The Political Economy of Australian Housing Policy

Beyond the Vaunted History of Ideas

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Honours Thesis

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Statement of Originality

This work contains no material which has been accepted for the award of another degree or diploma in any university, and to the best of my knowledge and belief, this thesis contains no material previously published or written by another person except where due references is made in the text of the thesis.

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Isla J Pawson
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_I don’t know where I’m going from here, but I promise it won’t be boring_

- David Bowie
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Introduction

General Introduction: The Housing Problem

The city is often portrayed as the ultimate spatial expression of human ingenuity. In *Triumph of the City*, Edward Glaeser (2011) labels the city our ‘greatest invention’, and declares that the urban environment offers the healthiest, greenest and richest possibilities for humankind. Like many others before him, Glaeser portrays the ideas and inventive spirit of human agents as independently powerful tools in spatial organisation, with a limitless potential to alleviate societal problems.

The view that the urban environment is a carefully crafted product of ideas sits uneasily alongside Australia’s dysfunctional housing system. In recent decades, the eminently reasonable goal of affordable housing for all has grown ever further out of reach for low-income and young Australians. This problem is expressed in four related dimensions of social and economic inequality.

Socioeconomic Inequality

Although homeownership rates remained stable for a sustained period from the 1960s, concerns that Australia’s housing system is fuelling social divisions have intensified since the Global Financial Crisis (GFC) in 2007-8. Across Australia, house prices and rents have risen at above inflation rates over the past decade. For example, Sydney’s median house price was 72% higher in real terms in 2015 than in 2001 (NSW Government 2002, 2016). More broadly, homeownership rates fell by three per cent between 2007 and 2013 (ABS 2015b), with intergenerational transfers increasingly the means by which more fortunate young people are enabled to cross the ‘first home buyer threshold’. Declining home ownership affordability has also inflated the demand for rental housing, pushing up rents and forcing more low-income tenants into poverty (Morris 2013). While rising more slowly than house prices, Sydney’s median rent was 31% higher in real terms in 2015 when compared with 2001 (NSW Government 2002,
Housing access is becoming evermore dissociated from income growth, and transforming economic inequalities into deepening social asymmetries.

**Intergenerational Disadvantage**

The negative impacts of unaffordability are reinforced over lifetimes and generations. House price growth has dramatically inflated the wealth threshold for entry into the housing market, widening the divide between those with and without access to parental assistance. With the price of lower end Sydney strata property rising to $533,000 in 2015, the required deposit would be around $110,000 assuming a lender requirement for 20% downpayment (NSW Government 2016). The average wage earning single adult would need 11 years of consistent saving – at quite an ambitious rate of 15% - to accumulate a standard deposit on this basis (van den Nouwelant 2016). Access to homeownership is thus increasingly more dependent on to whom and where we are born. While the wealth of richer Australians potentially mitigates the impact of unaffordability on their own children by providing them with rent-free accommodation or cash assistance, the poor are likely subject to the full force of house price and rent rises.

**Spatial Segregation**

In his powerful book *Social Justice and the City*, David Harvey (2009 [1973]: 171) captured the endemic spatial condition of those living in capitalist societies, arguing that ‘the rich command space whereas the poor are trapped in it’. Australia’s richest cities are the physical expressions of the rampant inequalities described above. Sydney and Melbourne are now characterised by dramatically uneven development, with investment funnelled into inner city regions, beachside suburbs, and transport hubs. This has the effect of pushing up prices in these areas and forcing low-income tenants, or new entrants to the housing market, outward into comparatively cheaper regions. While the rich can make choices about their access to amenities and preferred locale, the poor are largely denied the capacity to make important decisions about where they live, and inevitably become concentrated within lower priced areas. The visible concentration of disadvantage has also perpetuated social stigmatisation of the poor, underpinning policies that pander to the evermore widely held perception that poverty must be
‘corrected’ through coercive institutions such as workfare (Peel 2003). While all of these issues have their origins in the economic sphere, they demonstrate that housing itself is now also a cause of the inequalities that tarnish the image of an egalitarian Australia.

Economic Vulnerability

At 206% of net disposable income, Australia’s household debt level is the fifth highest in the world (OECD 2016). Moreover, 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 country’s economic system is thus precariously balanced on the promise of house price rises, limitless demand, and the age of low interest rates and cheap money. These are fatal promises – as became clear in the immediate aftermath of the GFC. The US sub-prime mortgage collapse was precipitated by people on low to modest incomes seeking to purchase housing - encouraged by banks and state policies – without due regard for their capacity to service the debt. While the appreciation of housing could partially cover this problem, the demand underpinning this was based on the socially constructed notion that prices could continue to rise forever (Davidson 2008: 672). The system eventually collapsed, fuelled by the herd-behaviour of investors seeking to offload their stake in the housing market. This shows that the centrality of housing to Australia’s accumulation regime has the potential to produce disastrous effects for those caught up in the process of house-buying, and the macroeconomic situation more generally. While the housing problem is most apparent in metropolitan Australia, everyone has a stake in the perpetuation of house price rises, and the potential crisis this might produce.

Thesis Purpose

Given the growing presence and multidimensional nature of housing problems in Australia, it is important to critically reflect upon the ways in which scholars have analysed the origins of housing problems and the policies designed to tackle them. In mainstream debates, housing is viewed as a technical problem potentially solved through isolated measures such as better construction technology, fewer planning laws
This thesis argues that this view overlooks the systemic character of housing problems, and the forces that shape the state’s policy responses. The main problem is that existing scholarship seeks to explain the current pattern of housing development without a conception of the political and economic system as a whole. 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.

This deficiency is rooted in the particular view of the forces shaping spatial organisation described at the beginning of this thesis – that is of the all-powerful nature of ideas. The notion that housing policy is only a manifestation of human invention and deliberate planning has the effect of ‘fetishising’ the housing system, as though it were shaped independently of contextual factors, and solely through the prescription of persuasive ideational programs. In particular, existing scholarship characterises the state’s position on housing as solely the product of ideas that favour prescribing welfare through the market and reducing state intervention.

This thesis makes a political economic contribution by providing a more critical and theoretically informed understanding of the forces shaping housing policy change in Australia. It also provides a more thorough exploration of the role of the state in relation to housing, and critiques wider methodological approaches that construe ideas as independently powerful drivers of change. To this end, the thesis combines an understanding of the historical tendencies and social relations of capitalist production with an appreciation of the contingent, socially-contested nature of its past and future development. The thesis contends that while ideas certainly matter, housing policy is shaped by systematic pressures, tendencies and underlying social structures, rather than only planning and deliberation in an independent policy sphere.

To make this argument, the thesis combines a number of state-theoretical insights with historical and contemporary investigations of housing policy development, and highlights the importance of using theory to improve strategies for housing reform. As Frank Stilwell has argued, ‘solving the problem of housing [un]affordability cannot be disentangled from the process of creating a more egalitarian society for all’ (Stilwell
2014b: 2). In turn, this process cannot be divorced from the need to effectively understand and critique the structural forces that shape housing policy change.

Scope and Structure

The scope and argument of the thesis is developed over four chapters. Chapter one examines the parameters of the housing policy literature, and illuminates the way in which ideas have been emphasised as the key determinants of political economic change. It highlights that the ‘strategy-focussed’ nature of policy literature has neglected an acknowledgement of the deep political, economic and social structures that shape and mediate the housing system. Furthermore, it analyses literature that construes housing policy as shaped, constrained and ultimately determined by the powerful forces of globalisation and financialisation. The chapter argues that these contributions miss key distinctions between the ideas professed by political and economic elites, and the practical reality of developments in welfare policy. It also contends that existing literature overlooks the way in which the state has been an active participant in the transition to ‘globalised’ and ‘financialised’ models of capitalism, and therefore misdiagnoses the forces underlying policy change.

Chapter two delivers a conceptual understanding of the state in capitalist society in order to remedy the flawed conception of housing policy change identified in chapter one. The chapter draws on Marxian insights in order to highlight the central role for the state to secure the conditions for capital accumulation, undermining the notion that the state has ‘withdrawn’ its housing policy interventions. Drawing on régulation and institutional theory, the chapter also stresses the contingent, socially-contested nature of this process, and suggests that only by studying the specific context in which the state operates can we understand the forces driving housing policy development. Ultimately, the chapter argues that the state must be understood as embedded within social and economic processes, and that housing policy is shaped by a complex interplay between economic crises, structural imperatives, and social struggles.

Chapter three delivers an empirical investigation to highlight both the limited capacities of existing scholarship, and to provide a theoretically informed explanation of a key
episode in the history of housing policy. The chapter looks closely at the 1985 repeal of negative gearing policy in Australia, and analyses why the policy was reinstated only two years later. It critiques existing explanations that ascribe the change to the persuasive power of real-estate lobbyists, arguing instead that negative gearing was reinstated as part of a broad institutional resolution to the balance of payments crisis. In essence, the chapter suggests that while the ideas of real estate lobbyists appeared to be independently powerful, they were only made effective by the broader situation of economic ‘crisis’, the way in which this produced a broad struggle to liberate opportunities for capital investment, and created perceived imperatives for the state to ‘fix’ accumulation. The chapter thus stresses the importance of contextualising any analysis of developments in housing policy, in order to provide more satisfactory explanations of the causal forces involved.

In order to understand the current potential for housing reform, chapter four shifts to an empirical analysis of the role and durability of negative gearing policy today. It argues that negative gearing is an integral component of Australia’s accumulation regime, and tied to structural imperatives for the state to secure capital accumulation. The chapter concludes that the rhetorical pillars of the Coalition’s budget strategy serve as an ideological vehicle to legitimise the unequal benefits that negative gearing provides to capital, and the active role that the housing system now plays to reproduce and exacerbate socioeconomic inequality. The chapter also builds on lessons learned from chapter three to illuminate the way in which the current context of ‘crisis’ offers a potential for serious change. In doing so, it attempts to bridge the gap between a deep and analytical critique of current literature with insights that contribute to housing policy reform. By combining theoretical exploration with empirical analysis, this thesis illuminates that an array of political, economic and social structures combine to produce cumulative patterns of housing inequality, and shows that we cannot hope for an isolated solution to the issues of housing unaffordability described above.
Chapter One

Ideational Causation in Housing Policy Studies

Introduction

This chapter argues that existing housing scholarship fails to adequately explain the forces that shape housing policy in Australia. Scholars generally agree that the 1980s deregulation of the Australian economy created the conditions for a commodified housing system, gradually eroding its social welfare functions and deepening affordability problems. However, existing literature fails to identify the systematic causes that underlie these trends, and is unable to fully illuminate the structural barriers to reform.

Why is this the case? There are three broad scholarly categories within housing studies that have perpetuated an overarching view that the ideas of political elites are the primary source of political economic change. The first is an empirically focussed, policy advisory tradition, which has held governments accountable for ever-worsening affordability issues. The second field involves a closer examination of the ‘political economy’ of welfare policy, situating housing within broad historical trends such as ‘globalisation’ and ‘financialisation’. Third, scholars have highlighted the way in which the commodification of housing forms part of an economic strategy to reduce welfare spending and satisfy economic growth. While all the of these schools have examined changes to the system of housing in depth, they have generally downplayed the role of structural factors in producing these trends by assuming that ideas command causal primacy. In particular, these traditions have ascribed changes in housing policy to a seductive theoretical doctrine that favours prescribing welfare through the market and reducing state intervention.

There are two related problems with this analysis that this chapter will draw out. The first concerns the internal consistency of dominant arguments within housing policy studies. While existing scholarship highlights the causal power of ideas, this...
explanation is unable to account for the contradictory and variegated nature of state policy over the last thirty years. In order to fully understand the forces shaping housing, it is important to explain why the apparently ‘dominant’ ideas in favour of fiscal restraint have not been realised in practice, and to account for the structural, contextual pressures within which the state operates. The second problem relates to the practical value of housing scholarship. Current arguments – particularly within the ‘political economy’ of housing field - tend to view the development of housing policy as an inevitable and unstoppable trajectory. This is largely because scholars have uncritically construed ‘globalisation’ as a simple form of free market ideology in the context of a technologically advanced global economy. However, the tendency to ignore the material basis of globalisation, and the role of the state in implementing policy as a response, implies that there is very little possibility to ‘turn back the tide’. This is a highly disempowering narrative rooted in the general assumption that ideas are independently powerful. However, to provide the practical tools for change, it is important to highlight the active role of the state in responding to material pressures, and how its activities are structured by broader imperatives. Ultimately, the chapter contends that the issues within housing studies can be alleviated by providing a more considered theory of the state, state power, and the way in which policy areas are shaped and mediated by materially grounded pressures.

The argument of this chapter will proceed in three parts in order to illuminate the pervasive assumption that ideas are the key factors shaping housing policy. The first section will analyse literature specifically concerned with Australian housing affordability issues and the notion that they are produced by a ‘neoliberal policy paradigm’ of pro-market ideas. The second section will situate these debates within wider discussions about the ‘financialisation’ of housing, which investigates the changing role of the state in homeownership policy throughout the Organisation for Economic Co-operation and Development (OECD). Third, the chapter will analyse contributions that construe the state as ‘deliberately’ eroding the social functions of housing in order to transform it into a frontier of capital expansion.
Home ownership rates in Australia fell by about three per cent between 2007 and 2013 (Trading Economics 2016). Although a significant downturn, these figures do not capture the pervasive impact of intergenerational transfers that partially sustain homeownership rates but exclude low-income groups from equal homeownership opportunities. Most scholars identify a key turning point for the model of homeownership in the 1980s, coinciding with the deregulation of the Australian economy and the onset of a financialised system. Although recent work has argued that the trend towards financialisation began as early as the 1950s (Ferreira 2016), it is consensually acknowledged that a growing preference for financial markets and falling role in state provision has produced a chronic housing affordability problem, felt most acutely at the bottom end of the income scale (Rolnik 2013; Winter 2013; Hulse, Reynolds & Yates 2015).

At the frontiers of this debate, scholars argue that housing unaffordability is produced by the state’s economic policy structure and a lack of receptiveness to evidence-based research that offers remedies to the problem. These conjectures highlight long-standing investment incentives that encourage speculative house buying, low interest rates and a general lack of state intervention (Winter 2013; Yates 2014; Hulse et al 2015). For instance, scholars often note the unwillingness of governments to increase the supply of affordable housing that is subsidised by the state and rented out at below-market rental rates. Winter (2013: 29), for example, suggests that the federal government should focus on ‘inclusion rezoning to provide mandatory new contributions’ to the affordable housing supply by all new potential developers. He argues that this policy would offset the rapidly rising house prices that characterise the private market and provide access for low-income earners at a low cost for the state. This typifies housing studies approaches that provide comprehensive and reasoned policy alternatives to combat affordability issues, often through submissions or commissioned papers. In another example, Milligan et al (2013: 49) focus on potential strategies to finance affordable housing:
The private rental market has failed to generate an adequate supply of affordable rental housing for those on the lowest incomes and has failed to ensure that the supply that is affordable to those on low to moderate incomes is allocated to them...this report points to concerns about the future capacity and willingness of small-scale investors to address these failures.

This work ascribes weak access to housing or homeownership to the persistent failure of pro-market ideas – or, as Milligan et al (2013) put it, the increasingly ‘privatised’ model of housing provision. But this explanation cannot explain why ideas favouring market provision remain dominant as political tools, nor provide insights into how they are likely to be replaced by an alternative consensus. These points are part of a wider theme of ideational causation which characterises the housing studies literature, overlooking the material forces – be they political, economic or social - that give rise to particular ideas and create the conditions for them to become dominant tools in the policy domain. However, the fact that ‘the private rental market has failed to generate an adequate supply of affordable rental housing’ (Milligan et al 2013: 49) has to be understood as more than a failure of ideas, instead produced by complex material conditions which give rise to and sustain the state’s policy approach.

In order to explain policy problems, we need to problematise both the state and the social forces that shape public policy. However, the majority of housing research does not interrogate the nature of the state nor the material conditions in which policies are planned, implemented and entrenched (Lawson 2012: 188). The state is instead portrayed as autonomous from society and the exclusive actor influencing the housing regime, potentially influenced through evidence-based research and reasoned debate (Milligan et al. 2013; Yates 2014; Winter 2013). The strategy of researchers is thus to challenge the ideas held by state elites and managers, arguing for greater intervention and ‘a more comprehensive approach to policy settings for investment’ in affordable housing to remedy the poor access to housing felt by low income earners (Hulse et al 2015: 63).

However, this approach assumes that policies are entirely produced by the ideas held by political and economic elites, and overlooks the ‘material constraints within which the state formulates and implements housing policies’ (Hayward 1996). This means that the
brunt of this research treats policy problems as symptoms of policy failure, and ascribe the affordability problem to a growing consensus within the state favouring market provision. Scholars thus assume that a ‘policy paradigm’ shapes state practices and weakens its amenability to new research (Hall 1993). This thesis, implicit in housing literature, frames policies as manifestations of distinct bodies of ideas, subject to change only through punctuated shifts and a ‘fracturing of [housing] policy consensus’ (Burke & Tiernan 2002: 14). The dominant policy paradigm dictates the goals of public policy, the necessary instruments to achieve them and even the nature of the problems themselves (Hall 1993: 279). The state’s unreceptiveness to evidence-based research in housing (Jacobs 2015a; Phibbs & Gurran 2015) is thus implicitly attributed to a hegemonic paradigm of ideas, existing within and across the state apparatus.

This view is evident in narratives that ascribe housing unaffordability to a paradigm of pervasive neoliberal ideas. Literature that periodises the housing regime has identified a marked shift from a socially oriented ‘stimulus led’ Keynesian project to an economically driven ‘small state’ neoliberal one (Forrest & Hirayama 2014; Berry 2014; Nicholls 2014). In line with this, Burke & Tiernan (2002: 14) have argued that the ‘policy problems’ confronted by the state since the 1990s have been explicitly selected as part of a wider ideological project of marketisation and fiscal restraint. This suggests that a coherent policy paradigm exists within the housing sphere and prescribes a unified approach to economic organisation. Housing scholars Whitehead (2012) and Berry (2014) have even suggested that neoliberalism is a defined economic approach to housing, containing a prescriptive and market fundamentalist outline for policy change.

Associating neoliberalism directly with the free market, these scholars misconstrue the state’s approach as solely shaped by ideas, and as a mechanical operator immune to social pressures. This uncritical 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, and Stilwell 2012; Gamble 1994). While identifying apparent correlations between neoliberal ideas and the state’s reduced role in housing provision (Nicholls 2014; Rolnik 2013; Forrest & Hirayama 2014; Whitehead 2012; Berry 2014), scholars fail to problematise the causes of ‘paradigmatic’ shift, overlooking the material conditions that create the constituency for particular ideas to become dominant tools in the policy realm. A
considered theory of the state is necessary to advance these arguments and illuminate the complex political, social and economic pressures that are perennial features of the capitalist system, shaping and mediating the housing regime.

**Housing, Globalisation and Financialisation**

A second body of literature situates housing within wider historical trends of ‘globalisation’ and ‘financialisation’, highlighting comparable processes of welfare policy erosion across advanced economies over the last thirty years. This chapter suggests that while these narratives offer a partially adequate description of changes to housing policy, they are unable to account for why these changes have occurred. This problem is rooted in the assumption that globalisation and financialisation are simply powerful ideas that have provoked a deliberate roll back of state intervention. The chapter illustrates that this argument overlooks the practical reality of an active state in responding to these forces and implementing policy changes throughout the period in question.

There is significant evidence demonstrating that the state’s role in overseeing and managing the housing market has diminished over recent decades, replaced by a reliance on ‘financial inclusion’ that creates access to resources through financial services rather than public provision (Rolnik 2013; Forrest & Hirayama 2014; Bryan & Rafferty 2014; Aalbers 2008). These scholars have critically analysed the integration of housing into local and global finance networks and the gradual erosion of state involvement in promoting homeownership throughout the OECD. It is consensually acknowledged that this model of homeownership is deficient, perpetuates housing inequalities and fails to deliver necessary social welfare. As Rolnik (2013: 1064) writes, ‘the crisis, and its origins in the housing market, reflects the inability of market mechanisms to provide adequate and affordable housing for all’.

Crucially, this work has focussed on developments in the financial sphere that provide citizens with new mechanisms to buy into the private housing market. For many, the state’s retreat is portrayed as naturally accompanying financial innovation, and underpinned by a widespread hegemony of free market ideology. Indicative of these
narratives, Rolnik (2013: 1059) argues that a growing preference for market provision has replaced the Keynesian homeownership project that came before it with a renewed emphasis on the efficiencies of market provision:

Whether freely decided by governments or imposed by international financial institutions and other actors as loan conditions, the new paradigm was primarily based on the implementation of policies designed to create stronger and larger housing-based financial markets, to include middle- and low-income consumers…in each [OECD] country, these new ideas confronted existing national welfare systems and housing coalitions.

These scholars attribute a great deal of power to pro-market ideas and their proponents, actively eroding the preceding policy consensus in which the state took an active role in enabling homeownership. While homeownership ‘was an important element of the social contract of Post-War Keynesianism’, the ideological grip of pro-market ideas progressively engulfed ‘home ownership focused financial institutions and in doing so contributed to the erosion of the special status of housing’ (Forrest & Hirayama 2014: 236).

The limitations of these idealist explanations become apparent when we consider the contradictions between ideas that promote the retreat of the state, and actually existing state practices. These arguments over-simplify the historical development of housing policy by assuming a theory of political and economic change that is driven by the ideas held by political and economic elites – specifically, with the ‘twin ideas of enhancing the financial assets of households and reducing their reliance on government aid’ (Rolnik 2013: 1062). But this ideas-based conception offers an inadequate characterisation of financialisation, particularly given strong evidence for the ways in which financial markets require a strong state in order to function and expand (Panitch & Gindin 2012: 283; Fine 2010: 99). This is particularly evident in the aftermath of the 2008 GFC, in which states throughout the developed world – most clearly in the United States – have insulated banks from failing financial markets through large bailout programs (Konings 2010: 174). Furthermore, states throughout the OECD have tended to maintain or increase both social expenditure and regulatory capacity throughout the
period referred to by these scholars, casting doubt on the causal power of ideas in favour of market provision (Levi-Faur, cited in Cahill 2012: 113).

This illustrates a sharp disjuncture between the ideas spread and promoted by elites and institutions, and the actual policies implemented. This contradiction also highlights that we need to view ideas as produced by a deeper set of material factors, rather than emerging and gaining dominance independently of social and economic processes. The growing ties between financialisation and housing provision are important empirical developments in the housing sphere, but indicate a structural shift driven by material factors rather than a coherent ideological project. In order to unravel the forces shaping this process, we need to situate the state within the social structure and examine the environment of competing interests in which it formulates and implements policies. This will help to explain the causes underlying the trend towards financialisation, and the apparently reduced role of the state in directly assisting provision.

The ‘Success’ of Welfare Erosion

Up to now, this chapter has focused on contributions that overlook the material factors that shape and constrain state policy. These arguments are characterised by an implicit assumption that the state 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 twin ideas of fiscal restraint and the proposed efficiencies of market provision. As argued, this analysis overlooks the contradictions between the ideas promoted by political and economic elites and the practical reality of contemporary developments in welfare policy. However, a growing body of literature advances on these simplistic ideational explanations by highlighting the structural role that housing policy plays to support capital accumulation. This chapter now highlights the key conceptual insights of this literature and how they improve existing scholarship, while also pointing to the limited conception of the state that they provide. While making strong arguments that highlight the deliberate reorientation of housing policies to serve broad structural imperatives distinct from citizen welfare, these contributions do not adequately locate the state within the social structure and fail to account for where these imperatives come from.
As a result, they fall back on the assumption that states have become captive to the ideological efficiencies of ‘financialised’ or ‘marketised’ welfare provision, without explaining the conditions that have provided these ideas with purchase, power, and sufficient social support.

Both Aalbers (2008) and Bryan & Rafferty (2014) situate the financialisation of housing within the context of an ‘accumulation regime’. This advances on arguments previously cited by examining how housing finance has contributed to a wider economic strategy. For instance, Aalbers (2008) argues that ‘home equity’ is an increasingly vital component of economic growth in the OECD. By ‘expanding the mortgage market by means of granting bigger loans’, the state props up consumer spending, enables housing access, and retreats from directly intervening in provision. Bryan & Rafferty (2014: 408) echo this argument by suggesting that housing has become a ‘frontier of capital accumulation’. Arguing that ‘state policies have recognised that housing wealth may be…the basis of reducing welfare spending’, they show that housing policy is shaped by economic circumstances rather than constructed according to prescriptive ideas (Bryan & Rafferty 2014: 410). By contextualising housing as a commodity within a wider economic strategy, this work problematises the role of the state and questions ideational theories of causation. Rather than an historical contest of ideas, material economic conditions shape the historical and contemporary housing policy trajectory (Aalbers 2008; Bryan & Rafferty 2014).

However, while this analysis is an important contribution to housing political economy, it should be deepened to explain how material conditions have created the constituency for powerful ‘financial’ ideas to influence housing policy. Bryan & Rafferty (2014: 409) note that market provision models are complimented by ‘a discourse of subordination to individualism’ that erodes the status of housing as ‘right’ and replaces it with the notion that homeownership is a widely achievable product of financial self-discipline. This portrays financialised homeownership models as coordinated and deliberate responses to economic pressures, and subordinated to a wider ideological project of fiscal restraint:

Financial literacy and the concept of household risk management can now be understood as part of an emerging ideological project to normalize financial risk
management and establish the new forms of responsibility and reliability. Labour is now expected to (self)-manage, not just at work and as consumers, but as sort of household hedge fund managers (Bryan & Rafferty 2014: 411).

These comments imply that state policies are formulated as part of an ‘ideological project’ and suggests that the state suffers from few social constraints. While ‘accumulation regimes’ certainly present a useful tool with which to analyse the role of institutions and structures in capitalist societies, these authors oversimplify their origins to the ideas of state elites and managers. In contrast, régulation theorists have pointed to the way in which these regimes are created to manage the various contradictions and social antagonisms inherent in the structure of production. Rather than coherent ideological projects, accumulation regimes are subject to the broader structural imperative of capital accumulation, and are shaped and mediated by social struggle (Boyer & Saillard 2002). This highlights that to understand the development of policies and institutions, we need a conception of the state, the social relations in which it is embedded, and the systematic contradictions woven into the social system. While these scholars produce a useful analysis of the changing role of housing, they require a considered theory of the state in order to highlight why this change occurred, and how it might be contested.

Further contributions have argued that the state has actively sought to absent itself from housing provision. This research agenda has focussed explicitly on the role of the state in maintaining a ‘bifurcated’ housing regime that systematically allocates housing in ‘class terms’ (Kemeny 1983; Jacobs 2015a). Scholars Kemeny (1983) and Jacobs (2015a) have argued that public housing is deliberately kept at a low standard to maintain incentives to buy. 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 coordinated discursive strategies, in order to insulate itself from democratic pressure during marked retreat from housing assistance. Thus, the state reshapes ‘social security’ measures into policies that encourage rampant social insecurity (Wacquant
2009: 169), supporting the private market through an ideological strategy of social division.

As Hayward (1996) notes, there is certainly strong evidence for the pervasiveness of this ideology within housing departments and 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 2015a: 55-6). This assumes that the state easily and deliberately circumvents complex social pressures in order to sustain an ideological commitment to fiscal discipline. Yet the reasons for this commitment are not articulated in this research, which assumes an ideational theory of political practice:

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 prevailingly benefited the finance and real estate industry (Jacobs 2015a: 58).

Although this argument illuminates real inequities in the structure of housing allocation and ownership policies, it holds ideas as the main drivers of political economic change without explaining why particular ideas to prioritise wealth creation emerged as dominant when they did.

These arguments need to be situated in an historical context of social relations and material economic pressures to illustrate why housing inequalities remain entrenched and continue to worsen. Implying that the state has inexplicably subscribed to an ideological agenda of austere housing policies belies the complex history of welfare in Australia that bears little resemblance to any body of prescriptive policy ideas. For instance, the partially inward-looking nature of this research cannot account for the contradictory and uneven nature of roll-back in public housing expenditure and the consistent social security budget since the 1980s (Hartman 2005: 61). This requires us to engage with the potential for an historical ‘repurposing’ rather than ‘roll-back’ of the welfare state, in which material pressures alter the function of social goods such as
utilities, welfare receipts and housing (Peck, Theodore & Brenner 2012: 22). Further, the state needs to be understood as always and already operating within an environment of competing interests, shaping its strategies materially as well as ideologically. This is crucial if we are to advance on the simple assumption that the ‘priorities of wealth creation and profitability’ (Jacobs 2015a: 57) are only ideological components of state practice, and begin to understand the structural tendencies that institutionalise these goals at the expense of effective social policy.

Conclusion

This chapter has explored the parameters of existing housing policy literature. It has argued that the explanatory capacity of housing scholarship is constrained by an underlying assumption that ideas are the main drivers of political and economic change. Scholars working to remedy Australian housing unaffordability treat current policy as the result of prescriptive and entrenched pro-market ideas, and thus assume that housing issues are simply the unintended consequences of otherwise considered approaches to urban organisation. In a related but distinct fashion, contributions that situate housing policy within wider trends towards financialisation produce a simplistic portrayal of past and present housing regimes, without a conception of why financialised housing models gained political prominence. While some scholars have provided more sophisticated analysis of the contradictory role of housing within political economic regimes – as both a frontier of capital accumulation, and a necessary social good – they fail to explain the role that the state plays to mediate this problem. By doing so, scholars implicitly subscribe to a semi-conspiratorial view that portrays the state as always and already beholden to capital, with ‘socially-oriented’ housing policy deliberately eroded by state officials who are ‘captive’ to the ideological program of fiscal restraint. As pointed out at the beginning of this chapter, these narratives are disempowering because they suggest that meaningful change is solely exercised through the exclusive institutions of the state apparatus, and is largely the product of all-powerful ideologies. Yet without interrogating the material context in which the state operates, they overlook the factors that make these ideas powerful, and fail to provide a conception of how social forces might contest the dominant trajectory. This thesis now delivers a theoretically informed understanding of the state in order to better explain the forces
shaping housing policy, but also to provide the conceptual tools for a broader and more powerful struggle against housing unaffordability.
Chapter Two

Interpreting the State: Markets, Structure, and Ideology

Introduction

Chapter one argued that existing scholarly literature portrays states as withdrawing from housing markets in order to implement an ideological project of fiscal restraint, prescribed by a body of ‘pro-market’ ideas. This explanation is rooted in a particular understanding of the state as ‘above’ society, operating as a simple administrative body alienated from social processes, and solely the expression and executive of democratic will. By projecting the state and its officials as ‘above’ or ‘outside of’ social and economic constraints, this assumption underpins the notion that ‘ideas’ can independently influence the exercise of state power, and the underlying trajectory of housing policy.

As argued in the previous chapter, this conception of political economic change jars with the practical reality of state expansion and welfare policy development over the past thirty years. This chapter provides an alternative conception of the state and argues that housing policy must be understood as the product of economic crises, structural imperatives, and social struggles. In turn, the chapter elaborates upon the earlier argument that housing policies are not solely the product of independently powerful ideas described above; rather, the state and its political decisions are grounded in a social relational context (Jessop 2008).

The chapter provides four related explorations of the role of the state to make this argument. First, it illuminates that the state is integral to market reproduction and expansion, undermining ideational explanations of the state’s ‘withdrawal’ from housing markets. In light of this discussion, the chapter argues that ideational explanations of housing policy provide an inadequate explanation for policy changes, by failing to account for the way in which the state is bound to secure the conditions for
capital accumulation. In turn, the chapter explores how by failing to locate housing within this structured terrain, existing scholarship has overlooked the way in which housing policy is shaped by social struggles over its contradictory economic and social functions. Finally, the chapter homes in on the role that interest groups play in policy change. While some scholars have rightly emphasised the role of powerful social forces in mediating state decisions, this chapter develops these arguments by highlighting that their power is dependent on their position within the social structure, and the broader economic context. In light of these discussions, the chapter concludes that housing policy change must be understood as the product of complex interrelations between structural imperatives, social struggles and economic crises.

The State and Market: Separate or Intertwined?

The ontological starting point evident throughout the housing studies literature views the state and economy as entirely separate institutions. This view is based upon the formal separation between the state and economy that characterise capitalist societies. Assuming this perspective, scholars have argued that while the state was once deeply involved in managing the housing market, it has become progressively disentangled from economic operations and moved to support modes of private provision. Scholars have thus often pinpointed the ‘retreat’ of the state from the ‘private market’ as a critical factor producing affordability problems and weakening access to homeownership for low-income groups (Rolnik 2013; Milligan et al 2013; Forrest & Hirayama 2014). Indicative of this dichotomy, Rolnik (2013: 1059-62) writes:

Governments across the world soon endorsed neoliberal priorities such as fiscal constraint, free trade, reduced welfare spending and lower taxation…the transfer of responsibility for housing provision to the market has been accompanied by the view that homeownership is the best option for all, and consequently this form of tenure has been central to almost all housing policies.

Rolnik (2013) identifies the state and market as distinct political economic philosophies. By pointing to visible ‘withering’ away of state interventions – fiscal constraint, free trade, reduced welfare spending – her argument presents the two spheres as
dichotomised modes of housing provision, with the state having ‘transferred’ its roles and responsibilities to the private market. This feature is important because it is the basis for ideational theories of change in the housing sphere, and underpins arguments that state managers have been captured by an ideological project of fiscal restraint.

This ‘separationist’ view is also evident in the policy literature, which has often portrayed housing unaffordability as a result of ‘market failure’. For instance, recent studies have focussed on the tendency for specific tax settings – in particular negative gearing and capital gains tax – to encourage existing homeowners to purchase new housing and price low income or first home buyers out of the market (Daley, Wood & Parsonage 2016). Issues like these lead scholars to argue that the separation between the state and the ‘private market’ has become too extreme, and that the government has to be ‘brought back in’ to support affordable housing supply:

The private rental market has failed to generate an adequate supply of affordable rental housing for those on the lowest incomes and has failed to ensure that the supply that is affordable to those on low to moderate incomes is allocated to them...if there is certainty about the level and durability of government support, then the market will respond and develop appropriate models and solutions (Milligan et al 2013: 49).

Milligan et al’s (2013) contention also rests on the analytical separation of state and market. The ‘private rental market’ is portrayed as a mode of provision without state intervention, and as operating with progressively less state oversight. This suggests that states are becoming disentangled from housing markets, ideologically captured by the proposed efficiencies of market provision.

The ontological separation of the state and market underpins the idealist accounts of housing problems highlighted in chapter one, which ascribe Australia’s affordability issues to the pervasive ideologies of fiscal restraint and marketised provision. These arguments can only be made if one assumes that the state and market are ontologically separate, and operate ever more independently of one another. But, as Chester (2008: 9) notes, it is profoundly misleading to define the role of the state in the market only
through quantitatively measurable terms. Instead, the relationship between the state and market extends far beyond the calculable sum of government interventions.

While ideational explanations of state activity hinge on the possible separation between state and market, a number of core insights indicate that this separation is only ever in appearance (and not essence), or exists solely as a theoretical possibility never achieved in practice (Paton 2012: 91). Why is this the case? Although it is important to challenge the view that the state and market are separate, this is not to say that they are one and the same institution. Instead, a defining characteristic of capitalist societies is the ‘legal and organisational differentiation between state and economy’ in which production occurs without the explicit deployment of political power (Panitch & Gindin 2012: 3; see also Jessop 2002: 38). Yet while the political and economic spheres are theoretically and institutionally separated, they have been historically reliant on one another and never truly independent. The argument that states are fundamentally different spheres of organisation to markets overlooks the historical and contemporary reality of capitalist economies (Panitch 1999: 24-5). Instead, the social relations of market production have historically required an active state to facilitate their expansion and reproduction. Equally, states have developed concurrently with these relations because they rely on functioning markets to legitimate their role as a political power.

To explore these claims, we will turn briefly to explore the social relations that form the capitalist mode of production. These social relations occur between capital and wage-labour, and are defined by the former’s exploitation of, and extraction of surplus value from the labour of the latter. This is the economic basis of capitalist production in which value, goods and services are produced by extracting more from labourers than they are paid back in wages. Labourers without access to the means of production or subsistence are compelled to enter into these relations in order to sustain themselves and earn their basic livelihood (Cahill 2014: 65). Yet the absence of direct coercion creates an apparent separation between the scope of political power, and the economic sphere of production:

[T]he appropriation of surplus labour takes place in the ‘economic’ sphere by ‘economic’ means. In other words, surplus-appropriation is achieved in ways that are determined by the complete separation of the producer from the
conditions of labour and by the appropriator’s absolute private property in the means of production (Wood 1995: 28-9).

This separation – between the political and the economic – performs a crucial function to obscure the way in which states are implicated in reproducing economic production. This means that that act of labourers entering into coercive relations through market production - in which they surrender more value than they create – is perceived as a voluntary decision, rather than as required and coordinated by political apparatuses to sustain production (Dunn 2006: 54-5). However, the apparent separation of the political from the economic belies the centrality of states to capitalist development. Historically, markets have relied on constant state-instituted forms of private property regulation and enforcement, as well as intermittent and explicit intervention to prevent a total collapse of exchange relations (Cahill 2014: 72-3; Panitch & Gindin 2012: 3-4). These roles have reproduced market production and the extractive relationship between capital and labour that underpins it. Similarly, contemporary forms of welfare provision have been increasingly reoriented towards ‘activating’ recipients through conditions that require labour force participation, creating the conditions for capital expansion (Peck 2001). Moreover, states rely on capital accumulation for their basic functioning, to continually provide society with goods and services, and to uphold their legitimacy as a political power (Dunn 2006: 55).

In light of these points, it is misleading to think about states as having ‘withdrawn’ from housing markets as directed by a doctrine of pro-market ideas. The fact that states are essential to market reproduction suggests that there are deeper, material forces producing apparently contradictory changes to welfare and housing policy – neither of which bear coherent resemblance to a blueprint for market-based welfare. While the state may have withdrawn funding from some spheres of housing provision, this development should be situated within a broader study of the imperatives that colour and structure the state’s activity, in order to elucidate the causes underlying this change.
The Capitalist Type of State

We have now seen that the state plays an integral role in the production and maintenance of markets. The thesis that pro-market ideas for housing provision have relieved the state of this role overlooks the many qualitative functions such as legal enforcement of private property rights that exhibit the state’s ongoing centrality in economic processes.

A second problem concerns the proposed ‘neutrality’ of the state that is implicit in a large body of housing scholarship. Scholars who analyse or lobby state practices direct their critiques toward the state officials who are unconvinced by new ideas to solve housing problems, and remain ‘captured’ by ideas favouring fiscal restraint and market provision. However, given the historical, integral role of the state at the centre of economic processes, it is important to examine the systematic features of capitalist economies that structure state activity, and undermine the notion that policies are merely an incarnation of the ideas described above. This chapter now highlights that the state is bound to secure the conditions for capital accumulation, and cannot be understood as a neutral arbiter. This insight is crucial for understanding the ongoing structural pressures exerted on the housing system.

Housing policy scholars understand the state as a structural entity endowed with independent political and judicial authority. From this perspective, the powers of the state are not limited by social conditions, and state activity is primarily shaped and driven by dominant ideas. Although Hayward (1986: 215) writes in reference to a particular scholar, he captures the problems endemic to this theory of the state that is reproduced throughout housing scholarship:

[T]he theory of the state underpinning Kemeny's analyses seems to overlook the more material constraints within which the state formulates and implements housing policies. As a result, he generates the impression that not only is the state free to do what it wants, but that the Australian 'electorate' has never been more than the passive recipient of government decision making.
Hayward also comments that ‘there are important structural constraints within which the state must maneuver…not least the power which classes and fractions of classes can bring to bear on the way the state appropriates and allocates its revenue’ (Hayward 1986: 215). This highlights the importance of situating the state within social and economic processes in order to comprehend the origins and aims of its political decisions – and not least the capacity for changing them.

The fact that states are perennial and expanding features of capitalist society is directly related to the way in which they are embedded within social relations. 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 requires mediation in order to protect the production 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 expansion. 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). As a result, 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. While idealist accounts of housing policy characterise the state as independently influenced through persuasive ideas, this overlooks the structural imperative to secure capital accumulation within social and institutional arrangements. It should be noted here that this argument does not mean that the state is at the behest of capital; a discussion of the indeterminate, contested and variegated role of the state in capital accumulation is provided later in this chapter.

These insights demonstrate that we cannot view the state as a neutral arbiter. Although historically the state has portrayed itself as a ‘power standing above society’ (Engels 1985: 208), accepting and reproducing this view fails to cast light on the actually existing roles it plays to underpin the social relations of production. Although the state works to reproduce society as a whole, it is embedded within the process of capital accumulation and inherently bound to serve the interests of capital. It is, as Jessop (2002: 37-42) argues, ‘a capitalist type of state’, manufacturing the conditions for capital accumulation and protecting the system from the destructive but inherent
potential of social conflict. As a result, state power cannot be explained as the neutral product of the autonomous will and ideas of state officials. In virtue of the state’s essential capitalistic functions – to mediate class conflict, and to sustain the conditions of production – it is inscribed with a strategic ‘selectivity’ in relation to material forces (Jessop 2008: 6). Though state institutions and actors may possess their own powers, the state’s relationship to the capitalist mode of production prefigures an underlying logic of capital accumulation that is expressed by a structural bias to promote the interests of capitalist forces.

Crisis and Legitimacy

It is important not to caricature the state as merely the political expression of capital’s interests, because the incoherent and contradictory nature of capital means that it has no single agenda. While the state is structurally bound to maintain an environment in which capital accumulation can occur, the form that this takes is historically and strategically flexible. To usefully analyse the forces that shape policies, then, the conduct of the state and state actors must be related to the broader political economic context and the balance of social forces in specific historical periods (Jessop 2008: 6). While this chapter cannot cover the myriad of contributions to this project, it suggests that a focus on the political economy of crisis is vitally important for understanding why housing policy changes trajectory, and emphasises the importance of situating housing policy developments within their political economic context. This provides conceptual foundations from which to link urban analysis with political economy and serves as the basis for the empirical investigations of chapters three and four.

The history of capitalism is characterised by an ongoing tension between its abstract tendencies, and the concrete realities of those who live and work under it. For instance, the constant drive for profit frequently generates tension and discontent within the working class who are subjected to the harsh, dehumanising effects of labour intensification. Stable structures of accumulation are underpinned by institutional ensembles that effectively mediate these contradictory tendencies, for instance, through labour law and regulation. Yet the institutions that constitute a ‘stable’ structure cannot undo the contradictions interwoven into the very structure of capitalist production; regulation cannot absolve capitalism of its abstract tendencies (Peck & Tickell 1995). It
is for this reason that long periods of relatively stable accumulation are punctuated by economic crises, whereby ‘key institutions in the social structure of accumulation weaken and can no longer function effectively’ (Kotz 1994: 89), threatening the practical capability of the system to reproduce itself.

When a crisis in accumulation emerges, a new set of institutions is required to move beyond it. The context ‘of an economic crisis sets off sharp struggles…among a variety of class and non-class groups in society’ who seek to shape and promote a resolution that enshrines their interests within the institutions and regulations of the state (Kotz 1994: 90-1). The character of the resolution eventually imposed depends on the relative capacity of social forces to mobilise and forge broad support for their own policy objectives. Institutional ensembles produced within these contexts are therefore ‘historically contingent structures’, reflecting the relative forces of labour and capital’ and their attempt to condense their interests within the legal and political apparatus (Heino 2015: 6).

The twin imperatives of sustaining capital accumulation and shoring up systemic legitimacy shape the way in which the state resolves crises. Indeed, the resolution to a crisis is not just an articulation of the political will of a particular social group. Drawing from régulation theory, André (2002: 95) argues that crises are resolved through institutional compromises that are an expression of the state’s quest for legitimacy (see O’Connor 2009 [1973]). Crises compromise the most vital aspects of state power by questioning the adequacy of political and regulatory institutions to serve broader society. As André (2002: 95) points out, legitimacy is not somehow an ethereal feature of the state apparatus but is instead wholly dependent on the social realm; legitimacy has to be continually secured and remade in response to different social conflicts, by registering the balance of popular will within the resolution imposed. This is particularly important for housing studies. As argued in chapter one, existing scholarship suggests that policy changes are driven by the causal power of hegemonic ideologies, irrespective of material conditions. However, the notion that institutional compromises and policy changes are formed in response to social conflicts, and the wider situation of ‘crisis’, undermines the notion that housing has been eroded from the ‘top’ through prescribed ideational programmes. Instead, changes to housing policy depend on broader social sentiment, and can only be implemented if they are perceived
as legitimate. Housing policy is thus shaped by a crucial intersection of economic crises, structural imperatives and social struggles.

These are important insights for housing scholars because they focus on the material context in which policy is always formulated and implemented. In light of this, housing policies should be understood as produced by state power that is mediated by the particular balance of social forces, and ultimately constrained by critical requirements to secure capital accumulation. Furthermore, this problematises the notion that a ‘consensus’ of ideas drives state activity (Hall 1993; Burke & Tiernan 2002; Nichols 2014). This consensus cannot be the sole force behind state policies, given the indispensable role played by the state in securing capital accumulation and its associated functions to maintain social harmony. Alternatively, we have to understand housing policy as materially grounded, and shaped by structural imperatives.

‘Housing Workers’ and Spatial Fixes

The tendency for housing to be studied independently of its historical and integral role within the capitalist mode of production has limited scholars from really understanding or challenging the structures that shape the housing system. For instance, the assumption that affordability problems are produced only by ‘pro-market ideas’ obscures the structural pressures on the housing system that are born out of its contradictory role to reproduce the system of production, as well as to serve as a social good. Existing scholarship maintains an implicit assumption that housing policy can be shaped by thorough evidence-based debate about how best to satisfy the social capacity of housing. By doing so, these arguments overlook the structural factors that exert ever more pressure on the housing system to ‘fix’ accumulation problems, and undermine the capacity of ‘good ideas’ to produce socially-oriented policy reforms. This chapter will now briefly explore the contradictory role of housing and space within the capitalist system and highlight that policy change is shaped by an ongoing conflict over its internally related social and economic functions.

How can we understand the structural role of housing? Drawing from earlier insights, there are a number of inputs to the production process that are not reproduced by the
capital relation itself (Cahill 2014: 69). Housing, along with social reproduction, land and many other factors, is a necessary component of the capitalist economy because it underpins — and literally ‘houses’ — the reproduction of labour power. Seccombe (1993: 8) describes this system as arising through a ‘gradual disjunction of capitalist production from proletarian subsistence relations’. While labourers under feudalism remained tied to their sites of production that were also their living quarters, they were granted a ‘relative autonomy’ under capitalism (Seccombe 1993: 8). This meant that the production of housing came to lie outside of the circuit of capital, yet remained an integral component of market reproduction and expansion.

As already argued, the state is deeply enmeshed within economic processes. Although production is not enforced through explicit political coercion, the state plays a key role in engineering the conditions favourable to capital accumulation and upholding a social and regulatory framework to facilitate market reproduction. Housing is an integral component of this framework. The most obvious presence of the ‘political’ in this sphere is in the form of public housing. By providing a stock of non-market residence, the state plays an active role in sustaining a labour force capable of entering into production relations. In this sense, the state plays an active role in ‘making workers’ (Peck 1996: 23). However, the state is not only a housing provider of ‘last resort’. As already argued, the ‘private’ market is not the ‘natural order’ onto which the state imposes itself. Rather, it is simply a different expression of the way in which the state secures capital accumulation; drawing on Polanyi (2001 [1944]: 71), ‘regulations and markets grew up together’. In this way, the state must regulate and manage a housing system capable of reproducing labour power. The form this takes is indeterminate, but in recent decades, has arguably gravitated towards a ‘pro-homeownership’ model, predicated on the growth and ‘liberalisation’ of global financial markets (Blessing 2016: 151). While there is not space here to analyse the specific ways in which the state has managed this transformation, the important theoretical point is that there is always a requirement for the state to ‘make’ and thus ‘house’ workers.

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). This is because the commodification of space – central to the process of ‘fixing’ accumulation problems – is 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, as already pointed out, 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. Harvey (1982: 398) points out that 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 anticipated by the critique laid out in chapter one, it is not simply ‘free market ideology’ that has eroded the capacities of housing systems to service social need. Indeed, 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’. Chapters three
and four provide empirical investigations to illuminate how this struggle has played out
historically and in the current context, and highlights the role of the state and different
social groups in restructuring the urban environment.

Interests, Power and Policy

A significant number of housing scholars interrogating the forces shaping policy are
concerned with interest formation (Phibbs & Gurran 2015; Jacobs 2015a; Bengtsson
2015). Most of these scholars, as noted in chapter one, do not advance a particular
definition or analysis of how interests are formed, nor the processes that endow
different groups with social power. But they do make the critical intervention that
material interests affect the making of public policy, beyond the application of
particular ideas to policymaking.

It is important to furbish these analyses with an understanding of social power and
where it comes from. While an empirical focus on the relationship between powerful
groups and policymakers is an important starting point, the sources and sustaining
features of these dynamics are equally important features of the social order with which
policy-makers, lobbyists, and academics should grapple.

Many scholars focus on the ways in which particular interest groups obstruct the
practice of policymaking in order to benefit themselves. For example, Phibbs & Gurran
(2015: 717) highlight the pervasive impact of particular groups, such as (wealthy)
homeowners, on affordable housing policy. They point to the ‘latent electoral power’
possessed by homeowners, the ‘organised resident action groups…local petitions, letter
writing, protests and formal objections to proposed housing developments’ as strategies
deployed to manipulate the ideas of policymakers. Similarly, Jacobs (2015a: 55-7) takes
the power of similar interest groups as pre-given:

[A]ddressing the systemic causes that shape the current affordability crisis is less
of a priority for governments than the main objective of protecting the wealth
and opportunities for profit for homeowners and investors…the judgments that governments make in relation to housing policy are secondary to the priorities of wealth creation and profitability.

These scholars take interests not as structurally produced – they do not interrogate the system from which they arise and are perpetuated – but rather, as ideationally constructed. This means that the way in which agents exert pressure on the policy-making process is through elite circles of discourse, and by corrupting or swaying the ideas and practices of state managers. But what makes the ideas that they advance compelling, powerful, or capable of puncturing the social objectives of the state? Why, as Jacobs (2015a) argues, do the priorities of wealth creation supersede effective social policy?

These scholars typify a constructivist approach that focuses on how ideas construct and shape interests (Blyth 2002; Gofas & Hay 2010). This is based on the notion that interests do not directly correspond to an agent’s class or position in the social structure, because the perception of what is ‘truly’ in one’s interest often differs from that which will actually benefit them (Hay 2010: 67). This means that when studying the impact of particular groups on policymaking, we should interrogate the ideas that these groups have – in essence, ‘interests become something to be explained, rather than something with which to do the explaining’ (Blyth 2002: 9).

These arguments overlook the material conditions that both produce and allow ideas to take hold (Ollman 1971: 34). As Marx (1904: 293) points out, divorcing ideas from their material context creates a theory of change driven by ‘self-coordinating, self-absorbed, and spontaneously operating thought’. Although these scholars argue that their theories integrate the ideal and material, they suggest that ideas determine the extent to which interest groups are able to affect policymaking. Drawing on Bieler and Morton (2008: 108), these theories adopt ‘a dualistic view of material structure and ideas that are always-already separate variables that are then combined in their external relationship to one another’. In order to more adequately understand the development of housing policy, it is important to elaborate on these arguments and illustrate that social power is constituted by deeper structural relationships. While ideas are certainly
deployed to influence policy change, housing scholars – in line with constructivists – tend to overlook or downplay the broader structures in which these ideas have purchase.

Providing a richer analysis, Isaac (1987: 96) highlights the role that the social structure plays to form particular interests, and to imbue particular groups with *relational* social powers:

Rather than A getting B to do something B would not otherwise do, social relations of power involve both A and B doing what they *ordinarily* do. The structure of education, not teachers, causes students to act like students and teachers to act like teachers. Teachers and students, as the social identities that they are, would not ‘otherwise do’ anything but what teachers and students tend to do. And neither a conflict of revealed preferences, nor of objective interests, must be discovered in order to attribute power to these new roles.

Isaac highlights that interests are formed by the social, political and economic structure. One important implication is that interests are perpetually produced and are ‘enduring features of social life’ (Isaac 1987: 86). This means that rather than being constructed through shared ideas and arising only at a given point in time, interest groups are materially grounded and reproduced by the social relationships embedded in the structure of society. These points lead Isaac to develop a theory of ‘real interests’ which refer to ‘those norms, values, and rationalities implicit in the practices of social life and associated with social roles as their principles of action’ (Isaac 1987: 98). While the subjective, or revealed preference of an agent may influence their actions, *real* interests are present – being furthered, or challenged – regardless of whether they are recognised by the agent as their ‘interest’. As a result, real interests are structurally produced and are sustained by social *relations* of power, whereby ‘A and B’ do ‘what they *ordinarily* do’; interest are not only furthered through by exerting deliberate pressure on the policymaking process.

This has critical implications for housing scholars investigating the relationship between interest groups and policymaking. Isaac’s insights suggest that the capacity of lobbyists to influence policy is secured by an enduring material, structural relationship – in particular, the social relations of capitalist production outlined above. In addition,
Isaac’s argument explains the complex ways in which social relations of power remain entrenched and relatively unchallenged. It is here that ideas become crucial as a means to solidify and reproduce asymmetric relations of social power. Isaac argues that ideas arise to naturalise and perpetuate social relations of power and justify the nature of social relationships to others, in short, ensuring that ‘A and B’ continue to do what they would ‘ordinarily do’ without the entry of coercive force.

The capacity of particular groups to influence policy is thus a material relationship solidified through the deployment of particular ideological narratives. These ideologies are not necessarily mobilised by the groups in question, but rather, articulated through the complex structure of social power that is upheld and reproduced by the state (Isaac 1987: 172). For instance, in recent years, property developers have benefitted from government narratives in which affordability problems have been attributed to a lack of housing supply, often liberated to build large-scale property as a result (Phibbs & Gurran 2015). This ideology masks the objective interests of property developers, obscures the differentiated social forces that stand to benefit or lose, while also securing the interests of the developers in question. Ideologies therefore naturalise social relations of power inherent in everyday practices and inscribed in the structure of production (Bieler & Morton 2008: 115). This is important because it demonstrates that power is materially grounded, and that policies are shaped by powerful social forces. It also demonstrates that ideas legitimate and sustain the system in which social power is exercised in acutely unequal ways. Moreover, this understanding situates the capacity and power of ideas within a material framework to explain why particular ideas may dominate housing policy across distinct temporal or spatial dimensions. As Stuart Hall writes:

Ideas only become effective if they do, in the end, connect with a particular constellation of social forces. In that sense, ideological struggle is part of the general social struggle… the effective coupling of dominant ideas to the historical bloc which has acquired hegemonic power in a particular period is what the process of ideological struggle is intended to secure. It is the object of the exercise - not the playing out of an already written and concluded script (Hall 1986: 42).
Hall points towards the ‘material structure of ideology’ in which the power of ideas depends on the social structure and the competing forces mobilised within it (Gramsci 1995: 155-6). Housing policies do not evolve according to the most persuasive ideas in a given period, but likely through the way in which ideological developments or narratives secure the interests of powerful social forces. This important point redresses the preoccupation with questions of ‘how’ certain ideas come to dominate housing policy, which reflects the tendencies of existing scholarship. This enterprise is replaced with a focus on ‘why’ ideas dominate in distinct places or time periods, presenting a better explanation of the causal factors underlying housing policy developments.

Conclusion

This chapter advocated for an approach that situates the state as a key actor within processes of housing reform, structured by particular imperatives, and which views its political decisions as dependent on the wider social and economic environment. In particular, it argued that the housing policy regime can only be understood with a theory of the state and its entrenchment in capitalist social relations. First, it demonstrated that the state is a perennial and expanding organ of capitalist societies, and bound to secure the conditions for capital accumulation. Equipped with these insights, the chapter suggested that housing scholars should analyse the more structural pressures exerted on the housing system, and acknowledge the contradictory role that housing plays as both an economic frontier and a social good. This is the basis for a more conceptually adequate approach that uncovers the systemic character of housing problems that are perpetuated by social, political and economic structures – none of which are entirely independent. While existing scholarship has treated ideas as the primary source of policy change, the chapter argued that only by viewing the broader situation of capital accumulation and the potential for economic crisis can we understand the historic and current capacity for housing reform. Ultimately this argument must be substantiated through empirical investigation, and this thesis now turns to show how these insights can effectively explain two moments in the history of housing policy post-1980. These investigations demonstrate that ideas should not be given causal primacy in policy studies, and that good explanation depends on a broader acknowledgement of political, economic and social structures.
Chapter Three

1985-7: The Reincarnation of Negative Gearing

Introduction

Up to now, this thesis has argued against ‘fetishising’ the housing system as an independent entity. While chapter one identified this as a prevalent and problematic trend within existing scholarly literature, chapter two provided the conceptual tools with which to move beyond simplistic, narrow and ultimately ‘ideas-centric’ explanations of policy change. This chapter extends the argument that housing policy must be situated within a political economic context in order to explain the forces that pattern its development.

To do this, the chapter provides an in-depth practical investigation of key developments in housing policy between 1985 and 1987. In 1985, Treasurer Paul Keating rescinded tax concessions for private landlords by partially quarantining negative gearing rules. Only two years later, full negative gearing concessions were reinstated. Dominant narratives have described these events as a clash between the competing ideas of equity and economic efficiency. These explanations highlight that while Keating reformed negative gearing in order to produce equitable social outcomes, a persuasive campaign was mounted by property industry lobbyists and eventually convinced state officials of the integral role played by the policy to support the housing supply.

By obscuring the broader context in which the reinstatement of negative gearing took place, dominant narratives emphasise that public policy was the product of the independent causal power of lobbyists’ ideas. This chapter presents an alternative thesis by situating the existing literature on negative gearing within wider historical accounts of Australia’s adjustment to global capitalism. By drawing on historical literature and primary source material, the chapter argues that the real or perceived pressures of a globalising economy created the environment for particular ideas to gain traction over and above others. While the historical record shows that a powerful campaign against
Keating’s reform was indeed mounted by well-connected property industry interests, this episode should not be reduced to a simple ideational shift reflecting the persuasive force of lobby groups in abstraction from broader material transformations. Although these groups effectively mobilised to reshape the institutional fabric to better serve their interests, their ideas were lent special purchase by the widely held perception of a balance of payments ‘crisis’. Their interests were only furthered by deploying ideologies that presented their own vested interests on a broad canvas of general will to tackle these ‘crisis conditions’. Further, real estate lobbyists situated their arguments within broader narratives and struggles advanced by a wide range of powerful social forces. These forces — which included property, business and financial representatives — were effective because they collectively constructed their own interests as a cohesive project to consolidate Australia’s position within the global economy, and in a context in which state elites felt an imperative to resolve the crisis of accumulation. Rather than an independent ideational shift, the reinstatement of negative gearing was part of a broad institutional resolution to the crisis that faced Australia, in which the state anchored accumulation in new institutional structures.

First, the chapter will briefly explain negative gearing and the quarantined version of the tax shelter Keating implemented. It will then illuminate the way in which the influence of ideas has been emphasised as the key determinant of both the repeal and reinstatement of negative gearing. Next, the chapter will focus on the growing impact of ‘global’ concerns in Australia, which forced the state to search for an institutional resolution to the crisis of accumulation which first became manifest in the 1970s. Finally, the chapter will argue that the power of the ideas advanced by social forces were contextually dependent on these conditions, rather than independently persuasive. To demonstrate this, the chapter will highlight the role of the Australian state in responding to the crisis, and the way in which powerful social forces presented their interests as integral components of a necessary institutional resolution.

**The Dominant Scholarly Narrative**

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 of this policy is that it encourages investment in construction and new housing, bolsters housing supply and places downward pressure on rents. Thus, when Keating ‘quarantined’ the tax concession, he limited the incentive mechanism by allowing landlord-related expenditures to be offset only against rental income – not total income.

Housing policy scholars have typically portrayed the 1985-7 repeal and reinstatement of negative gearing as a clash between competing ideas. While Keating is portrayed as committed to social justice on the one hand, existing narratives suggest that his arguments were eventually overwhelmed by the persuasive force of real estate lobbyists (Badcock & Browett 1991; Jacobs 2015b). At first, Keating justified his own position as one of ‘egalitarianism’, arguing that the tax shelter had become an ‘inequitable way of supporting the rental housing market’ (Barton 1985: 1). Existing literature highlights Keating’s concern that wealthy Australians were exploiting negative gearing:

The quarantining of negative gearing was in response to concerns that the system was open to exploitation. The ability to capitalise profits by off-setting rental losses brought about by high borrowing, but then to realise capital gains in the absence of taxation of such profits, was viewed as encouraging a tax shelter around rental housing investment, of greatest benefit to those on higher incomes (Seelig, Burke & Morris 2007: 12).

Existing literature also emphasises that property industry lobbyists effectively discredited the argument that limiting negative gearing would produce beneficial social outcomes. These narratives suggest that lobby groups drove the reinstatement of negative gearing by highlighting marked rental price rises in Sydney and ascribing them to the negative gearing reform. Lobbyists argued that the new policy discouraged investment in housing construction, placed new constraints on the housing supply, and was thus directly responsible for the rent price rises. This literature has thus emphasised the role that lobbyists’ persuasive techniques had in influencing state officials, and attributed the overwhelming responsibility for the policy reinstatement to the Real Estate Institute of Australia (REIA) (Badcock & Browett 1988; Hayward & Burke 1991; Jacobs 2015b).
Dominant narratives also suggest that state officials were effectively blinded by this campaign and ignored wider evidence that contradicted the lobbyists’ claims. For instance, Hayward & Burke (1988) argue that the reduction in investment following the reform was entirely consistent with investor behaviour in cyclical downturns. In particular, high interest rates made borrowing expensive and stunted investment in construction and real estate (Badcock & Browett 1991). More problematically, rents were not rising across Australia, with industry analysis mainly focussed on the Sydney rental market, ignoring contrary trends elsewhere (Badcock & Browett 1991).

The general sentiment shared by scholars is that despite the conflicting evidence, real estate lobbyists were more persuasive than other groups, and effectively undermined the arguments that contradicted their claims. For example, Jacobs draws on interviews to show that lobbyists intellectually ‘captured’ state officials by employing a persistent and vocal strategy:

*The Hawke’s government’s [sic] removal of the negative gearing advantages from rental housing resulted in uproar; largely motivated and inspired by industry…the negative gearing response to that change was just so much hot air, there was a coincidental increase in rental prices in NSW that were more to do with the shortage than they were to do with any withdrawal of rental housing from the market and it didn’t happen in other places, so it was just hooey but a little bit of evidence goes a very long way when you have a large measure of agreement against a policy you don’t like…the industry really did attack that one hard (Senior government advisor, 13 August 2012, quoted in Jacobs 2015b).*

This point highlights that the property industry campaign had purchase because it accorded with broader social and industrial sentiment. However, existing literature has not closely examined the extent or importance of these relationships. This omission has resulted in an undue emphasis on the role played by the influential ideas of property interest groups in driving the reinstatement of negative gearing. Yet it would seem that the success of the campaign depended on broader sets of social and structural relationships, which, as argued in chapter two, are organically related to the capitalist mode of production. This highlights that we can usefully situate the state and its decisions within the shifting balance of social forces and material concerns of the
1980s, in order to better understand why negative gearing was reinstated. It also suggests that the ‘ideas’ used to justify negative gearing were not emerging in some ‘ethereal realm’ (Thompson 1984: 84), but were internally related to the pursuit of policy objectives and played a key role in creating a social basis upon which negative gearing could be reinstated. This chapter now turns to study the broader material transformations of the 1980s and the role of the state in Australia’s transition to global capitalism. In doing this, the chapter creates a better vantage point from which to view the reinstatement of negative gearing. To the extent that the ideas of real estate lobbyists were influential in the reinstatement, this was dependent on the broader economic crisis, structural imperatives, and their connection with a constellation of social forces.

**Globalisation, Crisis and the Australian State**

The above, ‘dominant’ narratives argue that the causal power of ideas motivated the reinstatement of negative gearing. These arguments reflect wider tendencies in housing studies literature highlighted in chapter one, in which scholars suggest that housing policy is shaped according to internally persuasive ideas, or broad policy ‘paradigms’ (Badcock & Browett 1991; Jacobs 2015b). However, the existing portrayal of the negative gearing reinstatement neglects the wider environment that impressed new material disciplines on policymakers and state officials. Moreover, the actions of the state within the housing policy sphere should not be considered independent of its broader role in society as a whole. This is because the state is embedded in the process of capital accumulation, and motivated by wider imperatives to secure this process within institutional and social arrangements. It is only by considering the situation of capital accumulation in the specific juncture of the 1980s that we can fully appreciate what drove the reinstatement of negative gearing, and how the ideas advanced by lobbyists found particular purchase when they did.

The reinstatement of negative gearing occurred within a context of crisis that dislodged the institutional and social foundations of capital accumulation. This crisis emerged when the institutional architecture that had facilitated accumulation from the late 1940s until the early 1970s ceased to provide sustainable economic growth and produced widespread social discontent. Following the Second World War, Australia’s economic
growth was secured by exporting basic commodities to Britain, Western Europe and the United States (Broomhill 2008: 18). This accumulation regime was punctured when overseas economies began to make use of technological advances in farming and produce their own food needs; ‘just as the international economy provided the impetus for the boom in Australia, so international events led to its demise’ (Broomhill 2008: 21).

Events within Australia compounded the crisis. Broomhill (2008: 21) notes how the ‘manufacturing industry, the engine of postwar growth, began to stumble as labour productivity levels fell from an average of 3.4 per cent between 1960–73, to 2.3 per cent between 1973–9 and then to 1.2 per cent between 1979–93’. The South Australian Policy Research Group & Political Economy Movement (1978: 82) highlighted that ‘labour turnover and industrial disputation reached record levels…workers were sick of alienating and inhuman production lines, filthy factories and low wages, they voted with their feet, followed the highest pay and stayed away from work often’. The crisis was also manifest in stagflation — the perilous economic duo of unemployment and inflation. Unemployment had been below 2 per cent for most of the postwar period but rose above 7 per cent in the late 1970s (Castles 1989: 22), while inflation soared from very low levels to over 17 per cent at least one point during the decade (Bell 1997: 162). These circumstances produced widespread concern amongst the state and the Australian population about the capacity of the post-war framework to serve accumulation. Indeed, these conditions provided the impetus for a new institutional framework to manage Australia’s relationship with the global economy.

In this context, policymakers could rarely ‘avert the discipline of globalisation’, with domestic ‘deregulation’ bred by the global economic environment (Bryan & Rafferty 1999: 125). First of all, the functionality of the existing exchange rate system was eroded by the growing presence of global finance in the Australian economy. As Bryan & Rafferty argue:

[M]ore critical than any ideological shift was the recognition that the old order of fixed exchange rates was unsustainable and that the international market for Australian dollars was overwhelming the domestic regulatory practices of the RBA. From the effective termination of the Bretton Woods Agreement in
1971...the Australian dollar had become increasingly market-driven...it was proving very difficult for the RBA to protect a fixed currency value (Bryan & Rafferty 1999: 128).

The dollar was floated after a sustained period in which its value was being determined daily by the RBA. This shift reflected one attempt by the state to manage Australia’s transition into the global market, and provide institutional solutions to the crisis of accumulation that faced the Australian economy. The ‘old order’ of fixed exchange rates was thereby replaced by the state’s active role in managing the value of the Australian dollar in *international* financial markets by demanding and supplying the currency (Bryan & Rafferty 1999: 130-1).

In addition to managing a transition to globally oriented exchange rate systems, there was strong pressure to remove trade barriers in order to become internationally competitive. In practice, trade ‘liberalisation’ involved the state selecting a policy to support companies who could compete internationally, rather than continue to protect uncompetitive ones (Anderson 1999: 5). This was a response to the ‘discipline of global competition’ that threatened the real and perceived capacity of the Australian economy to cope with external structural pressures, and to keep pace with the economic development of its Western counterparts (Bryan & Rafferty 1999: 132).

These points highlight that the state and its policies were re-oriented amidst concerns that existing accumulation strategies were unsustainable in the rapidly changing environment that brought with it new structural pressures. These contextual insights are important because they illustrate that political developments of the period were fundamentally connected to, and shaped by, the broad social and political perception of an economic ‘crisis’. As argued in chapter two, the role for the state in these circumstances is predicated on providing an institutional resolution to the crisis of accumulation, which is perceived as legitimate and sustainable by broader society. It was in this context — and only this context — that social forces could mobilise and effectively shape this resolution on terms favourable to capital, reinstating negative gearing along with a broad set of pro-capital policy transformations. The chapter now demonstrates this by homing in closely on both the political and social perception of a
balance of payments ‘crisis’, and how particular forces portrayed their interests on a broad canvas of general will to tackle these conditions.

**The Balance of Payments Crisis**

The balance of payments crisis forced the state to remedy the real and perceived cracks in the structures that underpinned capital accumulation at the time. The perception of imminent economic collapse, prompted by surplus outflows of capital, eroded social and political confidence in the existing institutional structure and its capacity to withstand economic shocks. This context provided the conditions for powerful social forces to mobilise and shape what was widely regarded as a necessary resolution in economic and institutional policy. The chapter now examines the gravity of concern that was prompted by the balance of payments crisis, the role of social forces in exploiting these conditions and mediating the state’s response to them, and the way in which this lent purchase to the ideas of lobbyists in the housing sector.

The current account deficit was central to the concerns of state officials throughout the period in which negative gearing was reinstated. Cabinet documents released earlier this year show that the first three years of the Hawke government (1983-5) delivered broadly positive economic news, dealing with a ‘major budget crisis and...gradually reduc[ing] the annual budget deficit’ (National Archives 2013). It was in this context that Keating and his counterparts implemented negative gearing reform, along with the broad-based ‘deregulation’ of the banking and investment sectors. However, Cabinet-in-Confidence documents from the period 1986-7 illustrate that the current account deficit engulfed all other social, political and economic concerns. In a submission entitled *The Economic Situation and Policy*, Treasury asserted that the scope for new policy was highly limited, and argued that all efforts should focus on reigning in the unsustainable current account deficit. This point was used to invoke the notion of an imperative to tighten fiscal policy:

Like the current account deficit, the budget deficit (and the Public Sector Borrowing Requirement more generally) is another form of living beyond one’s means...it is also integral to the tasks of tackling the current account deficit and
achieving lower interest rates and higher levels of business investment (Treasury, National Archives 2016a: 9).

This quote emphasises that the crisis was perceived as a threat to the stability of the Australian economy and generated concerns within the state about the possibility of capital flight. This concern was used to justify that Australians would have to accept a ‘lowering of living standards’ and suppressed wage growth, in order to curb domestic important demand and to improve the terms of trade (National Archives 2016a: 6). Cabinet papers in this period continually highlight that wage suppression, inflation targeting and containment of import demand were integral components of economic strategy. The Accord, an agreement signed between the Labor government and the Australian Council of Trade Unions (ACTU), was a marked feature of policy that institutionalised these objectives. Although the first version of the agreement practically served to support wages, the following eight editions progressively shirked these commitments and replaced them with pro-capital reforms such as enterprise bargaining and real wage suppression (Humphrys & Cahill 2016: 6-7). This shows that the balance of payments crisis imposed tangible pressures upon state officials to provide an institutional resolution to mitigate the possibility of capital flight, and to rebuild confidence in the Australian economy. It was also clearly the most prominent issue that the Hawke Government dealt with between 1985-7, and meant that any form of policy change had to be effectively incorporated into this resolution.

Social Forces, Struggles and Coalitions

The power of social forces in shaping this resolution should be central to our understanding of the eventual form it took. In this vein, existing scholarship on negative gearing rightly emphasises the influence of real estate lobbyists and their capacity to ‘capture’ the housing policy arena. However, without situating these groups within broad, historical struggles between competing interests, this analysis gives undue weight to the causal power of the ideas promoted by the real estate industry at the expense of a fuller and more satisfactory understanding. This thesis now situates the negative gearing episode within a wider analysis of the social forces that mobilised amidst the balance of payments crisis, and examines how their interests became imbricated within every level of the state’s institutional resolution.
In the media, negative gearing was often portrayed as a necessary component of crisis remediation. The Real Estate Institute was afforded ample room to voice its pro-negative gearing position, and argued that the quarantining reflected the government’s inability to manage the adjustment to global economic pressures (Dean 1986; SMH 1986). When the policy was reinstated, the Australian Financial Review (AFR) lauded the efforts of the government in ‘reviving’ business confidence (O’Connor 1987). The Sydney Morning Herald also suggested that the reinstatement reflected a considered and well-judged effort to adjust to globalisation, by boosting the sharemarket and providing potential overseas investors with the assurance that Australia was a ‘fine climate for markets’ (Freeman 1987). Although some argued that the reinstatement was a simple favour by Keating to his ‘assist his New South Wales Labor colleagues’ (Walsh 1987), this explanation overlooked the broader transformations in the political economic order and the social forces that drove them. While negative gearing may have helped to dampen discontent in New South Wales, it was reinstated in a wider context of reform, and clearly connected with powerful narratives that invoked economic imperatives for the state to secure business confidence.

The arguments of real estate lobbyists were lent power by a broader struggle of powerful social forces that sought to exploit the crisis. These forces also advanced their positions by projecting them as necessary components of crisis resolution. For instance, the Business Council of Australia (BCA) — Australia’s peak business organisation — played a key role in shaping the terms of debate, calling for ‘greater focus on economic issues in the election campaign’ (Hutcheon 1987). Portraying the current account deficit as a strangling constraint on economic prosperity, the BCA argued that ‘without major changes in government policy, each Australian family will owe 50,000 dollars to foreigners by 1991, apart from their personal debts’ (Hutcheon 1987). Even the Australian Council of Trade Unions (ACTU), traditionally a ‘pro-labour’ organisation, became inculcated in supporting a project of policy transformation to afford benefits to capital. By signing the Accord, the ACTU institutionalised wage suppression and actively ‘oversaw the process whereby power was transferred from labor to capital’ (Cahill 2007: 229). This period also saw unprecedented coherence between the views of business and unions. For instance, the ACTU reproduced the arguments of the business community when it called for wage increases to be linked to international
competitiveness, in order to ‘increase [Australia’s] productive investment, and to restructure its industries to meet the demands of international trade’ (SMH 1987). As one commentator noted in an editorial for the Sydney Morning Herald in 1987:

The unions and business are closer than ever in their understanding of the challenges facing Australia. There is agreement, at least at peak-council level, on many of the key policy measures necessary to meet those challenges. As the unions increasingly are exposed to the realities of international trade, the differences on policy will continue to narrow, as they have narrowed in Europe (SMH 1987).

While these cases do not suggest that these forces directly promoted negative gearing, they forcefully articulate their role in indirectly supporting and reinforcing the narratives that were the battle-calls of the property industry. This shows that the ideas of real estate lobbyists were not independently powerful, but rather lent purchase by the broader material struggle advanced by a structurally powerful set of social forces. Further, these forces only mobilised so emphatically because of the crisis context, which provided opportunities to carve their interests and policy objectives into the imminent institutional resolution.

These developments are indicative of the broad institutional resolution that was imposed by the Australian state, and which was clearly on terms favourable to capital. Indeed, the alleged pressing requirement to ‘reduce the fiscal deficit’ (Treasury, National Archives 2016a: 9) sits uneasily alongside the industry deregulation and tax breaks that were hallmarks of the period. However, if we view these developments as part of a perceived necessary ‘fix’ to accumulation problems, shaped by powerful social forces operating on the terrain of the state, we begin to see the continuity inherent in seemingly contradictory fiscal stances. Closely following the negative gearing reinstatement, the company tax rate was cut from 49 to 38 per cent in 1988, along with the initiation of across-the-board tariffs reductions. The threshold for land tax was also raised from $94,000 to $125,000, indicating that tax reform was performed in the interests of property-owners and investors. Throughout the 1990s, a broad range of industries were deregulated, liberating opportunities for profit in areas such as telecommunications, aviation and dairy (Pusey 2003: 188-9). These policies were designed to secure market
reproduction in a context of low wage growth, and ensured an upward redistribution of wealth and income to capital (Stilwell 1986: 46-51). While they have generally been understood as ‘deregulation’, they are more accurately described as fulfilling and enhancing capital accumulation.

The institutional resolution was durable because the state effectively presented it as a project to benefit Australian society as a whole. Although this chapter has already highlighted that powerful social forces projected their own interests on a broad canvas of general will to tackle the crisis, this narrative was picked up on and advanced by the Hawke government. Commentators have highlighted the way in which the Hawke government skilfully claimed a mandate for their economic policies by contrasting themselves with the ‘profligacy’ of the previous Labor government under Gough Whitlam (Johnson 1989: 94). Specifically in this period, the government drew on the widely held perception of a crisis to justify concessions to capital, cuts to public spending, and portrayed them as necessary components of national reform (Johnson 1989: 94-5). Moreover, following a downgrade of the credit rating in 1986, Keating warned that Australia would become a ‘banana republic’ if it failed to open its doors to business (Pusey 2003: 188-9). The state thereby exploited the widely held perception of a ‘crisis’ in order to justify the resolution that it eventually implemented, despite the way in which it embedded institutional practices that served the interests of capital over and above wider society. This highlights that the pro-capital resolution — of which negative gearing was a part — could only be implemented because of the wider social belief in the balance of payments crisis. While dominant scholarly narratives have described the reinstatement of gearing as though it occurred through the independent exercise of state power, the policy change depended on broader social sentiment, and the state’s capacity to secure legitimacy for its decisions. O’Connor (2009 [1973]: 203) puts this idea forcefully when he argues:

> History has shown that when the state is no longer able to conceal tax exploitation or justify it ideologically, there is a risk of tax revolt (and thus a class revolt) and an intensification of the state’s fiscal problems (and thus political problems).

While dominant narratives have suggested that negative gearing was reinstated through
the autonomous will of state managers, this overlooks the broader environment that provided traction for the ideas in favour of reinstating the policy. Reinstating negative gearing was one component of a perceived structural imperative to ‘fix’ the accumulation problems facing Australia, and depended on broad social acceptance for the idea that tax concessions to capital were an integral part of this project.

Finally, it is worth pointing out the dangers in portraying Australia’s historical political developments as components of a unified ‘national history’. Any study of Australian history and policy should interrogate the ways in which the ‘ideas’ of the time secured the interests of particular forces, rather than portray them as independently powerful. Many historical accounts fail to acknowledge this nuance, and instead suggest that the 1980s reforms were driven by ideas wholly in the ‘national interest’ – largely in concert with the way in which the government justified their position at time time. In The End of Certainty, often cited as a classic study of Australia’s 1980s political economic transformation, Paul Kelly celebrated Australia’s transition to global capitalism and liberal enterprise:

The story of the decade is the embrace by both sides of politics of the free market agenda…the magnitude of this attempted transition should not be underestimated: it is an attempt to take Australia into the third phase of its European history…the old order is finished. There is no returning to past certitudes (Kelly 1992: 660-1).

Kelly characterised Australia’s 1980s transformation as an almost inevitable progression that had to happen. While he celebrated ‘deregulation’, he in fact claimed that the government had to go further to liberate the Australian economy, foster private investment, and promote a culture of competitive enterprise. Within this narrative, he portrayed Australia as a nation of homogenous peoples tied together by a deep horizontal camaraderie, persevering into a limitless future. Yet this fatalistic portrayal obscures the significance of class and the deeply inequitable effects produced by political transformations of the period in question. The policies implemented in this period — including negative gearing — reproduced and deepened social relations of power, while masked as a coherent and socially beneficial response to the tasks of globalisation.
Conclusion

This chapter has emphasised the importance of contextualising developments in housing policy in order to understand the causal forces involved. While dominant narratives ascribe the 1987 reinstatement of negative gearing to the power of ideas advanced by real estate lobbyists, they overlook the broader context in which this episode took place, and the crisis in accumulation that provided these ideas with purchase. The balance of payments crisis imposed real material disciplines upon the Australian state and threatened the capacity of existing regulatory and social structures to support accumulation. In this context, interest groups – such as the lobbyists mentioned – forged broad popular support for the policy initiatives that served their interests, constructing them as necessary components of crisis remediation. Negative gearing as an ‘idea’ thus gained special traction in response to a materially grounded crisis, and was effective because it was integrated into a more general struggle to reshape the institutional architecture to serve the interests of capital. This analysis contributes to the overall thesis project by highlighting the conceptual inadequacies inherent in the ideas-centric approach of existing housing scholarship. In turn, it provides a practical example of the way in which housing policy developments are shaped by political, economic and social structures. This thesis now draws on these insights in order to analyse the durability of negative gearing today.
Chapter Four

Negative Gearing Today

Introduction

Up to this point, this thesis has argued that housing scholarship focuses too heavily on the role of ideas in policy change. In making this argument, it has focussed on reconceptualising past developments in housing policy and attempted to move beyond the vaunted history of ideas. This chapter now draws on the theoretical and practical insights provided earlier in order to analyse the causes of a highly pertinent housing policy issue, and to highlight the pitfalls in approaches that seek a housing solution in isolation from broader institutional reforms.

To achieve this, this chapter analyses the role and durability of negative gearing today. The contemporary resilience of negative gearing has received limited academic attention, largely because associated political and media debate has intensified significantly only in the very recent past. In lieu of broader contributions, this case study seeks to analyse how negative gearing has remained durable despite a growing number of economists, journalists and politicians branding the policy as a key contributor to housing affordability problems. Existing scholarship has argued that negative gearing remains in place because governments have remained convinced of its basis in economic theory. However, it will be argued here that this explanation places undue weight on the power of negative gearing as a free floating ‘idea’, and underplays the way in which the policy serves a broad range of structurally powerful social forces. Drawing on insights from chapter two, this chapter suggests that negative gearing – and the property sector in general – plays a key part in securing accumulation, which constrains the state’s capacity to roll back the policy. Moreover, existing scholarship does not sufficiently interrogate how ideas have been used to justify negative gearing to the wider public, and thus to protect the economic interests of the policy’s main beneficiaries. To remedy this, the chapter discusses the way in which the Coalition Government (2013-16) has constructed the spectre of a fiscal crisis and claimed a mandate for their policies of public spending cuts and private investment incentives. It
is thus argued that this narrative portrays negative gearing as promoting the ‘common interest’, and obscures the way in which it serves the interests of particular groups.

First, the chapter outlines dominant narratives that ascribe the resilience of negative gearing to its virtue as an economic idea. Next, it will critique this analysis by highlighting the integral role that property plays in capital accumulation, arguing that negative gearing has deep, structural roots. The chapter will then analyse the role of ideology in obscuring the disproportionate benefits that negative gearing provides to capital, before reflecting on the current capacity for reform.

**Context and the Dominant Scholarly Narrative**

Housing unaffordability has once more risen to the forefront of media attention since the GFC, especially since 2013. 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 recent 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 reflects that tax concessions such as negative gearing have been placed under heightened scrutiny, on the argument that, through the impact on property prices, they 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. At the same time, many commentators continue to argue that negative gearing supports housing supply, is preferable to the ‘distorting’
effects of government interventions, and is consequently a logical response to housing affordability concerns. Such contributions to the debate have underpinned the Coalition Government’s determination to stand its ground on negative gearing despite the heated debate about the effects of the policy.

Existing scholarship 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 incentivise private investment in housing and to generate sufficient levels of supply. Phibbs & Gurran (2015) highlight that the ‘supply mantra’ 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 & 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). While these narratives acknowledge that ‘market-based’ policies have received support from powerful lobby groups, 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 ascribe the resilience of negative gearing to its power as an economic ‘idea’, and its situation within a powerful ‘market-based’ policy approach.
It would seem from the above arguments that a ‘paradigm’ of ideas underpins negative gearing policy. Yet this provides an insufficient explanation for why it remains resilient in the face of significant opposition from popular media and various social groups. As argued in chapter two, the state cannot mechanically or independently apply persuasive ideas to the practice of policymaking, because it is bound by an imperative to secure capital accumulation. This suggests that negative gearing, and the housing system more generally, form part of an economic engine designed to satisfy this structural condition. This chapter now substantiates this claim by reviewing the role of property in sustaining capital accumulation, and illuminating the upward redistribution of benefits that negative gearing facilitates.

The Structural Roots of Negative Gearing

Negative gearing plays a key role in the state’s accumulation regime. As argued in chapter two, 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 et al 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.

More broadly, housing is a central component of the fuel that Australia’s economic engine relies on. 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 – for instance,
through negative gearing and capital gains tax policy. As a result, dominant narratives misdiagnose 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 we consider the distribution of government expenditures to assist housing access. While dominant narratives highlight that negative gearing is used to bolster the housing supply, 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 an overwhelming 84% of this 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. While Yates (2010) herself does not disaggregate this group, 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 and outwith 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).

This illuminates that negative gearing is a highly regressive tax that ensures an upward redistribution of wealth and deepens economic inequalities. 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 Australia’s accumulation regime. While dominant explanations have highlighted the independent, causal power of negative gearing as an idea, the policy is better understood as satisfying these deep material imperatives, and serving the interests of capital.

**Ideological Struggle and the Spectre of Crisis**

Thus far, this chapter has focused on the structural factors shaping state policy and demonstrated that ideas are neither the sole nor primary drivers of housing policy change. However, as pointed out in chapter two, ideas play a key role to legitimate and sustain social relations of power. Given the deep asymmetries highlighted above, it is important to examine the ‘crisis’ context that has provided challenges to negative gearing with relevance and rendered the current debate a legible and meaningful discussion – particularly following over two decades of relative silence on the topic. In turn, the chapter points to the way in which the Coalition has constructed a vision of the crisis as grounded in the profligacy of the preceding ALP government, in order to provide ideological justification for budget cuts and private investment policies. The chapter argues that only by situating ideas within their material context and relating them to the deeper struggle between conflicting interest groups can we understand what makes them effective. Moreover, it highlights the importance of thinking critically about the justifications provided by the state, and viewing them as interrelated with the interests of powerful forces and broader structural imperatives.
The GFC as Material Context

It is important to highlight the material basis for the negative gearing debate and the contextual factors that have precipitated public interest in the policy. As argued in chapters two and three, crises provide the conditions in which existing institutional structures become subject to effective and potentially transformative critique. The GFC provoked an active debate around negative gearing for two main reasons. First, the GFC triggered a stimulus spending initiative that added to public debt and fuelled social perceptions of ‘budgetary problems’, bringing the government’s fiscal strategy firmly into the realm of public debate. Although Blyth (2013: 5) writes with reference to Italy, he captures the way in which the GFC undermined public faith in state investment practices: ‘public sector debt in 2002 was 105.7 per cent of GDP and no one cared. In 2009, it was almost exactly the same figure and everyone cared’. In the same way, proportionately small increases in public spending in Australia – compared with other OECD countries (Stilwell 2014a) – weakened the trust placed in government and cast a spotlight on their revenue and expenditure practices.

Second, the GFC has largely been understood as precipitated by a housing price bubble, initially occurring in the United States and causing worldwide ripple effects (Duménil & Lévy 2012). This amplified global concerns about the sustainability of ‘pro-homeownership’ models, the capacity of low-income earners to service mortgage debts, and the apparently limitless phenomenon of house price inflation. This illuminates the material basis for the current debate that has been largely overlooked by scholarly literature. By focussing only on the discourses and actors involved in the debate, scholars have overlooked the broader material context that has provided challenges to negative gearing with relevance and power. The emergence of alternative ideologies as a means to defend the interests of the policy beneficiaries is thus a concurrent development with material roots. While the negative gearing debate has been widely understood as a simple discussion about the logical merits of the policy, it is in fact linked to a structurally embedded social conflict, and triggered by the broader economic context. Given the growing salience of challenges to negative gearing, it is important to critically reflect on the way in which the Coalition and various social forces have defended the policy through ideological legitimation.
National Budget Crisis

In the context of the social contestation described above, the Coalition has deployed ideologies to legitimate the broader structure in which negative gearing is embedded. In particular, Coalition officials have constructed an alternative view of the crisis, painting it as a domestic fiscal disaster stemming from the apparent political deficiencies of the preceding ALP government. By doing so, they have emphasised a pressing imperative for the nation to cut public expenditure and exhorted the benefits of privatised social welfare provision. This narrative underpins the ‘sale’ of negative gearing, a policy that ‘replaces’ government expenditure and supports the housing supply through private investment.

The Coalition’s construction of a ‘national budget emergency’ rests on a portrayal of the ALP as responsible for a budget crisis. First, Coalition officials have highlighted the ongoing instability that characterised the Labor years, and which produced two successful leadership challenges between Kevin Rudd and Julia Gillard. This created the basis for Coalition officials to portray the ALP as a party in crisis (Atkinson 2013). Second, the Coalition has perpetuated a belief that Labor failed to manage the economy responsibly. Their costly spending programmes — which have been described by many international elites and commentators as a successful response to the GFC — were purportedly leaving Australia’s future generations with a crippling debt burden (Hockey 2009, 2012). In fact, the magnitude of Labor’s debt was far below that of other OECD countries (Stilwell 2014a). As the OECD has recently pointed out, Australia has plenty of ‘fiscal space’ to increase borrowing for productivity enhancing infrastructure (Gittins 2016). However, the Coalition exploited these events to construct the spectre of a fiscal disaster, claiming a ‘mandate’ to repair the budget deficit. It is in this ‘crisis’ context that the Coalition could effectively justify and defend negative gearing, as one component of a plan for a ‘return’ to national prosperity.

The ‘selling’ of negative gearing and other ‘market-based’ welfare policies rests on an appeal to national interest. The notion of a ‘national budget emergency’ has been used to render public investment as bad for the country, and to construe policies that support private investment as beneficial for all Australians. In 2014, for instance, former treasurer Joe Hockey stated that ‘as Australians, we must not leave our children worse
off. That’s not fair. That is not our way. We are a nation of lifters, not leaners’ (Hockey 2014). Hockey attempted to derive legitimacy for his budget cuts by suggesting that public expenditure would damage the prospects for younger generations of Australian – the debt accrued by the current state would fall to ‘our children’.

The imperative to reduce public expenditure for the national good has also been used to justify policies that encourage private investment – like negative gearing. In his 2016 budget speech, Scott Morrison stated that:

We will not remove or limit negative gearing – that would increase the tax burden on Australians just trying to invest and provide a future for their families…we do not consider that taxing these Australians is a plan for jobs and growth.

He also claimed, with reference to negative gearing, that Australians had ‘moved passed’ the idea that ‘there are winners and losers’, but that his new fiscal strategy was about what was ‘best for Australia as a whole’ (Morrison 2016). This narrative effectively conflated the interests of each citizen with that of the nation in general.

Interest groups have also perpetuated this narrative. In particular, the Property Council of Australia, which represents a number of wealthy developers, has persistently lobbied the state to maintain negative gearing and ‘grow the economy through property’ (Property Council of Australia 2015). The Property Council have portrayed their interests as in harmony with wider societal objectives, an argument that provides a powerful capacity for the state to defend negative gearing:

Property is now the nation’s biggest industry, contributing $182.5 billion to the economy, or one ninth of GDP… while these are all big numbers, they could be even bigger. But we need the right policy frameworks in place – fairer taxes and better planning – to encourage investment, create jobs, build more homes and boost economic growth (Carter 2015, Property Council of Australia).

This narrative is strikingly similar to the way in which Scott Morrison presented his 2016 budget and the defence of negative gearing that it included. The budget was
presented as a plan for ‘jobs and growth’, secured through policies that encourage private investment and business opportunities (Morrison 2016). Indeed, the Property Council’s argument connects with the state’s general imperative to secure capital accumulation and provides it with the ideological justification of economic growth for everyone. Although it promises a high return for the property sector, this recommendation has purchase in the public domain because it integrates property interests into a wider strategy that benefits the economy ‘as a whole’. As already highlighted, there is a material basis for this argument since debt-financed real estate is among the largest sources of capital accumulation in Australia. As Stilwell (2014b: 4) argues, ‘politicians have shied away from cracking down on [negative gearing] because many Australian people now have a stake in its perpetuation’.

The power of the Property Council and forces like it should not be underestimated, particularly given the way in which they form a key component of Australia’s accumulation regime. To take a point of comparison, there have been countless interventions from urban research institutes and advocacy groups alike shedding light on the deleterious social effects of negative gearing (see Daley, Wood & Parsonage 2016). For instance, in 2016, the Australian Council for Social Services published a report entitled ‘Fuel on the Fire’ that indicted the iniquitous impacts of the policy and provided strong arguments against approaches that encouraged 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, as argued in chapter two, that the state operates with a strategic selectivity that privileges the arguments and interests of structurally powerful social forces.

These examples also illustrate how the state and various social forces have invoked ‘national interest’ as a discursive tool to mask the pro-capital implications of public expenditure cuts, and the synchronous development of ‘private investment’ policies. This narrative has protected the interests of those who directly benefit from negative gearing, and ensured that the policy remains anchored in some level of popular support. As Varoufakis (2016: 73) puts it:

No economic interest of a relatively small elite can prevail over the interests of a
large majority. To do so, there needs to be a dominant ideology that permits the elites to co-opt the rest, to present their vested interest on some broad canvas of general will.

This reflects how the material interests of powerful social forces, such as business and homeowners, are secured through an ideology that appeals to the *wider public*. This is highly reminiscent of the earlier case study, in which the Hawke-Keating government advanced the interests of capital through presenting their interests as synonymous with society in general. The ‘selling’ of negative gearing serves just these purposes. While affording a distorted concession to capitalists, its public acceptance depends on the state constructing an ‘imagined community’, a group that is held to share homogenous characteristics that ultimately unite its members in pursuit of a common goal (Anderson 1991 [1983]). State officials have conjured a shared objective to eliminate public spending in order to produce basic social backing for policies that enhance the opportunities for capitalists to reinvest and accrue wealth. This shows that the state serves a key role in ‘selling’ negative gearing, and thereby advancing the interests of Australian capital.

*The Crisis Today*

Today, negative gearing rests on a structurally powerful, but uneasy coalition of social and state interests. In the past six months, both the International Monetary Fund (IMF) and the Reserve Bank of Australia (RBA) have voiced pressing concerns about the rising levels of household debt in Australia underpinned by house price inflation (Wade 2016). Ideological strategies cannot alone cement over the cracks that run deep through the legitimacy of the current system, and which are linked to the broader economic environment. The Coalition’s ‘budget crisis’ narrative – while serving to partially neutralise or dismiss popular dissent – has failed to eclipse widespread concerns about the sustainability of Australia’s economic system, and in turn, its housing system. This is not to say that state power is waning, but rather to suggest that the twin imperatives of accumulation and shoring up legitimacy are constantly producing new sets of contradictions and challenges for the state to resolve. While it is impossible to anticipate how this will play out, the overall contribution of this chapter is to demonstrate that housing policy is not an independent entity or an expression of paradigmatic ideas. This
would seem rather 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 the broader crisis of legitimacy that the potential for reform becomes apparent, or that the policy decisions yet to come can be understood.

**Conclusion**

This chapter has extended the argument that housing policy is shaped by political economic structures, rather than the contest of ideas. First, it highlighted that the negative gearing debate has been portrayed as a discussion about the policy’s logical merits and deficiencies. Second, it drew on insights from chapter two in order to elucidate the role that negative gearing plays in Australia’s accumulation regime and to highlight its deep structural roots. Third, the chapter situated the debate within the broader political economic context in order to explain the emergence of ideas and social contestation. By constructing the spectre of a fiscal disaster, the Coalition has vilified the economic effects of public spending and presented negative gearing as though it were in the ‘national interest’. However, this narrative is on shaky ground in which the balance of opinion appears to be shifting from beneath the Coalition and threatening the sustainability of the current regime. While this chapter makes no predictions about the outcome of the negative gearing debate, it demonstrates that housing policy and development is best understood as a product of broader political economic circumstances. By acknowledging this, housing scholars will provide more satisfactory explanations of past housing policy developments, or effectively elucidate and challenge the barriers to reform today.
Conclusion

As long as the capitalist mode of production continues to exist, it is folly to hope for an isolated solution to the housing question

- Engels (1872 [1970]: 71, emphasis added)

Pessimism of the intellect, optimism of the will

- Rolland, quoted in Gramsci (1971: 175)

This thesis has argued that housing policies and problems are produced by the political economic system as a whole. While a broad spectrum of academics, politicians and economists agree that unaffordability is a pervasive feature of Australia’s housing system, few have offered a considered analysis of what causes these issues. Instead, the conventional view is that unaffordability is part of a temporary crisis that can be resolved through targeted, isolated measures, and the application of evidenced-based research to the practice of policymaking.

As argued in chapter one, dominant narratives suffer from an overt emphasis on ideas as distinct explanatory variables. This serves to misdiagnose the cause of housing problems by suggesting that they are simply the unintended consequences of otherwise considered approaches to spatial and urban organisation. Perhaps more importantly, this argument leaves us without an understanding of the obstacles in the way of reform, and the necessary tools for achieving practical change. For instance, the notion that housing policy is dictated only by the powerful ‘ideas’ of ‘market-based welfare’ and ‘fiscal restraint’ produces a simplistic portrayal of past and present housing regimes, and leaves us without an understanding of how these ideas gained political prominence. Though the thesis acknowledged the dominance of these ideas in rhetoric, it suggested that existing scholarship offers little to explain how and why such dominance is achieved and maintained, and leaves us without the conceptual tools with which we can begin to construct a different political order.

In chapter two, this thesis drew on the valuable contributions of state theorists to
highlight that the state is integral to the process of market reproduction and expansion, and bound to uphold a social and institutional structure that reproduces capitalist social relations. Thus, the thesis pointed to the way in which state policies cannot be understood solely as the product of independently powerful ideas described above; rather, the state and its decisions are *grounded* in a social relational context (Jessop 2008). The chapter thus advocated for an approach that situates the state as a key actor within processes of housing reform, structured by particular imperatives, and which views its political decisions as dependent on the wider social environment. In turn, it argued that only by viewing the broader situation of capital accumulation and the potential for economic crisis, can we understand the history and current capacity for housing reform.

A key characteristic of existing literature is to portray different elements of the housing system as though they were shaped and formulated independently of one another. In the same vein, many scholars fail to draw on lessons learned from history, and the way in which housing policies are shaped by deeper political economic tendencies, and implemented in specific historical junctures. Chapter three delivered an empirical investigation to highlight both the limited capacities of existing scholarship, and to provide a theoretically informed explanation of a key episode in the history of housing policy. By situating the repeal and reinstatement of negative gearing (1985-7) within an historical context of social relations and global economic pressures, the chapter argued that the policy was reinstated as part of a broad institutional resolution to the balance of payments crisis. Although the ideas of real estate lobbyists appeared to be independently powerful, they were only made effective by the broader situation of economic ‘crisis’, the way in which this produced broad social struggles to liberate opportunities for capital investment, and created perceived imperatives for the state to ‘fix’ accumulation. The chapter thus stressed the importance of contextualising any analysis of developments in housing policy, in order to provide more satisfactory explanations of the causal forces involved.

Finally, chapter four analysed the durability of negative gearing today. It argued that only by situating the role of housing within broader imperatives for the state to secure capital accumulation can we understand the structurally entrenched power of negative gearing as a policy tool. However, it also pointed to the importance of the GFC in
catalysing debates around the policy, and producing significant discontent at the level of discourse. Finally, it suggested that these conditions have produced a fierce ideological struggle, in which the Coalition has deployed ideas in order to legitimate negative gearing and to obscure the greatly unequal benefits that it provides to the wealthy when compared with society as a whole. Ultimately, the chapter emphasised the importance of viewing housing issues – and ideas about how best to solve them – as embedded within the structures of class society. Only by viewing ideas as internally related to the interests of state and class forces can we understand how they emerged or remain as dominant. Furthermore, housing issues must be understood as systematically produced by the political economic system that is inherently crisis-prone. While the question of how to reform housing is beyond the scope of this thesis, it suggested that an understanding of the broader situation of capital accumulation and crisis is the basis for effective resistance and transformation.

Implications

The introduction of this thesis outlined the housing problem as it exists in Australia. However, all four of the issues highlighted – social, intergenerational and spatial disadvantage, as well as economic vulnerability – are manifest throughout the developed and developing world. As Madden & Marcuse (2016) point out in their recent book:

The housing crisis is global in scope. London, Shanghai, São Paulo, Mumbai, Lagos, indeed nearly every major city faces its own residential struggles…it has been estimated that globally there are currently 330 million households — more than a billion people — that are unable to find a decent or affordable home.

It is thus important to critically reflect on the implications of this thesis, and its contribution to our understanding of housing today.

The most obvious implication is at the academic level. In an important essay, Aalbers & Christophers (2014) highlight that the fragmentation of housing study into various disciplines has limited its capacity to contribute to political economy. Rather than seeking to explain the structural origins and perpetuation of housing issues and policy,
scholars have tended to focus on empirical developments within the narrow bounds of a particular research area such as social policy or planning. This thesis has put forward the basis for a political economy of housing based on theoretical, empirical and cross-disciplinary insights. In turn, it has presented a conceptually informed understanding of housing policy development, in order to mitigate the practical inconsistencies of ideas-based research. While ideational theories of housing cannot explain the contradictory and variegated nature of policy change, this thesis has put forward a more rigorous explanation of the material factors shaping policy regimes.

The implications for academic research in housing are directly relevant to understanding and influencing the practical prospects for reform. In *The Right to City*, Lefebvre (1996 [1968]) argued that the existence of urban problems created a new potential for emancipatory change. The growing importance of cities to capitalist expansion – both as a symptom and a cause – acted to concentrate the working class within neighbourhoods and workplaces, and rendered more visible the stark divide between it and capital. The ‘inhabitant’, Lefebvre argued, represented a potentially powerful agent in the struggle for social revolution.

This thesis has argued that there are significant structural impediments to developing a strong challenge to the commodification of housing, and to reclaiming affordable and decent shelter as a basic ‘right’ for all. However, it also points to two necessary components of a successful pathway to reform. First, it suggests that the systemic character of housing problems will require a broad-based alliance among different spheres of welfare advocacy in order to tackle them. Chapter three in particular highlighted the power of pro-capital coalitions in manipulating social sentiment amidst an economic crisis. While the power of this coalition was connected to the broader social structure, this does not undermine the capacity of working class groups or their representatives from mounting an effective – if structurally constrained – challenge to the current order. By elucidating the role of structural forces in shaping concurrent changes to social policy areas such as housing, health and welfare, this thesis seeks to provide the conceptual tools for a broader and more powerful struggle against housing unaffordability, and the groups that benefit from the current regime. In a related fashion, the thesis suggests that an appreciation of the political and economic roots of policy
problems provides a potentially emancipatory and mobilising force. As Stilwell (2000: 15) has argued:

Just as the adage to ‘think global, act local’ emphasises the need to bridge ‘macro’ analysis with ‘micro’ actions, so too this broad political economic analysis can be a step towards the pursuit of effective practical alternatives. It can be empowering in that it contributes to understanding contemporary economic trends and to developing alternative economic responses.

While this thesis in no way indicated a vision of what these alternatives might be, it did provide a political economic analysis to illuminate the structural barriers to reform. These two suggestions are mutually reinforcing; perhaps the only way to forge broad coalitions is when armed with a deep, analytical critique of the current system. In turn, the transformation of critique into effective strategy relies on the determination of groups and individuals — a pessimism of the intellect, and an optimism of the will.
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