



EXECUTIVE SUMMARY

Housing, multi-level governance and economic productivity

Inquiry into housing policies, labour force participation and economic growth

FOR THE

**Australian Housing
and Urban Research Institute**

PUBLICATION DATE

June 2017

DOI

doi:10.18408/ahuri-5307501

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Title	Housing, multi-level governance and economic productivity – Executive summary				
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ISBN	978-1-925334-48-7				
Key words	government policy, social housing, home ownership				
Series	AHURI Final Report	Number	284	ISSN	1834-7223
Publisher	Australian Housing and Urban Research Institute Limited Melbourne, Australia				
DOI	10.18408/ahuri-5307501				
Format	PDF, online only				
URL	http://www.ahuri.edu.au/research/final-reports/284 (full report)				

Recommended citation

Dodson, J., de Silva, A., Dalton, T. and Sinclair, S. (2017) *Housing, multi-level governance and economic productivity: an outline framework and its policy application*, AHURI Final Report 284, Australian Housing and Urban Research Institute Limited, Melbourne, <http://www.ahuri.edu.au/research/final-reports/284>, doi:10.18408/ahuri-5307501.

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Inquiry panel members

Each AHURI Inquiry is supported by a panel of experts drawn from the research, policy and practice communities. Panel members for this Inquiry:

Mary Cavar	Productivity Commission
Marilyn Chilvers	Department of Family and Community Services, NSW Government
Michael Fusarelli	Department of Family and Community Services, NSW Government
Shane Garrett	Housing Industry Association Ltd
Michael Lennon	Housing Choices Australia
Paul McBride	Department of Social Services, Australian Government
Marty Robinson	Treasury, Australian Government
Iain Scott	Department of Social Services, Australian Government

Executive summary

Key points

- This research investigated how housing policy and policy instruments intersect with economic processes and productivity at multiple spatial scales; different levels of government and different locations. It has also sought to illuminate how economic policy instruments that are not specifically housing oriented have housing effects.
 - This research supported the AHURI Inquiry into housing policies, labour force participation and economic growth by developing and testing frameworks which support understanding of housing policy and policy instruments and productivity.
 - Two main conceptual frameworks were constructed to appraise how various housing and economic policy instruments intersect in policy and via the actions of economic actors. The first framework was an inventory of housing and economic policy instruments at federal, state and local scales that identified the mechanisms in operation, their economic effects and any influence on economic productivity, plus the geographic scale at which these effects occurred along with the key actors involved. The second framework established a schematic through which the effects of various instruments could be traced through the housing system via housing economic actors responding to changes in their user cost of capital.
 - The research tested the conceptual frameworks via three focus groups appraising the effects of four selected housing policy instruments on the housing system within metropolitan Melbourne at three spatial scales: inner, middle suburban and outer suburban and demonstrated that the ways governments shape economic decisions can be better understood.
 - The research concluded by identifying a set of enhancements to Australia's national approach to housing policy and economic policy coordination. The principal recommendation is the formation of a dedicated housing policy capability oriented to strengthening the formal policy treatment of housing as an economic asset that has implications for national economic productivity.
 - This should be supported by a strengthened policy perspective on how various elements of the housing and economic spheres intersect with a view to improving policy coordination and coherence.
 - A stronger understanding of the positioning of housing policy in relation to economic policy and thus a broader conceptual framework is necessary to develop evidence-based policy that encompasses the complexity of housing in a systematic way.
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Key findings

This research investigated how housing policy and policy instruments intersect with economic productivity at multiple spatial scales. The research sought to address the Inquiry research question of how can an appropriate framework assist us to better understand the way in which housing policy mechanisms contribute to economic productivity and growth, at multiple governmental and spatial scales? The research sought to assess how the connections between housing policy mechanisms and economic productivity have been conceived in the Australian context and how a basic typology of current housing supply can provide insights into housing-economic connections. Finally, the research asks a third research question concerning how future reviews of housing policy frameworks might incorporate an improved understanding of how housing policy and policy mechanisms intersect with economic processes and outcomes.

In responding to the Inquiry research questions the research team undertook a systematic review of the literature on multi-level governance and economic productivity within the context of Australia's multi-level federal system. The multi-level governance perspective was found to be useful within the context of a shifting macro-structural and governance context, including the increased use in recent decades of market mechanisms in housing provision. Multi-level governance as a theoretical standpoint was well suited to the Australian setting in which three tiers of government operate policies that intersect with the housing system and which also have economic effects. Governments often need to negotiate particular policy settings within this multi-level governance framework and often with market and sectoral actors who have taken an increasingly prominent role in shaping policy. The shift in the macro-economic regime in Australia from a Keynesian framework to a neoliberal framework was noted as complicating the governance arrangements for housing in relation to economic processes.

The research found that the literature on multi-level governance in relation to housing policy is underdeveloped. Although there is some literature on urban policy within a multi-level governance setting, this is not extensive. There is almost no literature on the intersection of multi-level governance arrangements and economic processes and their productivity. Consequently, the research task of establishing a basic typology for housing policy and economic processes and productivity took on a novel dimension in filling this knowledge gap.

How have the connections between housing policy mechanisms and economic growth and productivity been conceived within the Australian context, in terms of governmental and spatial scale?

The research conducted a review of major reports on housing policy or of policy instruments that have housing effects as undertaken by Federal Governments since 2010. Reviewed were:

- Australia's Future Tax System (FTS) (Henry 2010)
- National Housing Supply Council reports (2009–13)
- Productivity Commission Inquiry into Planning and Zoning (2011)
- Council of Australian Governments Housing Supply Affordability Report (HSAR) 2012
- Financial System Inquiry (FSI) (2014)
- Federation Review on Housing and Homelessness 2014
- Senate Inquiry into Housing Affordability (SIHA) 2014.

The review revealed that there is almost no effort within high-level policy thinking at the federal level that is dedicated to constructing and articulating a systematic conceptual understanding of the links between housing policy objectives, housing policy instruments and mechanisms, and their effect on the economics of housing systems or economic productivity. This absence contrasts with the considerable significance of housing as a national asset worth an aggregate

\$6 trillion in 2015 (Core Logic RP Data 2015). The research found this seems to partly reflect the residualisation of housing as a portfolio within the Federal Government such that housing is primarily located within the welfare portfolio. Consequently, housing is not conceived within the machinery of government as a prominent economic or policy area, despite its very large asset value. This mismatch of aggregate economic significance with policy attention seems to be a failing of Australia's policy architecture. The research notes that there is evidence that this neglect is deliberate on the part of the present Federal Government and argues for stronger policy treatment of housing within the federal administrative arrangements. In particular, there is a need for a clear conceptual understanding of the policy importance of housing both as a factor in national welfare and economic performance and in terms of articulating a federal perspective on housing that sets out policy objectives and mechanisms for attaining them, linked to economic processes and instruments.

How can a basic typology of current housing supply provide insights into housing-economic connections, including the role of multiple governance tiers and effects at multiple spatial scales?

Given the lacuna in national policy thinking around housing the research responded to this research question by constructing a basic framework through which to understand the links between housing policy and economic productivity.

The research undertook an inventory of Federal Government housing and economic policy instruments and their economic effects which appear to be primarily demand stimulating effects:

- Home Buyer Grants including First Home Owner grants
- Commonwealth Rent Assistance
- Reserve Bank of Australia Monetary Policy (wholesale interest rates)
- Monetary Policy (Exchange rates, National Affordable Housing Agreement (NAHA))
- National Rental Affordability Scheme (NRAS)
- Department of Social Security; individual housing providers
- taxation policy (negative gearing)
- Macro Prudential Regulation (Capital requirements of lenders and borrowers)
- superannuation tax concessions
- taxation policy (Capital Gains Tax Concession).

State and territory housing intervention considered were: Home Buyer Grants including First Home Owner grants, Revenue policy (Stamp duty, Land Tax), Tenancy regulation, Planning and land-use regulation (Urban growth boundary), Public Housing. These were found to be primarily regulatory and fiscal.

Local governments operate interventions into the housing market in municipal planning, and rating.

It was found that there is a wide array of housing and economic policy instruments operating in Australia at multiple levels of government. A notable feature of the various interventions undertaken by governments is the lack of systematic integration between them, and the absence of an overarching policy framework that articulates how these interventions fit within a nationally-coherent set of objectives around housing.

The research team applied the construct of 'user cost of capital' which was used to impute the behaviour of various housing actors at multiple points in the spatial housing market and in response to policy instruments applied by governments at varying scales.

Three focus groups were conducted to test the framework, which investigated market actors' decisions and perceptions of housing policy instruments and their economic effects on housing supply.

These focus groups revealed a general understanding of key housing policy instruments, but this understanding was based on very practical understandings of the policy instruments. Direct tangible constraints on development, such as planning regulations around building design were appreciated more sharply by those involved in housing supply than mechanisms that operated via other actors, such as the availability or cost of capital as provided by the major lending banks.

Focus group respondents did not articulate extensive understanding of economic productivity questions. To the extent that productivity was understood, it was in terms of the efficiency of delivering dwelling stock to the market relative to capital, holding, development approval, financing and marketing costs. There was a general sense expressed by some focus group recipients that government regulatory actions were often applied without a sufficiently sensitive understanding of how market actors would respond, which imposed risks in terms of inadvertent shocks that could destabilise housing demand and supply.

How might future reviews of housing policy frameworks incorporate improved understanding of the multiple governance and spatial scales at which housing policy intersects with economic processes and outcomes?

The research suggests there is considerable potential to improve how housing policy is formulated in Australia and the way the understanding of the role and contribution of the housing system is linked to wider understanding of economic processes and the productivity of the national economy. This includes;

- developing a conceptual framework for housing that can guide policy formation
- improving the allocation of resources to housing policy within the federal administrative arrangements, including consideration of a dedicated Ministerial Portfolio and agency, linking the welfare and economic perspectives on housing within the Department of Social Services and Treasury
- establishing a clear conceptual framework for understanding the role of housing in the economy, providing more substantial policy explanation and justification for extant housing policy instruments and economic policy mechanisms that affect housing
- improving policy coordination among federal, state and local governments.

Policy development options

Our major finding is that there is substantial scope for an improvement in housing policy dialogue within Australia, especially among the policy agencies of the Commonwealth Government. In particular, our analysis suggests there is a need to grow an understanding of how housing defines aspects of economic activity, including productivity, among the general public as well as the policy community. Several measures that could be taken to achieve this are:

- 1** Establishment of a stronger housing policy agency.

With the abolition of the National Housing Supply Council (NHSC) by the current government, Australia lacks clear capability to understand best policy for housing and its impact on the broader economy. To cover this gap, an agency within government should be tasked with exploring and reporting on housing across various levels of government, and its role within the broader economy, including improving economic productivity. This would go beyond the supply

focus of the NHSC. Regular reporting requirements as well as a requirement to engage with the media, policy-makers and researchers and industry stakeholders should be a mandate of the agency. The agency should have direct reporting line to Treasury as well as other relevant portfolios including Social Services. This may be best facilitated by the formation of a formal Ministerial role.

2 Regular housing social and economic impact statement requirements.

Our research shows that housing is a complex phenomenon that is intricately woven throughout the economy. It therefore seems appropriate that government departments and authorities provide regular housing impact statements (independent of whether 1 above) is enacted).

An important feature of such reports would be to adopt a unifying framework such as the one presented in this research. Employing concepts like the 'user cost of capital' such as we have done would provide a valuable analytical perspective.

3 A national review of housing policy within the federation.

A review of national level housing policy and its intersection with social and economic processes and policy is overdue. This review should assess all housing policy instruments identified in this report, including those not formally designated as specific to housing (e.g. negative gearing) to improve their formulation and coordination, including effectiveness in achieving housing objectives. The review would need to go beyond the limited scope of the Federation Review of Housing and Homelessness (FRHH) paper (see below).

The study

This study informs the wider AHURI Inquiry into housing policies, labour force participation and economic growth conducted during 2015–16. By providing a perspective on how policy processes and frameworks conceive of the economic dimensions of housing, the research complements the wider program of research supporting the Inquiry, including: housing supply responsiveness; housing and consumption; housing and labour mobility; and employment decisions. The policy perspective and the economic framework offered by the research assists to position the implications of these wider projects within the housing policy and economic policy arrangements operating in Australia.

The research undertook a systematic review of the literature, key Federal Government policy statements and reports released over the past decade, developed a typology of the mechanisms through which housing policy influences economic behaviour and tested frameworks through focus groups to better illuminate these processes

The research necessarily has some limitations. It was not able to undertake a comprehensive investigation of national multi-level housing policy involving systematic primary research, such as interviews with policy actors. Further work of this sort could strengthen the findings by offering additional empirical clarity of the issues addressed beyond that achievable via the method of systematic review adopted in the research.

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Using high quality, independent evidence and through active, managed engagement, AHURI works to inform the policies and practices of governments and the housing and urban development industries, and stimulate debate in the broader Australian community.

AHURI undertakes evidence-based policy development on a range of priority policy topics that are of interest to our audience groups, including housing and labour markets, urban growth and renewal, planning and infrastructure development, housing supply and affordability, homelessness, economic productivity, and social cohesion and wellbeing.

Acknowledgements

This material was produced with funding from the Australian Government and state and territory governments. AHURI Limited gratefully acknowledges the financial and other support it has received from these governments, without which this work would not have been possible.

AHURI Limited also gratefully acknowledges the contributions, both financial and in-kind, of its university research partners who have helped make the completion of this material possible.

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