SHARED OWNERSHIP: THE SOCIALISATION OR PRIVATISATION OF HOUSING

by

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ABSTRACT

Shared ownership schemes are being introduced in Australia at a time when there has been a considerable shift in community attitudes towards the role of the public sector. This shift has brought both a push for privatisation and a push for improved targeting of public expenditure.

The emergence of support for shared ownership can be interpreted, in turn, as a desire to prop up home ownership; a means of reducing public expenditure on housing; and/or an attempt to improve the targeting of support provided by public housing. Shared ownership has been heralded as the new way of providing social housing by its protagonists and decried as a means of diverting scarce resources from more pressing needs by its critics. Which of these is paramount depends on the way in which shared ownership schemes are implemented.

This paper outlines a basic framework within which an unsubsidised shared ownership scheme can work and indicates how a subsidised approach can be introduced without threatening funds provided for public housing.

SHARED OWNERSHIP: THE SOCIALISATION OR PRIVATISATION OF HOUSING?

1. INTRODUCTION

Shared ownership schemes are being introduced in Australia and elsewhere at a time when there has been a considerable shift in community attitudes towards the role of the public sector. With it, this shift has brought both a push for privatisation and a push for improved targeting of public expenditure.

The emergence of support for shared ownership has been interpreted, in turn, as a desire to prop up home ownership; a means of reducing public expenditure on housing; and/or an attempt to improve the targeting of support provided by public housing (Whitehead 1986). Shared ownership has been heralded as the new way of providing social housing by its protagonists and as a way of residualising such housing by its critics. It has been praised as a means of targeting scarce resources and decried as a means of diverting scarce resources from more pressing needs.

This paper discusses these issues and the question of whether shared ownership should be seen as representing the privatisation or socialisation of housing against the background of one specific scheme currently in operation in Australia. It is argued that which interpretation is paramount depends critically on the financing and subsidy arrangements involved in the provision of shared ownership schemes. The paper develops a framework for the financing and subsidisation of shared ownership in a way which is consistent with a socialisation interpretation.

The first part of the paper describes one recently introduced shared ownership initiative in Australia which has the potential to meet the apparently conflicting goals of supporting home ownership while targeting support to those most in need. As such, it has the potential to limit the extent of the social and economic polarisation which has been predicted to arise from a continuation of past tenure specific housing policies. This initiative is the shared home ownership scheme introduced by the Victorian state government early in 1990. It is one of several shared ownership schemes currently being experimented with in Australia. A brief outline of those being considered in other states can be found in Yates (1989b).

Section 2 of the paper provides an outline of relevant aspects of the Australian institutional environment and section 3 provides a description of the shared ownership scheme introduced in Victoria.

The second part of the paper develops a framework against which shared ownership schemes can be evaluated. To pre-empt some of the results of this part of the paper for those who are familiar with the shared ownership arrangements in the UK, the shared ownership model outlined in this report is inexactly linked to (i) the use of indexed (or real rate) mortgage instruments for providing access to ownership and/or indexed finance instruments for financing the provision of rental housing and (ii) the availability of subsidies to meet any shortfall between recurrent costs and ability to pay. Increases in equity share (or staircasting) can only come about through increases in real income, or increases in real repayments. The framework does not provide access to home ownership through increases in nominal income. In other words, the paper outlines a shared ownership framework which, unlike shared ownership in the UK, does not act as a surrogate for the introduction of mortgage instruments more appropriate for low income earners than those currently provided by the private sector.

Section 4 outlines some of the principles which might form the basis of policy evaluation. Section 5 outlines a basic framework which indicates the institutional requirements needed to ensure that a shared ownership scheme can be implemented in a way which is consistent with meeting social objectives in housing. Section 6 uses this framework to evaluate the shared ownership scheme described in section 3.

The final part of the paper further expands upon the framework developed, highlighting the extent of abstraction employed and points to an agenda for the future which shows how shared ownership could be used as a vehicle for the re-socialisation of housing.

2. INSTITUTIONAL BACKGROUND

Tenure Structure

Home ownership has been the dominant tenure in Australia in the post-war period. Currently, approximately 70% of households are owner occupiers (with approximately a 50:50 split between outright owners and owner-buyers). Of the 30% in rental housing, 25% rent privately and only 5% are in public rental housing. At an aggregate level, home ownership has remained remarkably steady at 70% for almost 3 decades.

Despite the resilience of the aggregate ownership ratio (which in part can be explained by demographic factors), access to ownership has become increasingly difficult in the last two decades, particularly in the two largest cities of Sydney and Melbourne. In the 1950s a household on average income could afford 80% of the cost of an average house in Sydney; by 1990 it could afford less than 20%. This change, brought about by the interaction of standard mortgage instruments with two decades of high interest rates, high inflation and high house price inflation, has led to a housing crisis which mirrors that which has occurred worldwide. Perceptions as to what are the major ramifications of this crisis vary. One thing, however, is clear. However distressing the plight of the homeless or the plight of those facing increasing stress in the private rental market, the Hobbit press is unequivocal about what the real crisis is - it is the inability of middle Australia to achieve home ownership, an ideology which has dominated Australian housing and housing policy for at least the post-war period (Kennedy 1981, 1983).

Housing Finance

In Australia most private housing is now financed by a limited number of banks (which hold approximately 85% of total assets of all financial intermediaries). A small number

2. The UK has been singled out here as it is the only Western country which has a significant shared ownership programme. These shared ownership schemes have operated on a very small scale in the UK since the early 1970s but have only begun to be considered seriously in the past few years. For further information see Allen (1982), Forrest, Fawley and Muri (1984) and Booth and Crook (1986). An outline and evaluation of the UK schemes is provided in Yates (1989). Some of the even longer running co-operative schemes of the Scandinavian countries and Canada, however, do contain many of the same underlying principles. Tentative initiatives are being tested in other countries. For a brief description of some of these new schemes see Hartke and Mawson (1990).

3. For the year to March 1990, interest rates for housing finance for owner-occupation were 17% to 18% pa and inflation was over 7% pa. Over most of the decade to 1990, interest rates have remained above 13.5% and inflation has seldom fallen below 6%. In March 1990, median household income was approximately $25,000 pa; median house prices for first home buyers on an Australia-wide basis were $119,000. In Sydney median house prices were $180,000. Demanded pressures have been sustained by an average population growth over the decade of 1.5% pa and growth in the number of households of 2% and by a disproportionate increase in the number of households in the 25-45 year age group.

4. The small size (5%) of the public or social housing stock could be argued to be a reflection of the lack of a co-operative ethos which underlies this ideology.
of these are government owned, but these operate in a manner which is indistinguishable from the private institutions.5

Although there is some specialist activity, the institutions which finance developers and builders also finance the consumers of housing. However, there are differences in the lending instruments available. Reflecting its lower degree of risk, finance for owner-occupation tends to be for a longer period and on more advantageous terms than finance for development or rental investment. Both commercial and retail mortgages are based on nominal rate instruments; the former are dominated by short term (upto 5 years) fixed rate loans and the latter by long term (upto 30 years) variable rate loans.6 Since the partial deregulation of housing interest rates in 1982 there have been some innovations in lending for owner-occupation with the introduction of graduated payment mortgages (with index rates set well below the inflation rate) and deferred interest mortgages (with repayments fixed for the first 1 to 3 years of the loan)(Glester 1988). In the main, however, standard mortgage instruments prevail.

The instruments used by these financial institutions have not ensured that lower income households have been able to gain access to affordable housing finance. In an attempt to overcome this weakness of the market, private finance has been supplemented by that from state initiated mortgage corporations which have raised funds in the wholesale sector for on lending to the retail sector, using indexed or deferred interest mortgage instruments more appropriate to the needs of lower income households.

When indexed lending instruments are used, one obvious way of raising funds to finance home purchase in the commercial sector is by means of indexed bonds.7 This has the benefit of having matched cash flows for investors and borrowers. This approach has been used by the Victorian state government through its secondary mortgage market vehicle (NMCC - National Mortgage Corporation) (Carter 1987, 1988). However, difficulties have arisen in raising adequate funds because of the tax treatment of the indexed component of income. An alternative approach has been employed by the NS state government through its equivalent institution (FANMCA - First Australia National Mortgage Acceptance Corporation) (Lyons 1987). Funds are raised at nominal

interest rates but on-lent on an indexed basis. Any shortfall in repayments in the initial years is financed by increased borrowing; the ability to do this and still provide funds at a competitive rate arises because of the effective existence of a government guarantee on return.

Housing Assistance

Assistance for housing in Australia is tenure based and is dominated by indirect assistance to owner-occupiers and to most owner-purchasers through the taxation system.8

At the Commonwealth level, direct assistance is provided through three major programmes. The first is a rental assistance scheme which currently provides low income households who are renting privately with a maximum of $30-$40 per week and has an associated 50% taper rate. The second is a deposit assistance scheme providing a maximum of $5000 to eligible first home buyers. The third is the provision of grants to the states for the construction of public housing. Smaller specialist programmes also exist. There are no universal housing support schemes.

The various state housing authorities convert direct capital grants for public housing into indirect assistance to public tenants in two distinct ways. The historical benefits of subsidised finance are passed on in the form of below market rents and a rent rebate policy (or implicit housing allowance) means that tenants are only required to pay 20-25% of income in meeting their housing costs.

The states also provide indirect assistance to home purchasers through various home purchase programmes. In NSW and Victoria these are largely funded by FANMCA and NMCC. A number of different alternative mortgage instruments have been employed in on-lending available funds. In essence, these vary either in the amount of subsidy provided or in the way in which repayments have been rescheduled.

5. This finance is supplemented by that provided by property trusts which are designed to take advantage of tax laws which favour equity rather than debt instruments. These are generally used to finance commercial rental property. However, a small scale rental property trust has been used to finance non-profit housing in NSW and new initiatives in this area are currently being considered.

6. In the past 12 months high short term rates and an inverse yield curve have resulted in the widespread adoption of a mix of these instruments for lending for owner-occupation with rates being fixed for 5 years and becoming variable thereafter.

7. As suggested in footnote 5, equity instruments may also be considered.

8. Thus, schemes which focus only on direct assistance (such as those proposed and evaluated in this paper) could be likened to a policy of rearranging chairs on the Titanic. Flood and Yates (1989) provide a detailed account of both direct and indirect housing assistance in Australia. They show that, although direct assistance is generally well targeted, indirect assistance is very poorly targeted. In Australia, not all owner-purchasers receive indirect assistance through the tax system because they cannot deduct their mortgage interest payments although they are exempt from the taxation of their housing income. Thus, for purchasers with low equity, the former disadvantage can offset the latter advantage.
Subsidies in relation to these home purchase programmes can occur either at the fund raising stage or at the on-lending stage. They occur explicitly when grant funds are used to supplement home purchase assistance funds and when borrowers are not charged the full cost of funds raised; they occur implicitly when peculiarities in the tax system are exploited, when government guarantees enable funds to be raised more cheaply by the public sector than by the private or when the state underwrites loan repayments.

In Australia, it is in the area of direct subsidies, through the use of grant funds or interest subsidies, that the greatest possibility arises for home purchase assistance for middle income earners to crowd out assistance provided by public rental housing for lower income earners since it is this assistance which appears as an on-budget item and so is subjected to annual budgetary scrutiny.

The extent of the assistance provided by these direct subsidies can be quite significant. An evaluation of the schemes in operation in the late 1980s (Yates and Flood 1989) suggested that the extent of support provided under existing home purchase schemes can amount to as much as 30-50% of the size of the loan being financed.\(^9\)

The existence of these significant subsidies to home purchasers at both state and federal level immediately raises the question as to what constitutes the most appropriate form of assistance for housing given that some support is needed. Shared ownership has been seen as providing an obvious solution to the problem of ensuring that subsidies collectively provided are collectively enjoyed. If well designed, such schemes can ensure that the benefits provided are targeted to those most in need. The following section outlines the scheme which has been implemented in Victoria before the second part of the paper develops a framework which can be used to evaluate this and other such schemes.

3. THE VICTORIAN SHARED OWNERSHIP SCHEME

All lending for home purchase through the Victorian Ministry of Housing and Construction is now undertaken on a capital indexed basis. Lending on this basis commenced in 1984 with the CAPIL (capital indexed loan) programme. Wulf (1989) provides a description and evaluation of the outcomes of this programme which was phased out by the end of 1988 and replaced with HOLS (home ownership loan scheme) which began in March 1988.

CAPIL was based on real rate lending which was fixed for the term of the loan; HOLS is based on real rate lending which varies according to the cost of funds but which is fixed for the first five years of the loan. Inflation is accounted for through adjustment of the loan balance outstanding.

Currently (March 1990), two rates are set for HOLS: a non-concessional rate of 6.9% and a concessional rate of 3.9% for the first three years of the loan. Repayments are initially set at 25% of gross household income for subsidised loans and 27% for unsubsidised loans, are adjusted each year for inflation and are subject to regular review. The size of the loan which is obtainable depends upon this repayment capacity and hence upon income. At March 1990, a maximum loan of $83,000 was available under HOLS for households with incomes of at least $510pw (which is approximately 110% of average weekly earnings). There are no upper income limits on this scheme which is intended to assist any household unable to obtain finance in the private sector. In all schemes, the property value must be less than $110,000\(^10\) and the purchaser must not already own a home.

The concessional HOLS takes household structure into account in determining its eligibility criteria. It has split income eligibility levels for single and dual income households dependent upon the number of children in the household. Eligible households must earn at least $230pw (for a single person without dependents) or $290pw (for a couple or anyone with dependents). A household on $290pw is eligible for a loan of $48,000.

The shared home ownership scheme (SHOS) was launched in 1989 for households with incomes below $290pw who were not eligible for HOLS and for those in the $290 to $510 income range who were not eligible for the maximum HOLS loan. It is targeted both to existing public tenants and to those who have reached the top of the Ministry's list for housing finance. Rent is charged on the basis of 3% of the Ministry's share of the property. Total housing payments are initially set at 25% of (gross eligible) income and increase in line with the CPI (consumer price index).

Under this scheme, the minimum share which may be purchased initially is 20% and the maximum is 80%. Over time the participant may purchase the dwelling outright. A

\(^{9}\) This rivals that provided under the Right to Buy scheme in the UK. The 1989 Commonwealth State Housing Agreement requires states to finance any future subsidies from the internal operation of their home purchase programmes. This reflects an attempt to ensure that financial assistance provided by the Commonwealth government is directed towards the provision of public housing rather than being redirected to home purchase.

\(^{10}\) The median house price in Melbourne in March 1990 was approximately $138,000.
minimum deposit of $2,000 is required and those eligible for the federally funded deposit assistance scheme may use it. The maximum contribution by the Ministry is $66,000. Purchasers are responsible for all transaction costs associated with purchase with the exception of legal fees which will be borne in house. Stamp duty exemptions will apply for some participants. Purchasers are also responsible for all ongoing costs such as rates, insurance and maintenance. In return for minor improvements and maintenance carried out, the scheme has an automatic decrease of 0.25% pa in the Ministry’s share built in for the first ten years on properties maintained in good condition (and with no arrears on repayments). As long as the Ministry is notified of major improvements before these are undertaken, there is provision for the share-owner to be credited for the value of any of these which result in an increase in the value of the property only upon sale of the property.

Thus, under the Victorian Ministry of Housing and Construction’s home purchase programmes, access to owner-occupied housing is assisted by the operation of 3 overlapping schemes. These schemes are claimed to have been structured in such a way so as to confer increasing amounts of subsidy as lower income groups are targeted.

Those on the highest incomes can obtain assistance via the Home Ownership Loan Scheme (HOLS) which is essentially an subsidised real rate (inflation indexed) lending scheme. For those whose incomes are inadequate to meet these repayments, a 3 year concessional interest rate is available. For those with lower incomes still, the shared home ownership scheme (SHOS) is available. This scheme, combines a concessional HOLS loan with a rental subsidy.11

For households unable to gain access to any of these home purchase schemes, as indicated in section 2, the Ministry operates a public housing program which is subsidised by capital grants. Tenants unable to afford the market related cost rents are required to pay 20% of their income in rent. Funds for the operation of the public housing program are claimed to be protected from the shared ownership program.

4. PRINCIPLES FOR EVALUATION OF POLICY INITIATIVES

Policy initiatives such as that outlined above can be evaluated in the light of their stated objectives and the constraints within which they operate. The objectives of the shared ownership schemes which have been implemented have been to target support to those most in need while simultaneously promoting home ownership and protecting public housing.

This paper takes the constraint that direct budgetary support for housing is to be targeted to those most in need as given. It also takes as given the constraint that reductions in, or improved targeting of, indirect assistance to home owners is not on the policy agenda. Taking these constraints on policy formation need not imply acceptance of them as the most appropriate starting point for the evaluation of policy initiatives. There is, for example, a strong case for arguing that housing policy reform will have limited success until there is some redress of the imbalance between the amount of direct assistance provided to those in need and the amount of indirect assistance provided to owner-occupiers through the tax system regardless of need. (Yates 1989, see also Inquiry into British Housing 1985). However, these latter benefits may be hard to remove (Bull, Harloe and Marrins 1988) and it is for this reason that they are taken as given here.

Given this impendence to reform, it is critical that the structures which are put in place in the interim both facilitate the removal of such impediments and do not exacerbate the current situation. Below it will be argued that a properly formulated shared ownership scheme is one such structure.12

The framework to be developed in the following section, following Estrin and LeGrand (1989), can be described as a market socialist approach to the problem of determining and allocating housing assistance. Estrin and LeGrand argue (p1,2)

Socialism has a well-defined set of ends: for example, preventing the exploitation of the weak by the powerful, greater equality of income, wealth status and power, and satisfaction of basic needs and claim that if one wishes to ensure socialist outcomes from a market mechanism, one must alter the environment in which markets operate to ensure that such outcomes are in the private interests of individuals.

12. An example of how such a scheme might facilitate the removal of impediments can be given in terms of a policy of taxing imputed housing income. One of the arguments often given against such a proposal is that it would create problems for asset rich, income poor households. Shared ownership could provide a means of paying off tax liabilities. Equity release schemes currently serve a similar purpose in meeting other liabilities. See Leachter (1990).
The framework below highlights some of the institutional changes which may help to bring about these outcomes and shows how aspiring home owners can be provided with incentives to achieve their chosen ends. It is based on the argument that assistance with the provision of shelter must have a higher priority than assistance with asset purchase or maintenance of asset values. This follows from the constraint that assistance is to be targeted to those most in need. Those who own or who can consider ownership (shared or otherwise) have a greater capacity to meet their shelter needs than those who cannot consider ownership. More importantly, it follows from the assumption that it is shelter, not asset accumulation, which satisfies basic needs and that assistance must be so targeted to limit further inequalities in income and wealth status.

Assessment of whether assistance is needed to ensure that adequate housing is affordable must begin with an explicit statement of what constitutes adequate and affordable housing. The examples used this paper define adequacy in terms of the market price of housing and take 20% of household income as an illustrative benchmark for affordability. There is considerable debate on the issue of how affordability should be defined. Some would argue, for example, that the ratio should increase as income increases as occurs in the Netherlands (Boehm, 1990), others would argue that it should be based on a proportion of net income or a proportion of income after basic needs are met (Sharp and Jones, 1990). Any of these variations can be built into the framework outlined here if this is used as a model for policy purposes. The argument is independent of the actual figure chosen.

The provision of housing on the basis of need and payment in accordance with ability to pay rather than its provion by the market and its allocation in accordance with ability to pay market rents represents the application of the social component of the market socialist model being outlined in this paper.

Needs are met by adequate housing. For simplicity, in the model outlined below, the benchmark chosen to define adequacy is taken as a (socially determined) minimum in terms of floor space, standards etc. The cost of this adequate housing will vary significantly by region and over time. The illustrative model is based on the average cost of adequate housing in a particular region at a given point in time. A mechanism for using the price mechanism to take variations within regions into account has been outlined in Hills (1988 and forthcoming).

As costs vary over time, different approaches to allocating costs between generations are implied by the temporal specification of this benchmark. A full historic cost approach retains any benefit generated over time within each generation; a pooled historic cost approach shares these (positive or negative) benefits between those generations with access to housing as defined by the benchmark model, but excludes those outside the system. A current (market) cost approach treats past and present generations within and outside the system in the same way. Maximum targeting of assistance to all households (the liberal interventionist stance; Ball et al 1988) would require the benchmark cost to be based on current market values. Regardless of the approach used to determine the benchmark cost of housing and, therefore, rent setting, there will be some implicit reliance on the price mechanism in the model outlined below for any household aspiring to home ownership as long as sales are based on current market values.

The incorporation of sales based on current market values represents the market component of the market socialist model being outlined. This split in the framework highlights the distinction made earlier, namely that access to shelter represents the basic need and that any assistance should be targeted to meeting rental needs rather than assisting with asset accumulation.

5. A FRAMEWORK FOR EVALUATION OF SHARED OWNERSHIP

In order to highlight the way in which the above principles can be implemented, this section first outlines the conditions under which adequate housing can be provided at no cost to government budgets. In so doing, it both highlights the institutional factors which are preconditions for the provision of such housing and indicates the extent of assistance required by particular households in order to ensure that adequate housing is affordable. The latter part of this section examines ways in which this assistance can be provided to enable these households to meet their housing needs.

13. On average, Australian households spend little more than 10% of their gross incomes on housing. With a given level of budgetary assistance, the choice of this affordability criterion must take into account the trade-off between providing more assistance to fewer households and less assistance to more households.

14. This arises because of the assumption of a government budget constraint on the provision of housing assistance and leads to a welfare model of the provision of housing assistance (but not necessarily of the provision of housing as will be seen in the following section).
In principle, housing is affordable in the private sector if a household is able to provide itself with adequate private rental housing within the presumed affordability constraint. In practice, however, the private rental market may not provide adequate and affordable housing for low-income households (Crock 1988; Hakloe 1985; Kemp 1988, 1990). The private rental market is often subject to shortages which allow for the possibility that monopoly profits may be extracted for significant periods of time. In addition, some households may face discrimination and/or be required to pay a premium for perceived (or real) risk associated with their social or economic characteristics.

These possibilities means that there is no guarantee that the private rental market will ensure that housing is provided at the lowest possible cost at all times. As a result, it will be necessary to ensure that non-profit rental housing is available either by providing it through the public sector, through co-operatives or through joint ventures. This highlights the first institutional requirement for a change in the environment in which markets operate to ensure that socialist outcomes are possible.

The term non-profit housing is used here in a more specific manner from the common usage where the terms non-profit and social housing are used interchangeably. The term non-profit is used here for housing which requires an institutional framework to ensure its provision but requires no financial support to ensure its economic viability. The term social housing is used for housing which requires both an institutional framework and financial assistance to ensure its existence.

With appropriate financing vehicles in place, non-profit housing can be provided at no on-budget cost to the public purse. The state initiated mortgage corporations described in section 2 are an example of how such housing might be financed. To the extent that such mortgage corporations (or housing finance corporations) have difficulty in raising adequate indexed funds on the open market, additional changes may need to be made to the tax system to ensure that retail as well as wholesale sources of funds are available (for example through the issuing of indexed bonds as in Denmark; Ministry of Housing 1983a).

The cost of such non-profit housing provides an indication of the minimum return needed to guarantee the economic viability of rental housing without recourse to financial assistance. In combination with the given definition of affordability, it also provides an indication of the minimum income needed to ensure that housing is affordable within assistance.

The cost of home purchase when this is financed by fully indexed mortgage instruments provides an indication of the constraint on access to owner-occupation. Here it is assumed that this particular constraint is defined by an unwillingness to allow real debt and real repayments to increase over time. The role of indexed mortgages in this model highlights the second institutional requirement for change to ensure effective access to owner-occupied housing without unnecessary budgetary contributions and to ensure socialist outcome are possible from a market mechanism.

Figure 1 illustrates the way in which these three constraints affect the income levels at which the various non-subsidised housing alternatives become available. In this figure, the first constraint represents the defined affordability level, the second represents the cost of access to owner-occupation when indexed mortgage instruments are used and the third represents the cost of non-profit rental housing.

Only those households for whom the cost of adequate housing is below the cost of affordable housing are able to meet their housing needs without any assistance. Households with higher incomes are able to gain access to owner-occupation with no more assistance than that provided by ensuring that mortgaged instruments are available. Households not quite able to gain access to owner-occupation are still able to meet the costs of non-profit rental housing with no more assistance than that provided by the existence of such non-profit rental institutions.

Unsubsidised shared ownership

In principle, an unsubsidised shared ownership scheme need only operate for households on incomes too low for access to owner-occupation and can only operate for households on incomes at which non-profit rental housing is affordable. As can be seen from the outcomes for the particular example illustrated in Figure 1, shared ownership on an

15. Describing rental housing so provided as 'non-profit' ignores any profits arising from the operation of the financial system.
16. In principle it would be possible to cost the implicit assistance provided by any government guarantee needed to generate finance and to finance this cost explicitly by paying for insurance against any contingent claim. However, one of the classic arguments for government involvement is that it can pool risk and this paper takes the view that such involvement by government is appropriate.
17. The cost of owner-occupation exceeds that of non-profit rental because of the asset purchase component in the former.
unsubsidised basis is likely to be appropriate only over a relatively narrow income range.\textsuperscript{18}

An unsubsidised shared ownership scheme can, therefore, be targeted to those currently in the private rental market (or to those over-committed in the owner-occupied market). Its implementation, however, requires no conflict over property rights associated with exchange. This may be achieved if the interest of the non-tenant share-owner is purely financial as can be the case with arrangements such as those which apply with rental property trusts.\textsuperscript{19} It can be achieved if the share-owner is a non-profit landlord whose objectives coincide with those of the tenant.

An unsubsidised shared ownership scheme also can be targeted to households who are currently social housing tenants and who have incomes which result in affordable being affordable without the need for any subsidy. In this case, it can be compared with any scheme based on the sale of social housing with the result that all the attendant difficulties arise. See Forrest and Murie (1988) for a discussion of these. A condition of its implementation would need to be a guarantee that any stock sold (or partially sold) was replaced by similar or more appropriate stock in no less desirable a location if the outcome is not to be the gradual residualisation of socially owned and controlled stock. A precondition for this is sale at current market value. Wilmott and Murie (1988) discuss the different types of polarisation which can occur as a result of sales policies. In areas where there is limited stock of social housing, there may need to be constraints on the transfer of ownership of specific dwellings. This does not imply constraints on the extraction of accumulated equity.

\textit{Subsidised shared ownership}

If incomes fall short of meeting the rents needed to recover costs on non-profit housing, some form of assistance will be needed to ensure that adequate housing is affordable. When this is the case, the question arises as to how the available assistance should be provided.

\textsuperscript{18} This particular example was based on the assumption that adequate housing cost $100,000, that interest rates on indexed loans were 5\% pa and that non-housing costs amounted to approximately 3\% of the capital cost of housing. These assumptions were all realistic in Australia during 1989. Average household incomes on an Australia-wide basis in 1989 were no more than $3000pw and for a household on a single parent pension were of the order of $3000pw. Yates (1989b) describes the factors which affect the range for which non-subsidised shared ownership is feasible. One specific factor illustrated in Figure 1 is that the floor can be lowered below that implied by the costs of non-profit rental housing if maintenance costs can be reduced by the use of sweat equity.

\textsuperscript{19} With equity instruments, however, the question of security of tenure must be clearly enunciated.
Once fully indexed loans are used to finance home purchase, the most direct way of providing a subsidy for home ownership is to provide a simple capital grant or loan fulfilling the role of deposit assistance. Providing assistance in this way, however, conflicts with the assumption of this paper that assistance should be limited to that needed solely for the provision of shelter. However, if such assistance is provided as public equity in the housing being purchased, it can provide a means of redirecting the ultimate benefits of support from individual to collective use. In this case the assistance provided is limited to the provision of rent free housing. Any capital gains associated with provision of this assistance are captured by the state. In this way the framework is a partial reflection of the Dutch socially bound ownership scheme (Harkes and Martens 1989, 1990).

A preferred alternative is to directly subsidise the costs of purchasing rental housing. Assistance provided in this way can then be compared with the assistance provided by direct provision of social housing. In order to examine this possibility, a systematic approach to determining rents and to combining rent fixing and subsidy arrangements within social housing is needed. The framework outlined above and illustrated in Figure 1 provides the basis for such an approach. As indicated, the gap between the cost of providing adequate rental housing and the cost of affordable housing represents the extent of subsidy needed to ensure the viability of social housing. This gap can be met by an annual or recurrent subsidy in the form of the equivalent of a housing allowance or by a once off subsidy in the form of a capital grant. The former is more flexible as the incomes of tenants change; the latter reduces continued dependence upon central subsidy. For illustrative purposes, the latter approach is assumed here.

An example can illustrate the implications of this approach. Figure 1 is based on the assumptions that housing is affordable only if costs do not exceed 20% of income, that the capital cost of provision of adequate housing is $100,000 and that non-interest recurrent costs amount to $3000 pa or 3% of asset value. In this case a household with an income of $3000 pw can make an annual contribution of $3120 pa to housing costs. This

20. The qualification regarding the rescheduling of loans needs to be made explicit. Such rescheduling has a far greater impact on improving affordability than does providing deposit assistance or subsidised interest as is done in Australia or discounts as was done with council house sales in the UK. Assistance with home purchase can encourage this restructuring by being conditional upon its taking place.

21. Such an approach is outlined in the appendix to Yates (1989b); for more detail see Hills (1988). As indicated above, Hills explicitly incorporates the possibility of charging differential rents according to location. In this case, the capital grant is determined on the basis of the average cost within each region but rents are set on the basis of recovering actual costs over this subsidy. In principle, the same outcomes can be obtained by the use of a recurrent rather than capital subsidy.

just covers the non-interest costs. Thus, for this household to be provided with affordable housing, 100% capital funding is needed. With such funding, any increase in income above $3000 pw will generate an operating surplus. This can be used to gear up the capital grants provided by using it to fund (indexed) loan finance assumed to be available at 5% pa.

At any income level, however, a household can generate a surplus above that needed to ensure the financial viability of social housing funded in this way. It can do this by taking responsibility for the labour component of repairs etc and/or increasing the proportion of its income which it is prepared to devote to housing. Such additional surpluses can be used to finance shared ownership without affecting the amount of public housing provided from a given budget. This is a critical constraint on the operation of the model. Social rental housing has been provided on the basis of meeting defined needs. However, the structure of provision of this housing can be such that households who contribute more, either by increased saving or increased effort, are able to switch from rental to (shared) ownership. This provides them with an incentive to meet their own private interests. By so doing, they are able to provide resources for use by those on social housing waiting lists. The extent of their contribution will be determined by the size of the loan which can be financed from the surplus generated. The extent of their equity share will be determined by the ratio of this loan to the current market value of their dwelling. At all times, however, the households will continue to contribute exactly the same amount to the operation of the social housing provided as it would have in the absence of the option for purchase.

For those outside the existing social housing sector, subsidised access to shared ownership does not compete with social housing funds only if the assistance needed is provided from the budget allocation for assistance to owner-occupiers (for example for home purchase or mortgage relief) and if mechanisms are in place for mixing this assistance with private sector funds for non-profit rental. As indicated above, such a use of this assistance can provide a means of redirecting it to social rather than private ends.

With such mechanisms in place, households on the margin of housing affordability can, with a relatively small amount of subsidy, be assisted into shared ownership. However, it must be recognised that any funds used to subsidise access to ownership or shared ownership (both of which involve asset accumulation) ultimately must compete with funds used to subsidise rental housing (which provides only shelter). The conflicts faced by any government are thus obvious. To ensure support is targeted to those most in

22. In many respects the questions raised by this choice are similar to those raised in the universal versus targeted benefits debate. Those arguing for a targeted approach argue...
need, housing assistance should be provided first to those unable to make any contributions towards home purchase. In these circumstances, shared ownership schemes should only be available to those currently in public housing who are both able and willing to generate operating surpluses. However, to ensure that a given budget allocation is spread amongst the maximum number of beneficiaries, support should be targeted to those outside the social sector who are on the margin of being able to provide their own housing in the private market.

Ultimately, the question of how any subsidy is to be delivered will be answered at a political or ideological level rather than an economic level. However, under the arrangements for funding housing assistance outlined in this paper, a shared ownership scheme can provide both the means of rationalising existing support and making it more efficient whichever choice is made. Rationalisation of support will occur if any funds currently used to subsidise home purchase are redirected to public equity in shared owned housing. Efficient targeting of existing support can be achieved by utilising any spare capacity that those currently in social housing have to contribute towards their housing costs. Whether all of the support provided for shared ownership is efficient in the sense of being directed to those most in need, however, depends on whether those outside the social sector gain access to shared ownership with funds earmarked for home ownership assistance or from funds earmarked for the social housing budget.

6. EVALUATION OF THE VICTORIAN SHARED OWNERSHIP SCHEME

As indicated in section 3, the Victorian Ministry of Housing and Construction's programs are claimed to have been structured in such a way so as to confer increasing amounts of subsidy as lower income groups are targeted. At the same time, the shared ownership scheme is presented as one which provides no threat to the provision of social housing in Victoria.

that, if the amount of government assistance is to be taken as given, then targeted benefits are the only means of achieving an equitable distribution of this assistance. Those arguing for universal benefits question the assumption of taking the amount of assistance as given and argue that the problems associated with disincentives, stigmatisation and take-up rates can only be overcome if assistance is provided universally.

23. The important proviso on sales made in the final paragraph of the sub-section above should be borne in mind in this case.

24. In terms of the universal versus targeted benefits debate raised in footnote 22, the universal approach would result in a small amount of social housing for a large number of people. Proponents would argue that this is a means of institutionalising social housing provision and thereby ensuring its continued existence. The targeting approach results in social housing being directed to those most in need. Proponents of this approach argue that the increasing numbers of these in need should provide a sufficient rationale for its expansion; antagonists point to the residualisation of the sector as a result of such an approach when insufficient support is provided.

Embodied in the hierarchy of home purchase programs schemes are a number of different approaches to providing assistance. The first arises from the full indexation of the mortgage instruments used. This approach applies to all three schemes. In the private sector, such an approach may need to be underwritten to cover the increased risks associated with the possibility that either incomes might not rise sufficiently fast to meet future repayments or house prices to meet the ballooning debt. In the public sector such protection is provided implicitly.

The second approach applies to the concessional loan scheme and, therefore, also to the shared ownership scheme. In this case assistance is provided by subsidising the interest rate charged on the housing loan. This concession has the same impact as a direct grant in that it effectively serves to increase the household's equity share in its housing (and hence is consistent with the rationalisation approach outlined in section 5). In turn, this reduces the rent which is charged on the Ministry's share. The implications of this are discussed below.

The third approach, which applies only to the shared ownership scheme, is to subsidise the rent charged on the publicly owned share. The Ministry charges only 3% on its share of the property. Given the cost of funds raised for this scheme, if a non-profit rent which covered the cost of providing the dwelling was charged, a real market rate of 6.9% would need to be charged for households who have taken on responsibility for all non-capital costs.

This type of subsidisation of the capital component of rental housing is, in effect, how assistance is delivered to those public tenants unable to pay market rents. However, as indicated in section 2, those in public housing are required to pay a fixed percentage of income as a contribution to these rents. This requirement is also a component of the model outlined in section 5.

In the Victorian shared ownership scheme, the method used to deliver the rental subsidy moves away from this well targeted approach. For higher income households and for those with the greatest equity in their housing, a charge of 3% on the Ministry's share of the property can result in households who move from public tenancy into shared ownership making a smaller contribution to the financing of public housing than they 25. With an index rate of 5%, repayments on a $75,000 loan repayable over 25 years at 6.5% p.a. start at $6148 pa; at 4.5% they are only $5038 pa. Note these are indexed loans and repayments are expected to increase in line with inflation; in practice, they are indexed to income and any shortfalls/excess in repayments are met by increasing and decreasing the length of the loan.
would have had they remained as public tenures. Under the social housing model outlined above and under Victoria's approach to funding its public housing, the household's contribution is based on its ability to pay; the higher the income the higher the contribution. Under the rent subsidy approach embodied in the shared ownership scheme, to the extent that the household's ability to contribute to equity increases with income, rent paid on the basis of remaining equity will decrease with income.

In this way the support provided is perversely targeted. Resources which would have remained within the public sector (and so remained socialised) have been expropriated for the private benefit of those households (and so have been privatised).

As indicated in the introduction to this paper, shared ownership schemes have the potential to achieve the goals of targeting assistance while providing an institutional framework which can encourage home ownership. That the Victorian scheme, as currently implemented does not fully meet this potential should not be taken as a criticism of this scheme. Policy development cannot take place in a vacuum. It needs institutions to facilitate its implementation. The development of the home purchase programs and the shared ownership program in Victoria (as elsewhere in Australia) have ensured that these institutions are in place. This is an important prerequisite. As argued in section 4, successful development of a market socialist approach may require changes in the environment in which the market operates. These institutional changes provide such a change. All that remains now is to ensure that the institutions are used in a way which best fits the purpose for which they were developed.

7. CONCLUSIONS

In this paper it has been assumed that the goal of affordable housing can be defined in terms of the cost of shelter. Any households unable to meet the costs of adequate and affordable (rental) housing should be assisted.

Even when no on-budget assistance is needed to ensure that affordable housing is affordable, the paper has indicated an important role for government. To ensure that the assistance which is provided for housing is used effectively, government needs to ensure that institutions which can deliver non-subsidised housing are in place. This may involve underwriting the risks borne by financial institutions prepared to lend on a long-term indexed basis; it may involve underwriting the risks borne by social housing providers prepared to rent housing on a non-profit basis. Alternatively, it may involve competing with existing institutions in the market place. By using the Victorian shared ownership scheme as a case study, the paper has shown that it is possible for such institutions to be developed.

Once such institutions exist, this paper has shown how shared ownership can rationalise existing support and make it more efficient.

In order to present a simple but coherent framework against which shared ownership schemes in operation can be evaluated, this paper has focused on only the financial and subsidy issues associated with their provision. It has, therefore, ignored many important issues such as those associated with the assessment of what constitutes adequate housing and those related to the question of how this housing is to be valued in order to determine non-profit rents. It has also ignored questions of maintenance and management of public or non-profit housing, questions of the appropriateness of home ownership for low income households, and the role which shared ownership can play as a means of overcoming some (but not all) of these issues.

Many of these points could be developed further. Consider, for example, the last point. In principle, shared ownership provides low income wealth households with access to the financial benefits which result from the accumulation of wealth in the form of home ownership and with a means of overcoming some of the inherent economic disadvantages of so doing. It provides no non-economic benefits that cannot be provided equally well by a sensibly operated social housing program. Most of the economic benefits arise from providing low income households with access to the same tax advantaged means of accumulating wealth as enjoyed by those on higher incomes.
Such advantages, however, are not automatic. House prices do not rise uniformly in all regions and at all times and have been known to fall. Shared ownership, if developed more fully than outlined in this paper, can provide protection in these circumstances. Accumulation of equity can be regarded as a collective benefit; any household wishing to extract its equity could be provided with the average capital gain (or loss) over the (share-owned) housing stock. The collective component of shared ownership, therefore, could serve as a means of diffusing regional and temporal differences in house price inflation.

Shared ownership schemes can also provide implicit insurance against the possibility of mortgage default when an increase in mortgage debt arising from a negatively amortised mortgage is not offset by a larger increase in house price or when incomes fail to rise as fast as repayments. In the former case, the state can take a longer term view than an individual household, and can, therefore, ride out any short term downturn in house prices. In the latter case, households can revert to rental payments only.

This paper has outlined ways in which shared ownership can provide a means of using public equity to assist non-owners into ownership. The concluding section has suggested how it might provide a means of using public equity to assist existing owners out of ownership. Whatever way it is used, shared ownership provides a structure which potentially can protect existing social housing and can limit the assistance provided to home owners. Care and effort must be taken to ensure that it does this.

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