prices continuing to climb. National median house prices rose at the fastest pace in seven years in 2016 at 10.6%, with this growth particularly acute in Sydney (15.5%) and Melbourne (13.7%) (Jericho 2017). In turn, rents have soared over 48% across Australia since the GFC, rising considerably faster than the minimum wage (Jericho 2017). Although growth in rents has slowed over the last four years, this is partly the result of local conditions in Western Australia, where the slowing of the mining boom sparked a quick decline in the average rental price. Rents in Perth are now at the same level as in 2011, whereas Sydney rents have risen 17% over the same period (Jericho 2017). These figures cast serious doubt on the proposed benefits of an increased housing supply.

The point here is not to entirely dismiss the idea that supply constraints play a role in determining housing affordability. Rather, it is to contrast government rhetoric and policy that focuses almost *solely* on supply, with

clear evidence that suggests there are other factors at play – particularly investment demand. In this context, it is important to explain why the ‘supply-side’ policy logic has remained durable.

As highlighted at the beginning of this article, the failure of the ‘supply-side’ policy system has been attributed to poor government policy, and a refusal to acknowledge the empirical evidence that challenges commonly held assumptions about the impact of housing supply on price. However, this policy system is better explained as the product of powerful social forces, economic crisis, and capital accumulation. While Australia’s housing ‘crisis’ has cast doubt on the adequacy of existing institutional arrangements like negative gearing, the government’s ‘supply-side’ approach has prevailed, at least in part, because it is underpinned by powerful interests. This is evident in two key ways.

First, removing barriers to supply has created ongoing opportunities for the real-estate industry to profit from property development. In turn, it has provided the interests of property developers with a social justification – a role in producing the ‘necessary’ increases in supply that are needed to remedy housing affordability issues. The influence of the Property Council and such forces should not be underestimated. Housing is among the greatest contributors to economic growth in Australia, with private construction alone contributing 0.49% to gross domestic product in 2015 (ABS 2015). The state – and the Australian economy – is thus heavily reliant on the gains of the property industry, and compelled to provide the conditions for its expansion.

There have been countless interventions from urban research institutes and advocacy groups shedding light on the deleterious social effects of negative gearing (see Daley & Wood 2016). In 2016, the Australian Council for Social Services published a report entitled ‘Fuel on the Fire’ (ACOSS 2016) that indicted the iniquitous impacts of the policy and provided strong arguments against approaches that encourage speculative housing investment. Yet, to borrow a phrase from Question and Answers host Tony Jones, these suggestions have been treated as though they were mere ‘comments’, and practically ignored by the Coalition. This demonstrates the above theoretical point that the state is under persistent pressure to commodify space despite its underlying social functions. In turn, it reflects the power of the property industry in the current period and the structural impediments to producing an alternative and equitable housing strategy.

Second, the treatment of housing unaffordability as a 'supply problem' has been used to avoid introducing significant efforts to curb demand and investment in housing. In the 2017 budget, the government clearly acknowledged the presence of housing problems and responded to them with a 'housing package'. This included a 'suite' of policies focused on raising the housing supply, such as the removal of restrictions on residential land development, encouraging older Australians to downsize and working 'with the States and Territories and local Governments to get more homes built, because prices are higher where demand is greater than supply' (Morrison 2017). While some effort was made to curb foreign investment, the budget largely preserved investment opportunities in the housing market, including no changes to negative gearing and increasing capital gains tax concessions for investment in affordable housing. This largely supply-side approach was used to complement and justify the ongoing presence of negative gearing within Australia's housing regime, as 'mum and dad investors will continue to be able to use negative gearing, supporting the supply of rental housing and placing downward pressure on rents' (Morrison 2017). The Coalition has sought to preserve the investing interests of homeowners and the value of their existing assets, while appearing concerned to provide a remedy to affordability issues. This has facilitated the ongoing growth of the housing market and – albeit partially – neutralised pressure to implement significant demand disincentives.

These two points reflect the way in which housing policy is shaped by the interrelated processes of crisis, struggle, and the underlying logic of capital accumulation. The Coalition has remained wedded to its supply-side approach because it serves the interests of the property industry, homeowners and investors. As Brett (2017) has pointed out, part of this latter group includes the economic elites that donate large sums to the Liberal Party and thus wield significant political power. In turn, housing has come to occupy a key role in Australia's economy as a source of growth and capital accumulation, in a context of persistent wage stagnation that threatens the foundations of aggregate demand in the real economy. These factors have influenced the Coalition's unwillingness to limit negative gearing because doing so may weaken demand in housing by diminishing its value as an investment opportunity and would threaten powerful parts of its political base. In turn, the role that housing plays in underpinning economic activity has constrained the choices of state managers who are faced with a predicament over whether to seriously

challenge house price and rents growth even if that undermined a key pillar of the Australian economy in the process.

This is not to say that negative gearing – and affordability crises – are an inevitable or unchangeable fact of Australian cities. Rather, it is to illustrate the complex forces that shape the state's responses to real affordability issues in the housing sector. While it is impossible to anticipate how this will play out, one must emphasise that housing policy is not an independent entity or an expression of paradigmatic ideas. This would seem a banal point were it not downplayed by the majority of housing studies and even putatively critical scholars of political economy. It is only by acknowledging this point that policy decisions past and yet to come can be understood and challenged.

## Conclusion

Peter Phibbs has described the reforms to housing announced in the 2017 Budget as 'placebo policies' (Phibbs 2017). Whereas the government set out a number of measures that ostensibly sought to challenge the housing affordability crisis, he argues that the policies would merely create the *perception* of dealing with the problem, rather than have a significant and tangible impact on social welfare. This 'tokenistic' response to the housing crisis reflects the role played by the competing forces of struggle, crisis and accumulation which shape the contemporary development of Australian housing policy. Indeed, the housing 'crisis', provoked by persistent house price inflation and growing fears of a prices crash that would replicate the US experience, has created the conditions to reshape the housing regime in Australia. This was illustrated by the Coalition's 'housing package' in the 2017 budget. However, the *content* of that 'package' – 'placebo policies' that do little to dampen housing demand and thus prices – reflect the power of particular social forces that continue to exercise their disproportionate influence in order to maintain an environment in which property provides profit. In turn, the role of property in capital accumulation creates further structural impediments to any more progressive housing affordability strategies.

This article has focussed on the specific ways in which these forces shape the state's position on negative gearing policy, a key tax concession fuelling the 'excessive demand' that many experts believe to be at the core of housing affordability problems. Negative gearing is part

of a broader system of concessions that underpin the accumulation of savings in housing and inflate prices by encouraging competition between investors and first-home buyers. Scholars in the housing field have thus far neglected the structural factors that underpin this system of unequal housing access. Instead, they have tended to argue that the durability of negative gearing policy is the result of the intellectual failure of government policy and an unreasonable lack of response to evidence-based research. Indeed, some have argued that poor housing strategies are situated within the 'paradigm' of policy ideas that has dictated the methods and goals of public policy over the last twenty to thirty years – that is, the 'pro-market' ideas of 'neoliberalism'. Although some have considered the role of social forces in partially influencing the housing regime, the general tendency has been to ascribe the affordability crisis to a failure of government policy and the persistence of bad ideas.

The resilience of negative gearing contradicts the 'imperative' to cut the budget deficit, something often invoked by members of the Coalition government over the last few years. It is estimated that negative gearing cost the Federal budget \$3.346bn in 2013-14, equivalent to the funds spent on assistance to jobseekers and vocational training (Martin 2016). However, if we view negative gearing as part of a broader system that ensures capital accumulation, underpinned by powerful social forces operating on the terrain of the state, we see the continuity inherent in seemingly contradictory fiscal stances.

Drawing on key insights from state theory and critical human geography, this article has argued that the competing forces of crisis, struggle, and capital accumulation are key factors that shape housing policy in Australia. Housing has come to occupy a key role as a site for economic growth and the reinvestment of surplus value in Australia, underpinned by the relentless growth in rents and house prices. Because the state is bound by an imperative to (re)produce the conditions in which this can occur, it has doubled down on negative gearing – a key institution that underpins investment demand in housing and protects its role in Australia's growth regime. This is part of the Coalition's broader strategy which they have downplays the role of demand in inflating house prices and rents, and emphasises the need to remove barriers to supply. As we have seen, property interest groups and institutions have significantly influenced the housing policy regime. Although the durability of negative gearing is due in part to its role in securing capital accumulation, it is

also the product of powerful forces – especially the real estate industry – seeking to defend their interests in a context where they are under heightened threat. These interest groups have been highly active throughout the period in question, presenting their interests as synonymous with those of broader society and exploiting their economic power in order to influence political decisions.

While this article makes no predictions about the outcome of the negative gearing debate in the longer term, it demonstrates that housing policy and development is best understood as a product of broader political economic circumstances. By acknowledging this, housing analysts will provide more satisfactory explanations of past housing policies, and more effectively elucidate and challenge the ongoing barriers to reform today.

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