

**Address to
The Adam Smith Club
Melbourne
7th April, 2008**

**“The tyranny of urban planning:
home truths about home affordability”
or
“Saving the world - a quarter acre at a time”**

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Often when people ask my wife where I am she replies, “Oh, he’s off somewhere saving the world.” Well the other day I said to her, “I’ve now worked out how I’m going to do it.” “How?” she asked. I said, **“a quarter acre at a time.”**

Now this is not as silly as it sounds, and I can think of no better forum in which to launch this plan than the Adam Smith Club.

Let me start by reading an extract from Karl Marx famous Communist Manifesto:

”In this sense, the theory of the Communists may be summed up in the single sentence: ‘Abolition of private property.’ We Communists have been reproached with the desire of abolishing the right of personally acquiring property as the fruit of a man’s own labour.”

To Adam Smith of course the rights of property were sacred. Communism was the antithesis of what Adam Smith preached.

As the great British historian Paul Johnson says (and I will cite Paul Johnson frequently in this paper),

“The connection between political liberty and the individual ownership of property is one of the great certitudes of human society. It is carved in granite where the words “freedom” and “freehold” come from the same root and have interrelated with each other through many centuries.”

What I would like to do tonight is:

1. Outline the historical connection between private property ownership and the development of western civilization.
2. Show that modern urban planning laws and their enforcers in the various planning bureaucracies, are destroying this central institution in key jurisdictions in Western society.
3. Trace the evolution of these laws and planning bureaucracies to demonstrate their origins in socialist theory and practice.

4. Establish a link between urban planning laws and the current financial turmoil gripping the world and
5. Show how individual home ownership - private property in its most basic form, still has the power to change the world.

In his famous speech in the House of Commons in 1763, William Pitt declared:

“The poorest man may in his cottage bid defiance to all the force of the Crown. His cottage may be frail; its roof may shake; the wind may blow through it; the storms may enter, the rain may enter—but the King of England cannot enter. All his forces dare not cross the threshold of the ruined tenement.”

Without property rights there can be no freedom.

The 19th Century British Prime Minister Benjamin Disraeli said that private property was to be defended, *“with all vigour against the socialists.”*

The Peruvian economist Hernando de Soto observed:

“Legal property gave the West the tools to produce surplus value over and above its physical assets. Whether anyone intended it or not, the legal property system became the staircase that took these nations from the ‘universe of assets’ in their natural state to the ‘universe of capital’ where assets can be viewed in their full productive potential.”

In other words, property rights, markets and prosperity go hand in hand.

It is impossible to exaggerate the importance of the ownership of freehold land to the progress of liberty throughout the English-speaking world.

Prior to 1832 the British Parliament consisted of a representative assembly of property owners. The suffrage was greatly extended with the 1832 Reform Act but it wasn't until after World War II that universal suffrage was adopted in the UK. In Australia, upper houses in some States had *multiple* votes for property owners and university graduates until WW II.

For centuries, the legitimacy of the British parliament was based on property rights, not citizenship. Nations in the 20th century that either adopted, or had democratic institutions imposed upon them, proceeded immediately to the one-person-one-vote method of election rather than going through the property ownership stage – which in England lasted over 800 years. Perhaps this is one of the reasons why such democracies have proven so fragile. Without property of their own, voters have limited interest in protecting the property of others. And if history teaches us anything, it teaches that when you take away property ownership rights, you take away a substantial chunk of personal freedom.

Perhaps instead of rushing to impose democracy in developing countries in more recent times, the West would have been better off establishing private property, embedded within the rule of law, first. Private property creates civic order. Civic order gives rise to civic representation – as it did in pre 18th Century Britain. Make everyone secure in their own quarter acre and many of the benefits of democracy will be achieved.

Historical experience shows that the possession of freehold land leads directly to democratic participation. As America expanded inland in the 18th, 19th and early 20th

centuries, it adopted, and pursued on an enormous scale, “a cheap land” policy. Under this policy millions of immigrants arriving without property, were able in just one generation to acquire land. This process was accompanied by the extension of the vote to all citizens.

Australians have been home owners rather than tenants ever since European settlement began. Land was cheap and wages high and the culture of home ownership became strongly entrenched.

Home ownership became a symbol of our self-reliance, a part of our national ethos and culture, and this was particularly true for the hundreds of thousands of migrants who came to Australia from war-torn Europe. The dream of home ownership, so deeply entrenched in the Australian psyche, is founded on the idea that in a free and democratic society the security and stability that comes from having a home of your own should be within the reach of all citizens. And so it was that from the 1950s onwards the rates of home ownership in Australia increased significantly, passing 70% by the early 1980s. Home ownership was a constant ambition of the Menzies governments – much derided within left wing circles at the time whose regular refrain was, “*We do not want little capitalists*”. Menzies response to this attitude can be found in his great ‘Forgotten People’ address of 1942 in which he recognized the moral, social and emotional importance of the family home.

"The material home," said Menzies, "represents the concrete expression of saving 'for a home of our own.' Your advanced socialists may rage against private property (even whilst they acquire 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 sent lasting ripples through every aspect of social and economic life.

"I do not believe that the real life of this nation is to be found in the great luxury hotels or so called fashionable suburbs". He said, "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 the race. The home is the foundation of sanity and sobriety; it is the indispensable condition of continuity; its health determines the health of society."

And Menzies matched his words with deeds. He presided over an Australia with enviable levels of home ownership. It is no coincidence that this was an Australia with low levels of unemployment, low interest rates, high immigration, and a high degree of social cohesion. The fact that not just people on average incomes, but many on less than average incomes, could become home owners, was an important factor in Australia’s political stability since federation. Australia was a property owning democracy, a nation of home owners.

Since World War II the average Australian was able to buy their first home on the average wage. Traditionally, the median house price was around three times the median household income. For example, when the median income was just 1,000 pounds per annum in the early 1960s, one could buy a basic house on a basic block of land for around 3,000 pounds. When the median income was \$10,000 per annum in the 1970s the median house price was \$30,000. And when the median income was \$40,000 per annum in the early 1990s the median house price in most capital cities was \$120,000. Young couples could get a start in the housing market, manage a home loan on one income, start a family, and work their way up from there.

Today, in Adelaide, Melbourne and Brisbane, the median house price is more than six times the median income and in Sydney and Perth it is more than eight times. The long-standing nexus between house prices and incomes has been broken.

So what went wrong? Consider if you will, these words by former Reserve Bank Governor Ian Macfarlane giving evidence to a Parliamentary Economic & Finance Committee in 2006.

“Why has the price of an entry-level new home gone up as much as it has? Why is it not like it was in 1951 when my parents moved to East Bentleigh, which was the fringe of Melbourne at that stage, and were able to buy a block of land very cheaply and put a house on it very cheaply? Why is that not the case now? I think it is pretty apparent now that reluctance to release new land plus the new approach whereby the purchaser has to pay for all the services up front – the sewerage, the roads, the footpaths and all that sort of stuff – has enormously increased the price of the new, entry-level home.”

The regulatory seeds of the current housing affordability crisis were sown back in the 1970s. Up until then land was abundant, affordable and the development of new suburbs was largely left to the private sector. Our pre-1970s leafy suburbs of large allotments and wide streets are an enduring testimony to the private sector’s ability and the traditional laissez-faire approach to urban development. It was into this environment of clearly successful urban growth that State and Territory Governments introduced land management agencies to establish and manage ‘land banks’.

When they were established, the stated role of these government agencies was to acquire then hold large tracts of broad-acre land on the urban fringes of our major cities so that a plentiful supply would be available to meet future home buyer demand.

In South Australia the agency was called the South Australian Land Commission and its primary aim embedded in the Land Commission Act of 1973 was, *“the provision of land to those members of the community who do not have large financial resources.”* The Land Commission Act further made it clear that the Commission, *“shall not conduct its business with a view to making a profit.”* In 1981 these noble motives were deleted from the legislation as the Land Commission was reconstituted as the South Australian Urban Land Trust under a new Act.

But worse was to come. As land supply began to dwindle – the result of government planning regulation and zoning – a rationing effect came into play and land prices started to rise. The rises were more dramatic than most thought possible and in a time when first home buyers really needed help, the noble intentions that were used to justify the formation of these land agencies, simply vanished and soon another set of aims were imposed.

In South Australia, the relevant authority, by this time known as the Land Management Corporation, had a mandate to *“maximize financial returns to Government”*. Note the blatant shift of emphasis from the original mandate - from the interests of the buyers *“those members of the community who do not have large financial resources”* to the interests of the seller, the Land Management Corporation. From *“maintaining land affordability”* to *“maximising returns to Government.”* Since its inception in 1973, the South Australian State Government’s land agency has seen land prices rise from \$15,000 per block (in current dollars) to \$160,000 per block, more than a ten fold increase. By comparison the cost of building a 135sqm house increased from \$97,000 in current dollars to just \$102,000 over the same period, virtually no increase at all. Think about that for a moment – a ten fold increase for a commodity (land) controlled by Government (with a so-called ‘price containment’ policy), compared with virtually no increase at all for a commodity (the house) controlled by the private sector (with no price containment policy). One can only conclude

that had the private sector been allowed to manage land supply like it has managed housing supply, we'd be enjoying land prices significantly lower than they are today.

This massive escalation in the price of land carries with it a multitude of detrimental impacts. Establishing affordable rental accommodation for those in greatest need becomes even more difficult for social and public housing authorities as they seek to purchase land and houses in a greatly inflated market. Road widening and major infrastructure projects experience cost blow-outs as land acquisition costs sky rocket, and the cost of establishing schools, community centres, health services and business facilities becomes difficult, and at times impossible. Inevitably the whole community suffers as a result of increased tax, transaction, finance and establishment costs.

South Australia's LMC owns something like 90% of the developable land (undeveloped land over ten hectares) within Adelaide's urban growth boundary. The LMC, not surprisingly, says it supports Adelaide's urban growth boundary. Of course it supports the urban growth boundary! LMC is an arm of Treasury and government planning bureaucracies. It's in the business of maximising financial returns. And urban growth boundaries are the surest way of limiting supply. The government sets the rules, plays in the game and then decides who else can and cannot play against them. Not only that, they make millions from extra Stamp Duty as property prices rise. If that isn't a conflict of interest, I don't know what is. State and Territory governments have made windfall profits at the expense of Australia's first home buyers.

It is important to remember that the scarcity that drove land prices is wholly contrived. As anyone who flies into our major cities can observe by looking out the aeroplane window, this so-called 'land shortage' is not real. It is the product of restrictions imposed through planning regulation and zoning. The so-called 'land shortage' is a matter of political decision, not of geographical reality. Australia did not, and does not, have to suffer this housing affordability crisis.

But as well as the profit motive, State and Territory Governments have been spurred along by an ideologically driven, urban planning cabal obsessed with curbing the size of our cities and pushing a policy of urban consolidation or 'urban infill'. Between them they have excluded more low and middle income earners from home ownership than at any other time in Australia's history.

The case for urban consolidation has been advanced on the back of a number of arguments – namely, that it is good for the environment; that it stems the loss of agricultural land; that it encourages people on to public transport; that it saves water and energy; that it leads to a reduction in motor vehicle use, and that it saves on infrastructure costs for government. All of these claims, I repeat, all of these claims are false. The facts and evidence from around the world refute each and every one of them.

Urban consolidation is not good for the environment; it doesn't stem the loss of agricultural land; it doesn't encourage people onto public transport; it doesn't save water or energy; it doesn't lead to a reduction in motor vehicle use, and it doesn't save on infrastructure costs. In fact building brand new infrastructure on the fringe is significantly cheaper than renewing or upgrading old infrastructure in the inner suburbs that was not designed for higher density living. Infrastructure developed to accommodate 1,000 to 2,000 people per square kilometre simply cannot withstand housing densities double that number.

It has also been suggested that the housing affordability crisis is all part of a world wide trend. Not true. An international housing affordability study by Hugh Pavletich and Wendell Cox of Demographia has confirmed that land rationing of the very kind we have seen in

Australian cities is the principal cause of escalating land prices. The authors found that housing unaffordability was not the worldwide problem it was made out to be but was largely confined to Australian cities and cities on the East and West Coasts of America where constrictive land use policies are in place.

The situation in Australia is so severe that, according to the Demographia index which rates affordability by comparing median housing price as a multiple of median household income, all mainland Australian cities feature in the list of “seriously unaffordable” places in the world to live. If housing remains at its current level of unaffordability we can expect to see a serious decline in the levels of home ownership among future generations.

Urban planners, by promoting urban consolidation and at the same time demonizing urban spread have inflicted enormous damage on the economy and society. Billions of dollars have been wasted and enormous pain inflicted on the community as a result. And all they ever say in defence of their ideology is *“it depends what you want our cities to look like.”* Well, if you ask me, they’d look a whole lot better without the traffic congestion, air pollution, destruction of biodiversity and high density infill projects which have destroyed the character of some of our most beautiful suburbs – delightful suburbs which pre-date urban planners and were constructed by people described by Adam Smith as ***advancing their own interests***, rather than pursuing some social engineering agenda”.

Ludwig von Mises, one of the most notable economists and social philosophers of the 20th Century observed:

‘The planner is a potential dictator who wants to deprive all other people of the power to plan and act according to their own plans. He aims at one thing only : the exclusive absolute pre-eminence of his own plan.’

Politicians and public servants should stop listening to urban planners.

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.”* I used this approach because I wanted to emphasise that the benefits of being a homeowner become most evident when people retire.

In human affairs there has been an imprecise, and at times neglected, moral contract between generations which dictates we should leave things better than we found them. In other words, we shouldn’t arrange our lives simply to serve our own needs but we should consider those who are to follow.

When it comes to home ownership however, we are clearly breaking our contractual obligations. We are making home ownership much harder for the next generation. If we do not act to ensure that housing affordability is restored we will most certainly deny vast numbers of young people the opportunity to become home owners.

The social and economic consequence of large numbers of people reaching retirement as renters will not only effect the quality of their lives and the choices they are able to make but it will also create an enormous burden for government in funding housing and social services.

The economic consequences of all that has happened over these past few years have been as profound as they have been damaging. The capital structure of our economy has been distorted to the tune of many hundreds of billions of dollars and getting it back into alignment will take time. But it is a realignment that is necessary. We cannot deny the rising

generation a home of their own merely to satisfy the ideological fantasies of town planners and the financial concerns of State and Territory Treasury officials. We cannot deny ourselves the joys of grandchildren because the young women of Australia have to work to pay mortgages instead of raising a family. The joke that high mortgages are the new contraceptive is becoming no laughing matter. Young women used to be afraid of getting pregnant, now, as they approach 40, they are afraid of not getting pregnant. We have to get back to the situation where a couple can pay off a mortgage on one income so they can start a family in their late 20s, not in their late 30s or early 40s.

One of the more pernicious aspects of high land prices ie high mortgages, is the forced misallocation of capital and family income into mortgage payments instead of higher standards of living, assets, goods, travel, children's education, appliances or even foregone income to spend more time at home. The most serious manifestation of this gross distortion in our capital structure, is the postponement of raising a family, and the impact on fertility rates which accompanies this trend.

The history of State and Territory land management and urban planning policies and the extraordinary escalation in house prices which has taken place in our capital cities, particularly Sydney and Perth, has many important lessons for us.

From my perspective, that of a builder who has been in the industry for more than 30 years and who has seen what has happened from the inside, it was obvious that the cause of rising house prices was the squeeze on the supply of land for new housing on the urban fringes of our major cities. It is the most basic law of economics that if supply is constrained for whatever reason, the price will rise. And in this instance supply was not just constrained, it was strangled almost to death.

But more disturbingly, all our important economic institutions, the Reserve Bank, the Productivity Commission, the Commonwealth Treasury and every economic commentator in the land, refused to acknowledge that lack of supply was the cause of rapidly escalating house prices. They seemed interested only in blaming demand factors such as capital gains tax, negative gearing, interest rates, first home buyers' grants, high immigration rates and so on. We need to ask, therefore, how did we get this unanimity of wrong advice? And how can we ensure that it doesn't happen again? While I have been banging on this drum for more than fifteen years, it has been pleasing to at least see the Reserve Bank now highlighting the way in which State and Territory Government restrictions on land supply have contributed to this crisis.

To fix the problem for good and ensure that future generations do not suffer the same fate we need to do five things:

1. Where they have been applied, we need to remove urban growth boundaries or zoning restrictions on the urban fringes of our cities. Residential development on the urban fringe needs to be made a "permitted use." In other words, there should be no zoning restrictions in turning rural fringe land into residential land.

It is only as adequate supply returns to the market that land prices will fall. Urban growth boundaries must be removed and the abandonment of the insane notion of "x" years supply of land available likewise. The home buying public will decide how many years' supply of land there is, not the government. The removal of urban growth boundaries and other restraints on land use is equally important for landowners. These boundaries and planning restraints effectively 'nationalise' their land preventing those with land outside the boundaries from obtaining a fair value for it. It further inflates the value of land within the boundaries resulting in wasteful lobbying to have land rezoned.

As we know, corruption of public officials in dealing with zoning changes is not uncommon. In NSW it has been a fact of political life for decades.

2. We need to encourage small players back into the market by abolishing compulsory 'Master Planning.' If large developers wish to initiate Master Planned Communities, that's fine, but don't make them compulsory.
3. Allow the development of basic serviced allotments ie water, sewer, electricity, stormwater, bitumen road, street lighting and street signage. Additional services and amenities (ornamental lakes, entrance walls, childcare centres, bike trails, etc etc can be optional extras if the developer wishes to provide them and the buyers are willing to pay for them).
4. Privatised planning approvals. Any qualified Town Planner should be able to certify that a development application complies with a Local Government's Development Plan.
5. No up-front infrastructure charges. All services should be allowed to be paid for through the rates system ie pay 'as' you use, not 'before' you use. The inequity of up-front infrastructure charging is obscene. First home buyers on the urban fringe are subsidizing, through their electricity, water, sewer and council rates, the massive repair and upgrading of existing, older infrastructure in the inner suburbs in order to accommodate wealthy 'in-fill' homebuyers.

Let me touch now on the financial problems which are spreading around the world as a result of the collapse of the sub-prime mortgage market in the United States.

California, the birthplace of the sub-prime mortgage industry, is paying the highest price of any State in America as the housing meltdown persists. California had nearly 500,000 foreclosures on properties last year and by far the biggest decline in house prices. By the end of 2008 property values in that State alone will have fallen by \$600 billion.

Not surprisingly, almost half of the 25 biggest US subprime lenders were based in California.

California also happens to have one of the strictest urban planning regimes in the world. It, along with Florida, another highly regulated urban planning regime, account for around 70-80% of all sub-prime losses in the US.

Wall Street believes that investors will lose between \$300 billion and \$400 billion on sub-prime loans. And it's not over yet. The Chicago futures market for house prices suggests there could be another 8 to 9 per cent price decline during the next 12 months. Fourteen million people who purchased homes during 2006 and 2007 could end up with negative equity in their homes.

Foreclosure losses however are significantly lower in States like Texas and Georgia where planning and regulation were held at bay. Losses there are one tenth the losses in California and Florida.

Like most epidemics, the US sub-prime (and now 'prime') mortgage housing crisis can be traced back to this one source – urban planning laws. The current credit crisis is the direct result of unprecedented house price inflation caused by the kind of urban planning policies I outlined earlier.

In Australia, the housing affordability problem, 'mortgage stress' and the current rental crisis, are all caused by the same thing.

Again, none of this needed to happen. But it has happened and it now falls to the Government to fix it. Before that can happen, politicians and bureaucrats have to become not only much better informed about the causes of this appalling mess, but also much wiser in their attitude towards the bureaucrats who advise them.

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