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THE POLITICAL ECONOMY OF AUCKLAND'S HOUSING

Alan Johnson | Social Policy Analyst

The Salvation Army Social Policy and Parlimentary Unit | **August 2012**

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SOME STARTING PROPOSALS

This paper considers the political economy of Auckland's current and growing housing shortage. It is not a careful and balanced assessment of the various policy options to address this shortage—such assessments seem to have achieved little in the past and there is no reason to believe that they will in the near future either. Rather, this paper attempts to analyse the underlying institutional and philosophical reasons for this shortage and, in addition, the reasons why so little is being done by Government or Auckland Council to address it. The reasons for such an approach is that it is our collective thinking and our institutions which are fundamental to how, on the one hand, we conceive of problems and solutions and how, on the other hand, we organise and respond.

The following pages contain some starting proposals which are to some degree considered in greater depth in the following discussions. These discussions make use of historical records, empirical evidence and philosophical argument to support or justify these propositions. The intent of this approach and the overall focus of this paper is to initiate a discussion on the institutional and conceptual changes which are required if we are to begin to meet the challenge of providing every Aucklander with a safe and an affordable home.

PROPOSAL ONE

That some part of the inequality in the distribution of wealth which exists in New Zealand is due to the unwillingness of successive governments to tax housing more equitably.

PROPOSAL TWO

That some part of the housing bubble which exists in New Zealand is due to the lack of action by the Reserve Bank to rein in mortgage lending over the past decade and, in particular, between 2002 and 2007.

PROPOSAL THREE

That the housing bubble has seriously distorted households' balance sheets, raised foreign debt to unnecessary levels and reduced the ability of domestic capital markets to fund sustainable economic growth and development. Furthermore, existing policy frameworks create potential for further damage.

PROPOSAL FOUR

That without a primary focus on reducing inequality, little progress will be made in addressing housing shortages in Auckland or elsewhere. A first step in bringing about this new focus is to reconsider the role which existing institutions and policy frameworks play in creating and maintaining inequality.

PROPOSAL FIVE

That greater public support for public spending on social and affordable housing requires a radical rethink of how such housing is funded, initiated and developed in order to address the marginalised position which these forms of housing occupy politically.[1]

PROPOSAL SIX

That the scale and focus of Auckland's planning needs to change from city-wide planning based on providing physical infrastructure and developing physical capital, to neighbourhood-scale planning based on providing social infrastructure and developing social capital.

New homeowner Campbell Miller, who used the Gateway Housing Project to get into his first home at Hobsonville Point.

New Zealand Herald, 18 May 2012. Photography: Dean Purcell / New Zealand Herald

THE POLITICS OF SOCIAL HOUSING: **THE HOBSONVILLE POINT STORY**

Hobsonville Point is a former Royal New Zealand Air Force base located at the top of the Waitemata Harbour near the existing suburb of Greenhithe. The base was vacated by the Air Force in 2001 and eventually transferred back to the Government around 2002. At this time, Government indicated that the land would be transferred to Housing New Zealand for a mixed income residential development.

In mid 2006, the Hobsonville Land Company Ltd, a subsidiary of Housing New Zealand, announced plans for a 3000 house development involving 500 State rental units and a further 500 units targeted as affordable home ownership or private sector rental. At the time, the Chief Executive of the Hobsonville Land Company, Mr Sean Bignell, stated that the 'aim is a development that is accessible and affordable to the entire community—young and old, singles and families, rich and poor—and one that at the same time responds to growth issues facing Auckland'.[2]

In June 2006, the local National MP John Key is reported to have acknowledged that Hobsonville was a pristine piece of land and that there was the opportunity to build 'something pretty good there' but that to put State houses on $500,000 sections was 'economic vandalism' which had the potential to turn the area into a ghetto.[3] In a later interview, in June 2006, Mr Key elaborated on this economic vandalism claim by stating that 'to build a State house on a $500,000 section when you can sell it and build three State houses is crazy. And I think it would be far better and a far stronger argument, actually, to sell the land and to build State houses'. Furthermore, he said that 'there's a tremendous risk that what could be a spectacular sort of development ends up becoming a ghetto because a few people decide they want to play guinea pigs with a big piece of land at Hobsonville'.[4]

In February 2009, a comprehensive development plan for the first 1100 units of the total development was approved by Council planning commissioners. At this time, Housing New Zealand Board Chairman Pat Snedden was advocating for the project to proceed at scale in response to the sudden slowdown in house building brought about by the recession and the global financial crisis. Mr Snedden said, 'In a sense there is a chance to provide something of a counter-cyclical force when things are looking a bit dim.' In response to this suggestion, Housing Minister Phil Heatley put the brakes on Housing New Zealand's counter-cyclical ambitions, saying, 'We want them to meet market demand ... We don't want them to overreach. We've said, "Get on with the first ones, as many as the market will meet".' This first stage was expected to be 660 units.[5]

A headline in the *Western Leader* on 26 March 2009 announced that 'PM vetoes Hobsonville State homes'. In the accompanying report, Hobsonville Land Company chief executive Sean Bignell said that the 'Prime Minister has made the decision that there won't be any state rental housing'. The newspaper report also stated that 'plans for the provision of some State houses were opposed by Prime Minister John Key when he was campaigning for the last general election,' and that 'more than 770 members of the Hobsonville-West Harbour Ratepayers Association also signed a petition opposing the plan'.[6] Mr Bignell confirmed the removal of State houses from plans for Hobsonville Point in the Hobsonville Land Company's 2008/09 Corporate Responsibility Report, where he stated that 'in the last year, the Government's focus has changed from providing state rental housing at Hobsonville Point to including housing under its Gateway initiative' (p.3). No formal announcement of the policy shift appears to have been made either by the Prime Minister or the Minister of Housing.

In October 2009, at a ceremony to commence earthworks for the first stage of the development, Housing Minister Phil Heatley announced that 'up to 100 of the 660 lots in the first stage of development—the Buckley Precinct—have been earmarked as Gateway Housing sites, which will provide a helping hand to first-home buyers who have previously found it difficult to enter the Auckland housing market'.[7]

Commencement of the first 82 houses was announced in February 2010, with Hobsonville Land Company chief executive Mr Sean Bignell announcing that about 600 of the 3000 Hobsonville residences would be 'affordable'. A representative for the project manager indicated prices would start at about \$350,000 for 100m^2 unit.[8]

In October 2010, Minister of Housing Phil Heatley announced the release of the first tranche of 30 'Gateway' homes, saying he wanted to see how the scheme worked out before scaling it up.[9]

A property industry column authored by *New Zealand Herald* journalist Anne Gibson in November 2011 reported that a 'Housing Corporation business is developing Hobsonville Pt, which is being managed by AV Jennings. No State houses are rising there, a point being firmly hammered home by marketing and sales staff for fear of putting off buyers who might not want to spend up to \$700,000 to find State tenant neighbours'. This report went on to say that '17 properties have been developed with assistance from the Government's Gateway Home project where land payments are suspended for 10 years so the properties are more affordable'.[10]

Nearly six months later, in May 2012, the 'Gateway' programme was axed with the same 17 homes reported as having being sold to families with an annual household income of less than $100,000. Of these, 14 houses were valued under $400,000, with section prices being between $180,000-200,000. Defending the decision to close the programme, Mr Key said, 'the Government has looked at that programme and decided that's now not the most effective way of going forward'. An unnamed Housing New Zealand spokeswoman is reported to have claimed that the Government had never intended to provide more than 17 affordable homes in the Hobsonville Point development under the Gateway scheme, despite the speech made by Mr Heatley in 2009.[11]

INTRODUCTION

"... over the next 20 years Auckland will be missing 90,000 houses—10 times more houses than were destroyed in the Christchurch earthquakes."

A 2010 report by the Department of Building and Housing forecast that the shortfall in Auckland housing could be up to 90,000 dwellings by 2031—an annual shortfall of around 4500 units.[12] This forecast was against an expected 212,000 additional households in Auckland over this period. Although such long-range forecasts need to be accepted with considerable caution, such an outlook means that over the next 20 years Aucklanders might expect to have six houses for every 10 households which may move to, or from, in Auckland.

Over the past four years, consents for new dwellings have averaged 3800 annually, while the anticipated number of new dwellings needed to cater for population growth is around 8000 per year.[13] The shortfall experienced over the past four years is of a similar scale to the shortfall being anticipated for the next 20 years or so.

What is perhaps most surprising about these trends and forecasts is that they have not caused the Government or Auckland Council to radically reconsider their budgets or policy perspectives to address the significant challenge: that over the next 20 years Auckland will be missing 90,000 houses—10 times more houses than were destroyed in the Christchurch earthquakes. This paper is an attempt to find out the reasons for this inaction, considering this question from the angle of political economy.

The idea of political economy comes from moral philosophy and was pioneered by Adam Smith amongst others. Political economy has been described as 'how political choices, institutional structures and forms of governance influence the economic decisions made by governments and citizens, and how, in turn, these structures reflect deeper forces, such as patterns of colonial settlement and conflict, physical geography and natural resource endowment, the disease ecology of societies and ethnic diversity as well as a host of other cultural factors.[14] Political economy is therefore more than just markets and governments; it is also about institutions and decision-making. These institutions include both formal ones, such as companies, NGOs and government agencies; and informal ones, like traditions and relationships. Decision-making can occur through private decisions of investors, producers and consumers, or through policy or political processes, or even through consensus and collective actions.

It is perhaps unusual to commence a discussion on housing with a discussion of such a broad and perhaps remote topic as political economy. It is, however, the hopeful intention of this discussion to move beyond a simple descriptive and prescriptive approach to housing policy where problems and issues are dissected and diagnosed and responses are offered up. Such approaches have not brought change and there is little reason to believe they will in the future.

The failure around housing policy is, however, broader than this. For example, extensive research commissioned by the now defunct Centre for Housing Research Aotearoa (CHRANZ) did little to change policy or to influence budget priorities. The big ideas and grand strategies such as the New Zealand Housing Strategy from 2005 and Auckland Regional Affordable Housing Strategy of 2003 had no discernible impact on the supply of affordable houses. While the efforts to provide affordable housing by NGO housing providers such as Habitat for Humanity, New Zealand Housing Foundation and Community of Refuge Trust have been heroic, the results have not been herculean—mainly on account of inadequate budgets.[15]

One reason for this failure is the hostile political economy into which this research, planning and organising has fallen. As we shall see in the following discussion, both the historical and current political economy does not appear interested in addressing issues of housing affordability and access, so it should come as no surprise that efforts to do so are marginalised politically, or simply ignored.

Marginalisation and indifference may be the response to this paper as well. But now, more than ever, it is important some attention is given to the political and institutional context of Auckland's housing problems, into which proposed responses must fit. To do otherwise is to fail to discuss not only the barriers to change but perhaps the underlying causes of the problems.

Auckland's impending housing crisis is not the consequence of just one problem but of several long-standing issues and omissions that together have made matters worse through some unfortunate synergy. Some commentators have attempted to find a singular cause for this crisis, mainly because they already have a single solution in mind. One example being calls for the liberalisation of zoning on the urban fringe. The multi-faceted nature of this problem needs to be recognised, if only to provide a starting point for broadly-focused solution or, more likely, a set of solutions. That is the intended purpose of this paper.

This paper briefly attempts to consider six features of the political economy of Auckland's housing. Somewhat ironically, only one of these features is specifically related to Auckland, while the remaining material considers housing in a broader sense. **Section one** considers the question of the taxation of housing. **Section two** looks at the influence of the Reserve Bank on housing markets. **Section three** surveys some economic dimensions of the housing price bubble that developed in New Zealand between 2002 and 2007 and remains with us today.[16] **Section four** discusses neo-liberalism and its framing of urban planning and public policy. **Section five** offers a perspective on the political economy of affordable housing in New Zealand. **Section six** looks at the political economy of Auckland's planning.

“But now more than ever it is important that some attention is given to the political and institutional context of Auckland's housing problems, into which proposed responses must fit. To do otherwise is to fail to discuss not only the barriers to change but perhaps the underlying causes of the problems.”

Residential property investor Pat Baker owns 53 properties in Hamilton and objected to the Government's proposed tax crackdown on landlords. She is pictured near her home in Whangaparaoa, north of Auckland.

New Zealand Herald, 24 February 2010. Photography: Natalie Slade / New Zealand Herald

1. UNTHINKABLE TAXES

PROPOSAL ONE

That some part of the inequality in the distribution of wealth which exists in New Zealand is due to the unwillingness and inability of successive governments to tax housing more equitably.

Housing, and especially owner-occupied housing, has enjoyed a privileged position in New Zealand's tax system. This privilege has arguably lead to a housing bubble, to very high levels of household and national indebtedness, and contributed to increasing inequality between those New Zealanders who own housing and those who just rent. The inequitable taxation of housing has been the subject of at least three official reviews since 2001—but despite the political rhetoric, especially from opposition parties, a long-standing political stalemate exists that has ignored meaningful reform and avoided worthwhile debate around such reform.

1.1 An external view of New Zealand's tax policies

The OECD in its 2000 report on the New Zealand economy noted that:

> Perhaps the single most important issue facing the tax system is the capital-revenue boundary. New Zealand does not have an explicit capital gains tax, but makes a distinction between revenue receipts, which are taxable, and capital receipts, which are tax exempt … Moreover, there are a number of adverse consequences of not imposing a comprehensive tax on capital gains, especially since New Zealand applies an otherwise comprehensive income tax system: the income tax base is narrowed, the allocation of savings and investment is distorted, tax-shifting behaviour is encouraged, in particular among high-income earners and wealthy individuals; and a non-level playing field is created among different financial instruments. (pp. 143–144)

1.2 The McLeod Tax Review

The challenge from the OECD report, along with its suggestions for taxing the imputed rent of owner-occupied housing, was picked up by the Tax Review Working Group in 2001. In its preliminary issues paper, the Working Group discussed the taxation of rental housing and quoted IRD figures which showed that reported profits from rental housing declined from $213 million in 1993 to a loss of $24 million in 1999 (p. 41).[17]

The Tax Review Working Group recommended the application of a risk-free rate of return to all capital assets (including rented and owner-occupied housing) as a means of both calculating capital income and of taxing this capital income at normal income tax rates. The Tax Review Working Group estimated the revenue from such a tax on housing at $750 million (p. 41), although they recommended that the introduction of such a tax should be revenue neutral and so offset other forms of taxation. The Working Group also claimed that the 'theoretical case for taxing returns on owner-occupied is strong; the current system is both inefficient, since it induces over investment in housing at the expense of accumulation of financial assets, and inequitable, since it favours high income earners and the elderly at the expense of struggling low-income families'. (p. 39)

Shortly after the release of the Tax Review Working Group's issues paper in June 2001, the Minister of Finance issued a press release that stated:

> Finance Minister Michael Cullen says he is disappointed that irresponsible reporting by some of the media has forced him to comment on the issues paper released yesterday by the Tax Review.
>
> Dr Cullen had hoped to avoid commenting on specific issues raised by the Review in the interests of having a full and open debate. But some media have reported such suggestions as a new tax on owner-occupied housing as if it came from me and was government policy.
>
> They know very well that is not the case. The suggestion is in an issues paper prepared by an independent tax review committee. I have had no input into that paper.
>
> When the suggestion of such a tax was made by the OECD last year, I rejected it in very strong terms. I have seen nothing that has changed my mind in that regard.[18]

The Tax Review Working Group was suitably admonished both by the public reaction to its proposal to tax owner-occupied housing and the Minister of Finance's pre-emptive rejection of the idea. In its Final Report, the Working Group simply stated:

> In our Issues Paper, we raised the possibility of applying the Risk Free Rate of Return Method to tax the net equity-component of owner-occupied and rental housing. However, the approach met with such widespread opposition that no government is likely to implement it in the near future. Unfortunately, no more viable way making this aspect of the tax system fairer and less distortionary has been identified. Accordingly we do not recommend that the government take this proposal further at this point. (p. 4)

Investment advisor Gareth Morgan described this back down by the Tax Review Working Party as 'Cowardice Under Fire' and 'mealy-mouthed compromises'.[19]

1.3 The Tax Working Group

Aside from some ongoing squabbling between the Minister of Finance and the opposition National Party finance spokesman over the alleged favourable tax treatment of rental housing in June 2007, public debate around the tax treatment of housing remained dormant until the suggestions of the Tax Working Group gained publicity in 2009.[20]

The Tax Working Group was established in 2009 to advise the recently elected National-led Government on tax reform. The Working Group spent considerable effort examining the pros and cons of greater use of capital and property taxes, including capital gains taxes and a land tax. It claimed that their interest in such options was, in part, to broaden the tax base so that tax rates could be reduced and better aligned and to make the tax system less distorting of investment and saving decisions.[21] The Working Group concluded:

> The most comprehensive option for base-broadening, with respect to taxation of capital, is for New Zealand to introduce a comprehensive capital gains tax [GCT]. While the comprehensive nature of this option is seen as attractive and therefore its introduction is supported by some, most members of the TWG are concerned about the practical challenges and efficiency implications of introducing a CGT ... A key concern with a CGT is the treatment of owner-occupied housing. If comprehensive base-broadening is pursued through the introduction of a CGT, then in principle owner-occupied housing should be within the CGT base. However, the Group recognises that this is unlikely to be the case as evidenced by the exemptions which operate in other jurisdictions. Introducing a CGT that excludes owner-occupied housing would create a new bias in the tax system. (pp. 66–67)

In essence, the Tax Working Group recommended that the tax base should be broadened; that the introduction of a comprehensive capital gains tax was a great way of achieving such broadening; that such a comprehensive tax should include owner-occupied housing; and that not to do so would create further bias in the tax system. Despite this advice, the Working Group did not go so far as recommending owner-occupied housing be taxed via a capital gains tax.

Although the Tax Working Group failed to successfully promote meaningful change to the way housing might be taxed in New Zealand, it did introduce some useful numbers into the debate. The Working Group estimated that the national rental housing stock was worth $200 billion, yet in 2008 generated $500 million in income losses and $150 million in tax revenue losses.[22] Against these losses and write downs the IRD estimated that a capital tax based on the risk-free rate of return if applied to rental housing would generate between $400 million and $700 million in income. If such an approach was applied to all housing, the revenue gained would be between $3.1 billion and $5.4 billion.[23]

While the Tax Working Group's final advice to Government on tax reform was fairly equivocal (perhaps reflecting the variance of opinion within the Working Group), a dominant theme within the advice offered was aligning and lowering the top personal income tax rates and corporate tax rates, and offsetting these reductions with a capital gains tax that excluded owner-occupied housing.[24] Other options for paying for the suggested tax cuts for corporates and high income individuals were an increase in GST to 15 per cent and various clawbacks on depreciation allowances for investment properties.

1.4 Cherry-picking advice

In the final event, the Government cherry-picked the advice it received from the Tax Working Group, in effect rejecting its call for comprehensive reform and instead electing for piecemeal changes. These smaller changes included aligning corporate tax rates to 28% and across-the-board reductions in personal income tax rates—including the reduction of the top tax rate from 38% to 33%. To pay for these tax cuts, the Government raised GST to 15% and abolished building depreciation allowances on rental housing as well as various other changes to depreciation rules.[25]

At the time of these tax changes, the Finance Minister promised:

> We also required any changes to be broadly fiscally neutral. Given the increase in public debt of recent years, it would be irresponsible to saddle the next generation to pay for tax cuts now … Over four years the package delivers around $15 billion of tax cuts. This is matched by a similar level of revenue increases from less economically damaging sources.'[26]

It is difficult to measure with any certainty if the tax changes introduced in the 2010 Budget were fiscally neutral as the Minister of Finance promised. The reason for such uncertainty is the inaccuracy of Treasury tax revenue forecasts. For example, the 2010 Budget forecasted total tax revenue of $59.56 billion for the year ended 30th June 2011, yet the actual revenue was nearly $1 billion less, at $58.58. The variance in forecasts of total tax revenue expected in the 2012/13 fiscal year between the 2010 Budget and the 2012 Budget was $2.6 billion, with the biggest variance being in expected receipts for GST and corporate taxes.[27] The main reason for such inaccuracy was the optimistic growth assumptions built into the 2010 Budget forecasts. These forecasts expected GDP growth of

3% per annum for 2010 and 2011 when much more modest growth of 1.2% and 1.4% respectively occurred.[28] Such optimism at a time of significant uncertainty around global economic conditions is difficult to justify, especially when risks were being taken by politicians to meddle with the tax system in an ad hoc rather than systematic way.

1.5 The Productivity Commission's inquiry into housing affordability

A third and more modest reconsideration of housing taxation was undertaken by the New Zealand Productivity Commission in 2011/12. The purpose of this review was generally to consider the scope for productivity improvements to improve housing affordability, and not the review of housing taxation per se. The terms of reference to the Commission's inquiry avoided more fundamental questions around the role of housing markets in the possible distortion of household saving decisions and of capital markets. Such questions are perhaps more critical issues for New Zealand's prosperity than matters like the productivity of land development or the changing tastes of housing consumers, which were within the inquiry's terms of reference. However, the terms of reference did ask the Commission to consider the efficiency of taxes on the housing supply chain and on the tax treatment of rental and owner-occupied housing.[29]

The Productivity Commission produced its final report in March 2012. In responding to these questions of tax efficiency, the Commission made use of a combination of submitters' opinions, the findings of previous tax reviews and standard economic theory to develop their conclusions.

These conclusions largely dismissed the case for significant change to the way housing was taxed for two reasons. The first reason was that housing and, in particular, home ownership was already being taxed. The Commission argued:

> There has been a long standing presumption of a tax bias in favour of equity invested in owner-occupied housing. This bias has been reduced by increases in the GST rate since it was introduced in 1986, and the accompanying shift in the tax base away from income taxes and towards consumption tax, together with the application of territorial government rates.[30]

The second broad reason the Commission gave for not introducing more comprehensive taxation of housing was around the need to consider such taxation within a broader framework of tax reform. On this question the Commission concluded that it did 'not see a case for changing the taxation of housing. Current arrangements are not ideal, but addressing particular

"In reaching this conclusion, the Commission's original focus on housing affordability appears to have been a dominating influence, rather than that of the place of housing in New Zealand's economy."

anomalies in isolation from a broad review of the tax system would further complicate the system and could have unintended effects on housing.'[31]

In reaching this conclusion, the Commission's original focus on housing affordability appears to have been a dominating influence, rather than that of the place of housing in New Zealand's economy. While this focus is appropriate given the original terms of reference, it should be expected that the resulting analysis of tax policy may come up with quite different results from those from a direct review of tax policy. For example, in examining the possible welfare effects of tax changes the Commission has focused on the potential impacts of taxes on house prices and then on the impact of house price falls on the welfare of various groups, including prospective house buyers, recent house buyers and the elderly.[32] Under this logic, it appears any tax which impacts on house prices is unacceptable because someone will lose from a change in house prices.

Given that one of the purposes of taxes on assets like houses is to influence prices, it follows, in terms of the Productivity Commission's logic at least, that such taxes are inappropriate, precisely because of the effect they are intended to have.

The fairly neutral views of the Productivity Commission to the question of taxation of housing were perhaps a predictable consequence of the way its task was framed. Its conclusions should be seen in this light.

1.6 Back to the start

The OECD, in its 2011 report, summarised New Zealand's housing position:

> A considerable housing boom has been a key feature of persistently large saving-investment imbalances in New Zealand over the past decade. Wealth is concentrated to a greater extent in property compared to most other OECD countries, leaving households and the banking system heavily exposed to a correction in land and housing markets. Supply rigidities and tax incentives that bias savings decisions towards property investment have amplified the increase in house prices, widening wealth inequalities in the form of larger homes for those who can afford them, but deteriorating affordability for the rest of the population. Substantial distortions via tax planning have been evident in rental property markets. Although the 2010–11 Budget introduced measures to reduce some of these distortions, further reforms are needed to remove the significant tax bias favouring housing. The economic downturn has increased financial pressures on the social housing sector, with a shortage of public dwellings in areas of high demand. (p. 61)

Eleven years since the OECD report and three reviews of housing taxation later, almost nothing has changed in terms of the tax bias toward owner-occupation and rental housing investment. Labour-led governments in power between 1999 and 2008 are particularly culpable for this inertia given that the housing boom principally occurred during this period and with it the various economic distortions described below.

New Zealand's experience suggests that policies that divert private savings toward housing at the expense of other assets contribute to raising the cost of capital and limiting the depth of its financial markets. An underdeveloped financial system, in turn, reduces the ability of the economy to allocate capital towards its most productive uses, hindering business investment and productivity growth.[33] This is the real productivity question around housing but it was completely ignored by the Productivity Commission.

Reserve Bank Governor Dr Alan Bollard waits his turn to defend the monetary policy framework while chairman Dr Arthur Grime and deputy chair Alison Paterson have their say to the Finance and Expenditure Select Committee at Parliament, Wellington.

New Zealand Herald, 19 September 2007. Photography: Mark Mitchell / New Zealand Herald

2. MONETARY POLICY AND THE HOUSING BUBBLE

PROPOSAL TWO

That some part of the housing bubble which exists in New Zealand is due to the lack of action by the the Reserve Bank to rein in mortgage lending over the past decade, in particular, between 2002–2007.

2.1 Monetarist orthodoxy and the unimportance of asset prices

In 2000, the future Chairman of the US Federal Reserve Ben Bernanke reconfirmed monetarist orthodoxy in the face of potential problems around price volatility in housing and other assets. That year, he co-authored a technical working paper succinctly titled 'Monetary Policy and Asset Price Volatility'. In this paper, Bernanke and his co-author reinforced the conventional wisdom of that time—that the solitary role of a central bank was to use monetary policy to manage price stability. The authors advocated that 'central banks should view price stability and financial stability as highly complementary and mutually consistent objectives, to be pursued within a unified policy framework ... that the best policy framework for attaining both objectives is a regime of flexible inflation targeting,' (p. 3). Their definition of flexible inflation targeting resembles closely the monetary policy practice of New Zealand's Reserve Bank.

The authors went on to argue that the:

> Inflation-targeting approach dictates that central banks should adjust monetary policy actively and preemptively to offset incipient inflationary or deflationary pressures. Importantly for present purposes, it also implies that policy should not respond to changes in asset prices, except insofar as they signal changes in expected inflation. Trying to stabilize asset prices per se is problematic for a variety of reasons, not the least of which is that it is nearly impossible to know for sure whether a given change in asset values results from fundamental factors, non-fundamental factors, or both. (p. 4)

This orthodoxy asserts that central banks should 'stick to their knitting' of controlling inflation—albeit flexibly; that controlling inflation will somehow achieve both price stability and financial stability; and that rapidly rising (or falling) asset prices are not their business unless any rises or falls influence the public's expectation of inflation.

This orthodoxy appears to have been accepted in New Zealand as well. In a speech in early 2004, the Reserve Bank Governor discussed the use of monetary policy to control asset prices and the risks and difficulties of this. He concluded:

> I've noted that, to some extent, monetary policy aimed at keeping consumer price inflation under control automatically takes asset prices into account in terms of their effect on general price inflation. However, even so, sometimes asset price bubbles occur, causing economic damage. I've suggested there are some very limited circumstances where monetary policy should look beyond the immediate inflation outlook and respond more vigorously to asset price developments. I have also noted that this carries risks and is difficult to do. And I've recorded that the New Zealand housing market currently does not warrant such a severe intervention.[34]

2.2 Jawboning the housing market

Following this 2004 assessment, the Reserve Bank Governor proceeded over the next three years to talk the housing market down, offering warnings to investors. In September 2004, the Governor also said:

> The Reserve Bank has been giving a consistent message to households and investors over the last year. Prudent buyers and investors need to satisfy themselves that they could withstand a reasonably significant fall in house prices and rentals and/or a reasonably significant rise in interest rates. In housing, as with any other investment, it's the investor who takes the risk, thus it's the investor who needs to be careful.[35]

In 2005, the Reserve Bank appeared to have a good understanding both of the drivers and consequences of the housing bubble. In a speech delivered in November 2005, the Reserve Bank Governor commented on New Zealanders' poor savings behaviour and preference for debt-funded investment in housing, suggesting that the outcome has been:

> Unsustainably high house price rises, exacerbated by a very tight labour market and growing non-residential construction. Several other OECD countries are going through a similar housing boom, but none of them have such a tight domestic economy and a poor savings record … New Zealand households are also unusual in the dependence they have on property assets in their balance sheets. In fact many households hold essentially no other assets. The typical holding of financial assets and equities is very low by OECD standards. The danger of this is it means our love affair with housing leaves us very exposed to a property slump … The housing boom has driven a lot of extra expenditure that typically accompanies new houses: fixtures and fittings, appliances, even cars. In addition, seeing their house value rise over the last five years, many people have felt richer and have spent more on unrelated item—entertainment, travel, etc. The very tight domestic economy

> largely reflects this ... Such spending has been made easier by banks and other financial institutions lending freely on homes, encouraging people to put other debt on to their mortgage, and increasing mortgage levels to allow homeowners to consume part of the equity in their homes.[36]

In response to this behaviour and the imbalances being created by it, the Governor acknowledged that the Reserve Bank was using monetary policy to attempt to reduce investment demand for housing. He commented, 'What has the Reserve Bank been doing about these growing imbalances and inflation pressures? We identified the issue several years ago and have increased the OCR eight times, the latest last week. Our intention has been to ensure mortgage rates rise so as to curb excess demand. In addition, we have spoken out frequently about the need for home owners to show care in increasing their borrowings and to increase and diversify their savings.'

In November 2006, the Reserve Bank's Financial Stability Report reported that households 'have an unusually high concentration of their wealth in housing, and debt-gearing and debt-servicing ratios are near record levels. In addition, a material proportion of loans to small-to-medium size enterprises are collateralised by residential property' (p. 4). The Bank suggested that 'while households have seen increases in debt servicing costs, economic conditions have been supportive, with low unemployment and strong wage growth' (p. 10). The Bank then proceeded to warn of the possible consequences to households which are carrying high levels of debt and are vulnerable to changes in their economic position (p. 11).

The Reserve Bank's May 2007 Financial Stability Report stated that the Bank's 'primary concerns lie with the effects of lending on household balance sheets, which are a major driver of financial system health' (p. 3). The report went on to provide a special feature on the history of house price adjustments in New Zealand and elsewhere, warning that this history showed that 'in many of the countries periods of strong house price growth were followed by sustained periods of falling real house prices' (pp. 7–8).

This cautionary sentiment changed once the global financial crisis hit in late 2007. The historical record, however, indicates that the Reserve Bank was fully aware of the macroeconomic consequences of the housing bubble, which continued to inflate from 2004 to 2007, and that it was aware too, that one of the main causes of this inflation was credit creation by banks. Yet, despite this awareness, the Bank held to the standard monetarist orthodoxy that the principal role of a central bank was to manage monetary policy in the pursuit of price stability.

2.3 An admission of error

By most accounts, this orthodoxy has failed. Nobel Laureate Joseph Stiglitz argued in the 2010 Adam Smith lecture to the European Economic Association:

> Standard macroeconomic models have failed, by all the most important tests of scientific theory. They did not predict that the financial crisis would happen; and when it did, they understated its effects. Monetary authorities allowed bubbles to grow and focused on keeping inflation low, partly because the standard models suggested that low inflation was necessary and almost sufficient for efficiency and growth. After the crisis broke, policymakers relying on the models floundered. Notwithstanding the diversity of macroeconomics, the sum of these failures points to the need for a fundamental re-examination of the models—and a reassertion of the lessons of modern general equilibrium theory that were seemingly forgotten in the years leading up to the crisis.

This judgment has been accepted by many other mainstream economists. For example, an international group of monetary economists[37] recommended 'that central banks should go beyond their traditional emphasis on low inflation to adopt an explicit goal of financial stability. Macroprudential tools[38] should be used alongside monetary policy in pursuit of that objective. Another group of leading economists known as the 'Group of Thirty' have gone further to develop macroprudential policies and tools.[39]

In a speech to the Canterbury Employers' Chamber of Commerce in early 2010, the Reserve Bank Governor argued that 20 years of using monetary policy to target inflation 'has done well on the price stability front, and has given central banks a lot of flexibility in helping steer the economy through turbulent waters'. The Governor also said that the Bank's pre-occupation with inflation and money supply had 'not guaranteed balanced growth or macroeconomic stability'.

Following this admission, the Reserve Bank confessed it was changing its policy approach. In a speech in May 2012, the Deputy Governor of the Reserve Bank admitted that 'we have "upped the game" on liquidity requirements for banks, and are doing the same with capital under the "Basel III" capital adequacy framework'. He also said:

> We need to be more active in offsetting the build up of macro-financial risks. We are developing macro-prudential policy tools for this purpose which will dovetail with our existing micro prudential framework. Such tools will not prevent credit cycles in the future, but should reduce the risk associated with them.[40]

As with other practice around the operation of central banks, New Zealand has proven to be an early adopter. The disappointment here is that it has taken a distorting housing bubble and the global financial crisis to make us aware of the need to abandon flawed monetarist orthodoxies.

However, no one responsible for clinging to this orthodoxy over the past 20 years has thought to answer for the considerable damage that this unchecked housing bubble has wreaked on the New Zealand economy over this period.

Juliet Blair in front of her Rautara St home in Orakei, Auckland, which sold at Auction for $846,000, $256,000 more that she paid for it a year earlier.

New Zealand Herald, 2 July 2012. Photography: Richard Robinson / New Zealand Herald

3. THE ECONOMICS OF NEW ZEALAND'S HOUSING BUBBLE

PROPOSAL THREE

That the housing bubble has seriously distorted households' balance sheets, raised foreign debt to unnecessary levels and reduced the ability of domestic capital markets to fund sustainable economic growth and development. Furthermore, existing policy frameworks create potential for further damage.

While successive governments deferred taxation of housing and while the Reserve Bank attempted just to talk down the housing market, New Zealand's housing bubble continued to grow. This growth not only saw house prices rise to record highs but also saw serious distortions develop in the New Zealand economy that will now most likely take a decade or more to correct. For the record, it is worth providing a catalogue of these distortions so the costs of this neglect by Government and indifference of the Reserve Bank can be seen more clearly. Such a catalogue is provided below and covers the past decade or so.

The overall trend of New Zealand's housing markets over the past decade has been one of continuous increase or growth from 2002 until late-2007, followed by a relatively mild shock and decline until mid-2009 and, since then, a modest recovery. At the time of the completion of this paper (August 2012) the housing market, especially in Auckland, was showing signs of heating up again on the back of very low levels of building with nominal interest rates at nearly 50-year lows. A summary of key housing market indicators over the past decade is provided in Table 1 to illustrate the patterns and extent of change of the past decade and as a basis for the following discussion.

3.1 Housing affordability

Between June 2002 and 2012, the New Zealand median house sale price doubled in nominal terms from $182,000 to $368,000, while the Auckland median price increased by 88% from $265,000 to $500,000 (see Figure 1). Most of this growth occurred during the period of March 2002 to June 2007. Since mid-2007, median sale prices in the Auckland housing market have risen in nominal terms by 11% which, against a background CPI inflation of 14% over this period, represents a real decline of around 3%. The housing market for the rest of New Zealand has been fairly static in nominal terms since 2007, rising by 6%, suggesting a real decline in value of around 8%.

Rents over the past decade have more or less kept pace with growth in wages and salaries, although they have risen by around 50% in nominal terms between 2002 and 2012 (see Figure 2). Rents in Auckland have been around 34% higher than those for New Zealand overall and have until recently also kept pace with wage and salary growth. During early 2012, rents in Auckland have risen at a faster rate than wage and salary growth, perhaps in response to the slow down in new house building in that region and tightening housing markets in more affluent suburbs.

Mortgage interest rates have fallen to the lowest nominal level in 47 years, although in real terms interest rates in mid-2012 were similar to what they were a decade before.[41] During the intervening decade, real interest rates on floating mortgages exceeded 8% in 2007, immediately before the beginning of the global financial crisis (see Figure 3).

Table 1: Key housing market indicators 2002–2012

Indicator	2002	2007	2012
House Prices			
Median house sale price (NZ) [A]	$186,000	$349,000	$368,125
Median house sale price (Auckland) [A]	$265,000	$450,000	$499,000
Years to purchase median house at average wage (NZ) [AB]	4.9	7.4	6.7
Years to purchase median house at average wage (Auckland) [AB]	6.8	10.0	8.9
Effective floating mortgage interest rate [C]	4.6%	7.0%	4.3%
Median rent on two-bedroom house (NZ) [D]	$208	$263	$300
Median rent on two-bedroom house (Auckland) [D]	$255	$320	$368
Hours of work to pay median rent on two-bedroom house (NZ) [DB]	16.5	18.2	17.9
Hours of work to pay median rent on two-bedroom house (Auckland) [DB]	18.6	20.6	19.9
Lower quartile house price to median rent ratio (NZ) (December 2001, 2006, 2011 figures) [C]	13.6	19.4	17.8
Construction sector PPI (Output) March 2002 = 1000 [B]	1000	1285	1457
Consumer Price Index (All Groups) March 2002 = 1000 [B]	1000	1134	1306
Housing Debt			
Total housing debt ($ billions) (March figures) [D]	72	141	174
Housing debt at % of GDP (March figures)	57%	82%	86%
Debt servicing as % of household disposable income (December 2001, 2006, 2011 figures) [D]	8.5%	12.9%	9.3%
Housing Supply			
Consents for new dwelling—Auckland (annual) [B]	12,277	6,781	4,197
Consents for new dwelling—Rest of NZ (annual) [B]	16,797	19,757	8,323

REFERENCES: A Real Estate Institute of NZ. B Statistics NZ. C Reserve Bank of NZ. D Department of Building & Housing

These historically low nominal interest rates have contributed to recent improvements in housing affordability—at least for owner-occupiers, whose interests are reflected in most affordability measures. Such measures indicate that although house sale prices remain historically high, the low interest rates have brought home loan affordability down to levels last seen in 2004 (see Figure 4).[42]

Interest rates can change abruptly and so can the affordability measures based on these. A less volatile affordability measure is a simple comparison of incomes and house prices (whether these house prices are measured as sale prices or rents). A comparison of house sale prices and average wages and salaries shows a consistent pattern of rapidly deteriorating affordability between 2002–2007, where the medium-price New Zealand house increased from five years of the average wage/salary in 2002, to almost eight years in 2007. After this trend, in 2008 and most of 2009, increasing incomes began to catch up to slowly falling house prices, and affordability began to improve.

Subsequently static wages and salaries and stabilising house prices have meant little further improvement in affordability, especially in Auckland (see Figure 5)

Rents as measured by wages typically received by low-paid workers have show a stable relationship for the entire decade to March 2012. Probably this is because rents need to be paid from current income and not debt (see Figure 6).

The fact that rents have not moved in line with house prices, while perhaps understandable, is a source for some concern for the future viability of the rental housing market—at least in some New Zealand regions. The point of adjustment between rapidly increasing house prices and only moderately increasing rents is that of yields on residential rental property investments. Such yields have never been great in comparison with other forms of investment, at least from a cash flow perspective. These yields deteriorated significantly from late-2003 to late-2006 and have since improved slightly. In 2002, the ratio of the lower quartile house price to medium rent was 14:1, but rose to 20:1 in mid-2007, falling back to 17:1 by the end of 2011 (see Figure 7).

3.2 Housing-related debt

The stories not told by these trends in affordability are those around household debt and vulnerable rental housing markets. In essence, this story is one where house prices have outstripped household incomes, making first-time home ownership and rental investment less viable. More recently, the crash in world capital markets has reduced interest rates to historically low levels, causing, in turn, renewed optimism in property markets, pushing houses prices even higher—especially in Auckland. Beneath this veneer of improving affordability

Figure 1: **Median house sales prices**

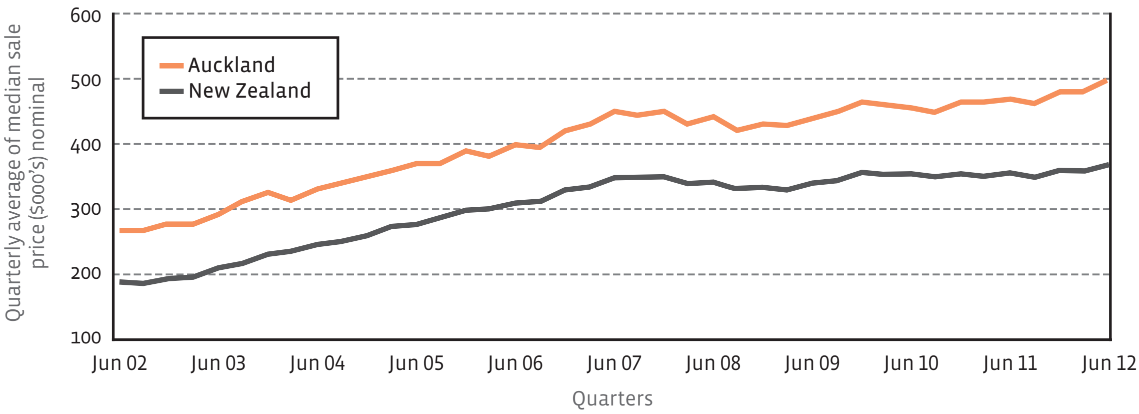


Figure 2: **Average rents**

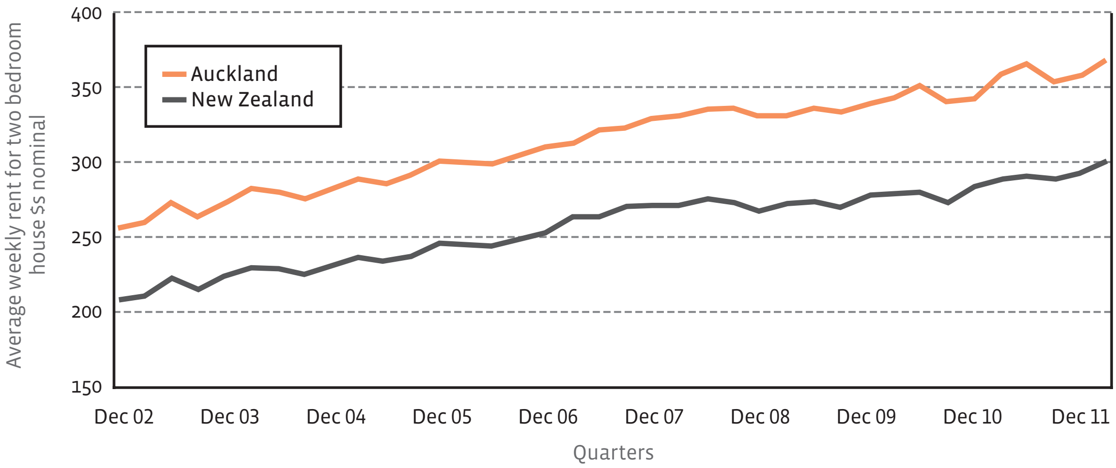
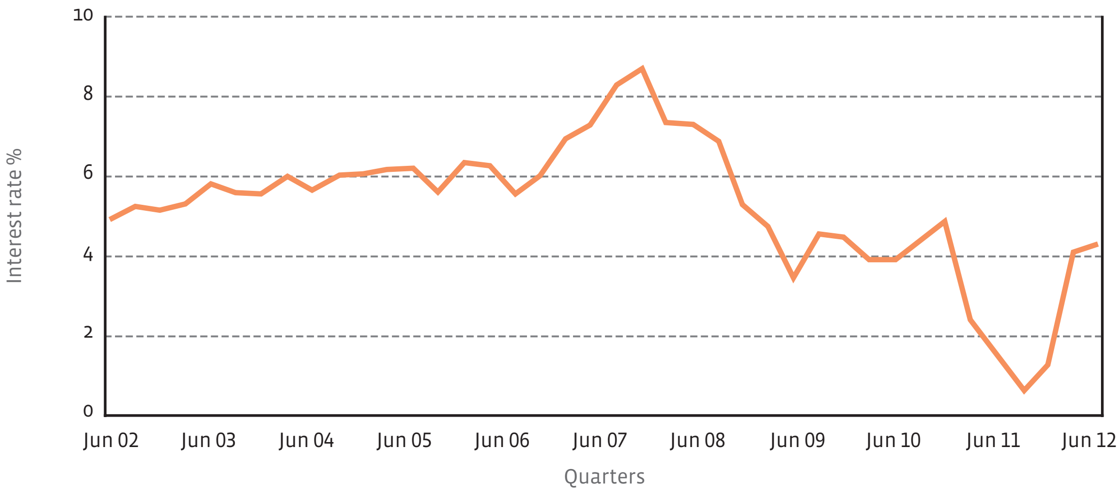


Figure 3: **Real interest rates**



lies an abyss of household debt—most of which has been borrowed from foreign sources. Furthermore, the fundamentals of the rental housing market scarcely make sense for new investment, causing an increasing shortage in some rental markets alongside sluggish investor interest and activity in new building.

Between early 2002 and early 2007, housing-related debt doubled in nominal terms from $75 billion to $150 billion. Since March 2007, this debt has grown a further $25 billion (see Figure 8). At the same time, housing-related debt grew by $100 billion, and New Zealand's foreign debt by $100 billion (from $150 billion to $250 billion). As a proportion of GDP, housing-related debt grew from around 58% in early 2002 to peak at over 90% in early 2010, falling slightly to 83% of GDP as New Zealand households saved more and borrowed less (see Figure 9).

Against household income, housing debt and the related debt servicing grew alarmingly between 2002 and 2008. It then subsided as households stopped borrowing so much and as nominal interest rates fell. Household debt as a proportion of household income rose from 108% in early 2002 to over 150% in late 2008, subsiding recently to around 143% in early 2012 (see Figure 10). To return to the level of indebtedness relative to income which New Zealand households had in 2002, these households would need to repay over $40 billion. The proportion of household income likely to have been spent on debt servicing similarly rose from less than 9% in early 2002 to over 14% in late 2008. On the back of lower interest rates, this fell back to just over 9% in mid 2012—hence the view that housing has become more affordable (see Figure 11).

3.3 Housing supply

Rates of new house building have followed a similar pattern of strong activity between 2002 and 2007, a sharp collapse during 2008 and stagnation since. This pattern is particularly strong in Auckland where the number of new dwellings per quarter averaged 2360 from 2002–2007 and fell 60% to around 1000 dwellings per quarter since the beginning of 2008. The rest of New Zealand (excluding Auckland) saw a 35% decline in new house building over the same period from over 4500 dwellings per quarter between 2002 and 2007 to just over 2900 dwellings per quarter since (see Figure 12). Because half of New Zealand's population growth is occurring in Auckland, this building slowdown is having the greatest impact in that region. Auckland's population growth has been between 21,000 and 23,000 annually over the past decade which requires around 8000 to 10,000 new dwellings each year to keep up. Since the slowdown in building at the end of 2007, the shortfall in new houses in Auckland is likely to be over 15,000 dwellings, although this estimate depends on a variety of assumptions.[43]

Figure 4: **Roost Home Loan affordability index**

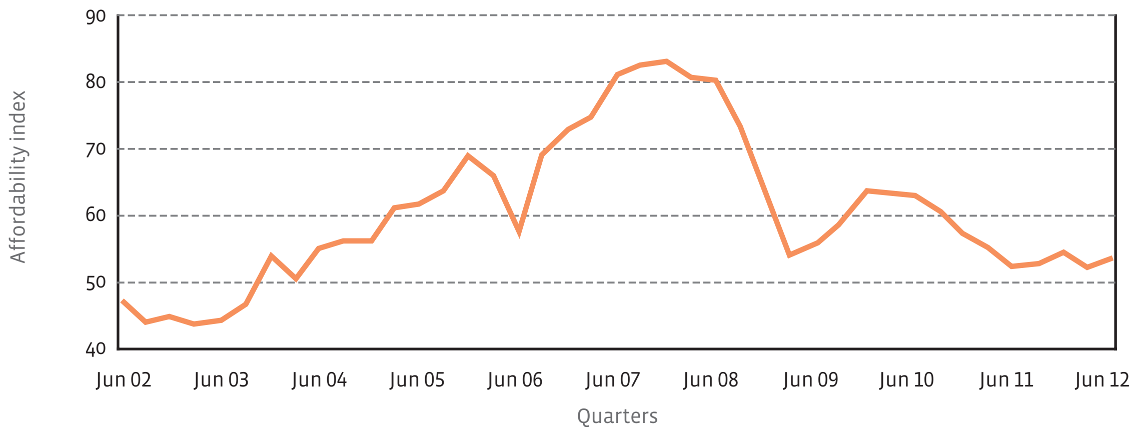


Figure 5: **Years to purchase median priced house at average weekly wage**

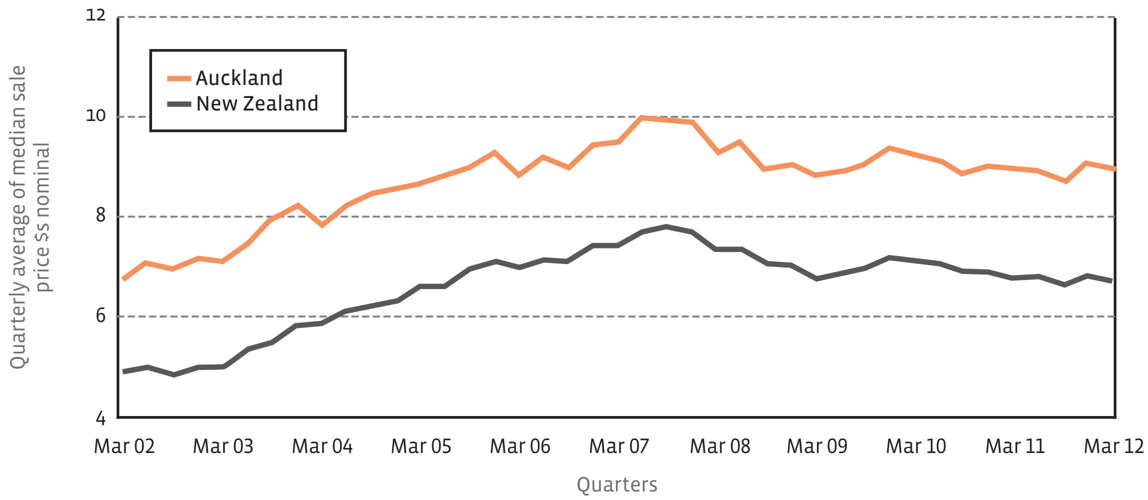
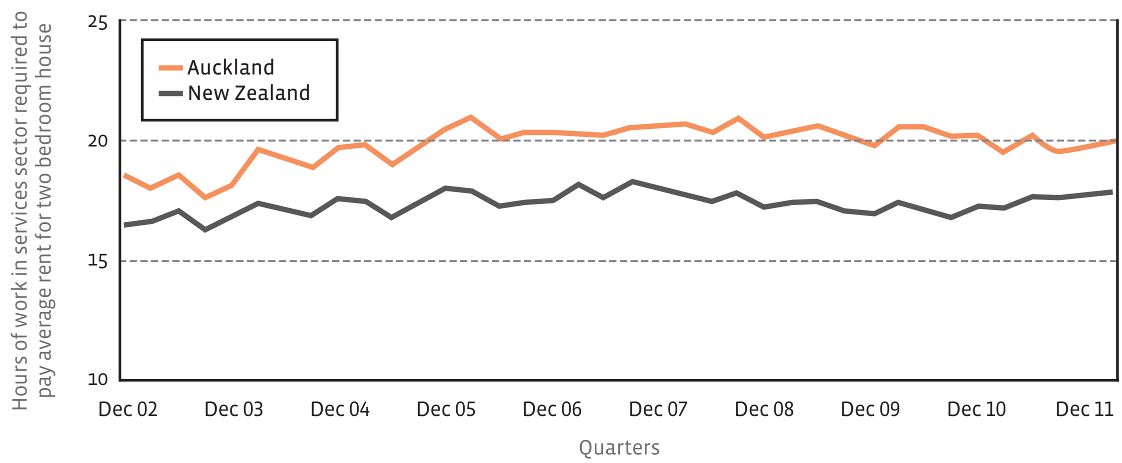


Figure 6: **Rent affordability**



The poor productivity of the construction sector and/or the lack of competition in some parts of it are well demonstrated by rapid cost and price increases during the boom years of 2002 to 2007 as well as by more modest increases since 2008.[44] Over the decade to 2012, cost inflation in construction sector inputs was 80% higher than that for the general inflation of the CPI, while it was nearly 50% higher for construction sector outputs (see Figure 13). Between 65%–75% of this cost inflation occurred between 2002–2007. By comparison, since mid-2010 cost inflation in the construction sector has run behind general price inflation as the construction industry faces tougher times.

3.4 Household wealth

New Zealanders' propensity toward debt-financed housing investment and the inability of authorities to remove distortions which feed this preoccupation now shows on household balance sheets. While on paper New Zealand households have plenty of wealth, their balance sheets are dominated by housing assets and housing-related debt. Furthermore, this dominance of housing has increased over the past decade. In 2002, housing made up 89% of New Zealand households' wealth, up 74% from 10 years previously. However, by 2008, the proportion had risen to nearly 100%. It has since fallen to just under 97% (see Figure 14).

The reason for this dominance is the extent of housing-related borrowing (or at least debt secured against housing assets) relative to savings and investments in financial assets such as shares and bonds. In 2002, households' debts totalled an estimated $88 billion against financial assets of over $128 billion, meaning the net worth of households' financial assets was $40 billion.

By 2008, household debt had more than doubled to $177 billion, while the value of financial assets had risen to $189 billion, providing a net $12 billion in financial assets. Since 2008, some households have saved heavily and accumulated a further $30 billion in financial assets (to the end of 2011); meanwhile, other households borrowed a further $10 billion, meaning the net position of all households improved to $32 billion in financial assets (see Figure 15). This $32 billion compares with an estimated $615 billion tied up in New Zealand houses. In other words, nearly $19 of every $20 of New Zealanders' wealth is held in housing.

The extent of New Zealanders' investment in housing limits domestic investment in other areas of the economy such as the stock market. By comparison with most OECD countries and many East Asian countries, the New Zealand stock market is small relative to its GDP. For example, the World Bank in 2009 reported that New Zealand's stock market capitalisation was 53% of GDP, compared with an average capitalisation of 94% for East Asian countries and 84% for OECD countries

Figure 7: **Lower quartile house price to median rent**

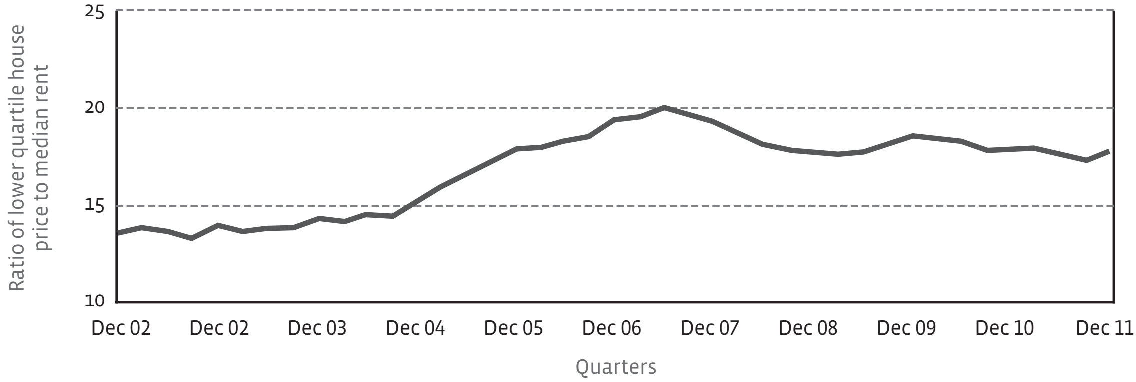


Figure 8: **Housing debt and foreign debt**

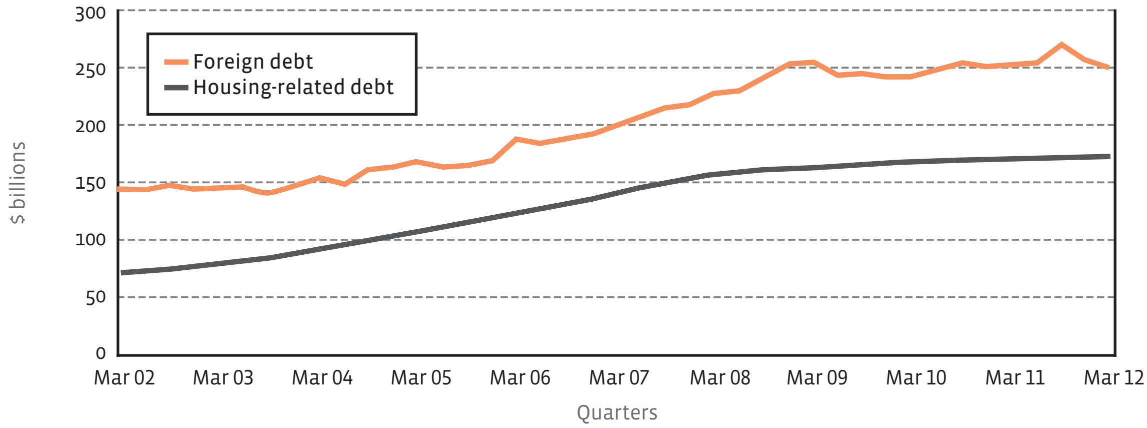
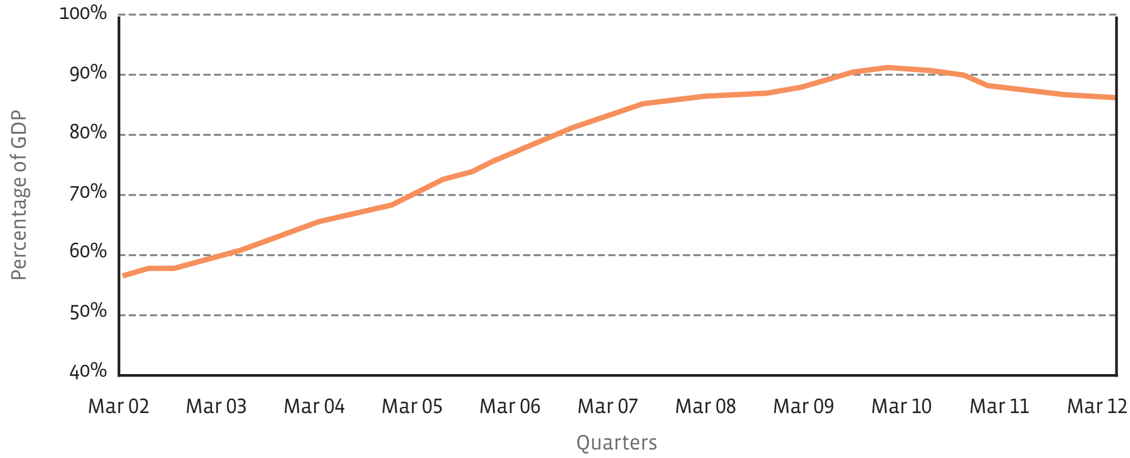


Figure 9: **Housing debt as % of GDP**



overall.[45] While Reserve Bank data reports different figures for New Zealand, it does, however, suggest that the stock market as a percentage of GDP remained relatively stable during the housing market boom of 2002–2007, but that this rate was one-third lower than for the previous decade.[46]

3.5 In summary

The housing boom of 2002–2007 has distorted the New Zealand economy and left it less capable of creating sustainable growth in exports and other tradable goods and services. Perhaps the biggest distortion created has been in household balance sheets. Households are now more reliant on housing as the basis of their wealth than 10 years ago. Between 2002–2012, housing-related debt grew by $100 billion, and while recent interest rate falls have made the burden of servicing this debt more tolerable to households, these low interest rates are unprecedented in recent history and may disappear once the global economy begins to recover and competition for savings and capital returns.

A second distortion has emerged in the use of foreign capital and its investment in relatively unproductive housing, rather than in emergent technology sectors or in adding value to traditional export commodities. The $100 billion increase in housing debt over the past decade neatly matches the additional $100 billion New Zealand owes to the rest of the world. In effect, New Zealanders, mainly through the agency of Australian-owned banks, have borrowed heavily from foreigners to buy bigger and more expensive houses.

The real challenges may perhaps lie in the immediate future and revolve around how modest-income households are going to secure housing when house prices are beginning to rise again. The adjustment that was anticipated with the recession of 2008/09, whereby house prices would move back to their long-term relationship with household incomes, has not occurred. The imbalances in the housing market and in the broader economy that existed in 2008 have neither disappeared nor been modified significantly by the passage of time and through inflation and income growth. Modest-income households remain as exposed to the uncertainties of interest rate and rent increases now as they did in 2008 and there appears to be no considered response in place from either Government or the Reserve Bank.

"Auckland's population growth has been between 21,000 and 23,000 annually over the past decade which requires around 8,000 to 10,000 new dwellings each year to keep up. Since the slowdown in building at the end of 2007, the shortfall in new houses in Auckland is likely to be over 15,000 dwellings"

Figure 10: **Disposable income-to-debt ratio**

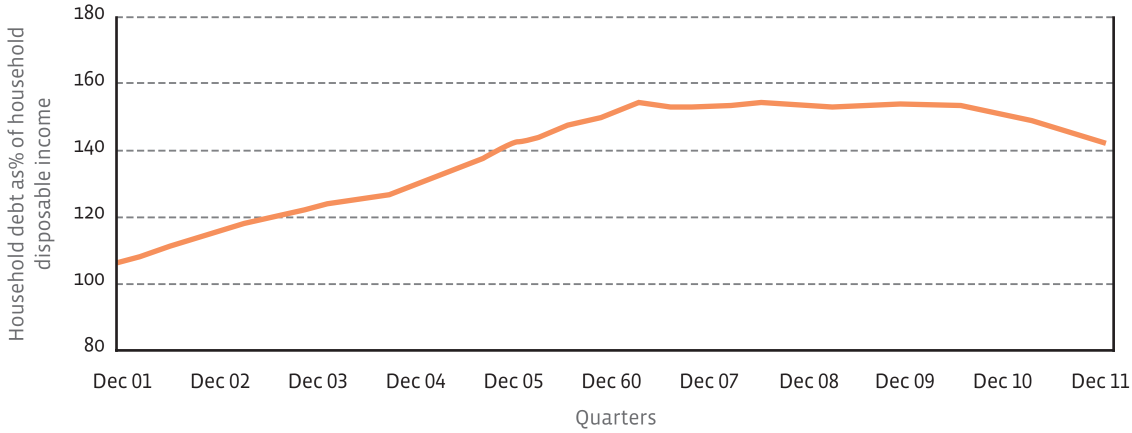


Figure 11: **Household debt servicing as % of household disposable income**

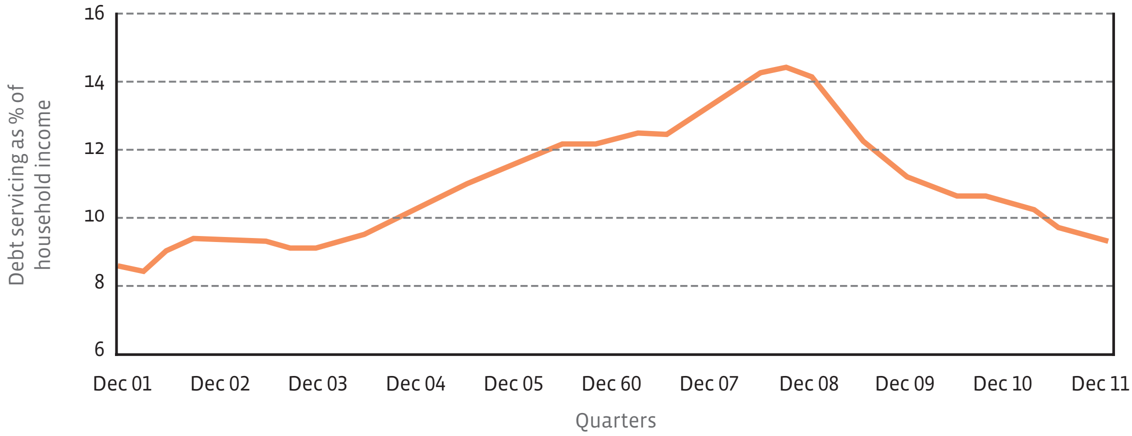


Figure 12: **Consents for new dwellings**

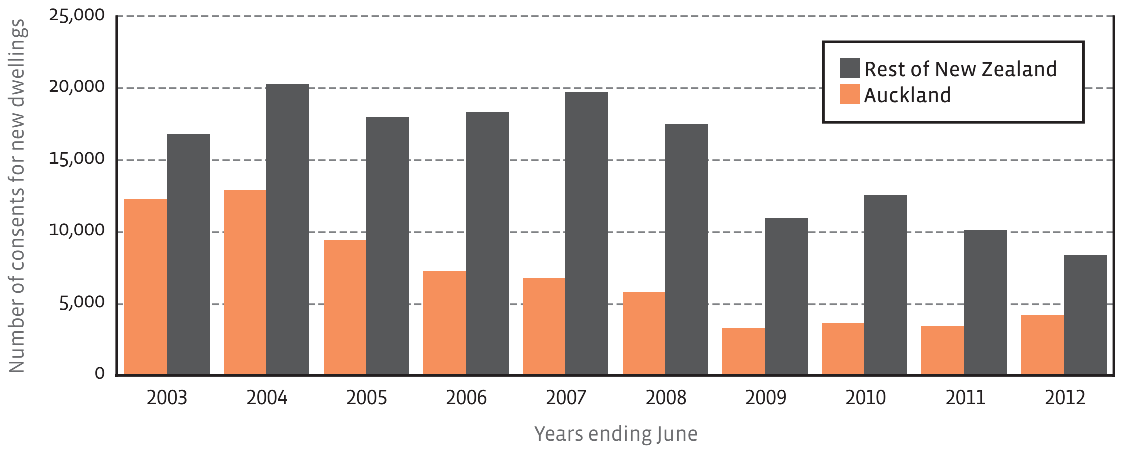


Figure 13: Comparison of construction sector in inflation with CPI

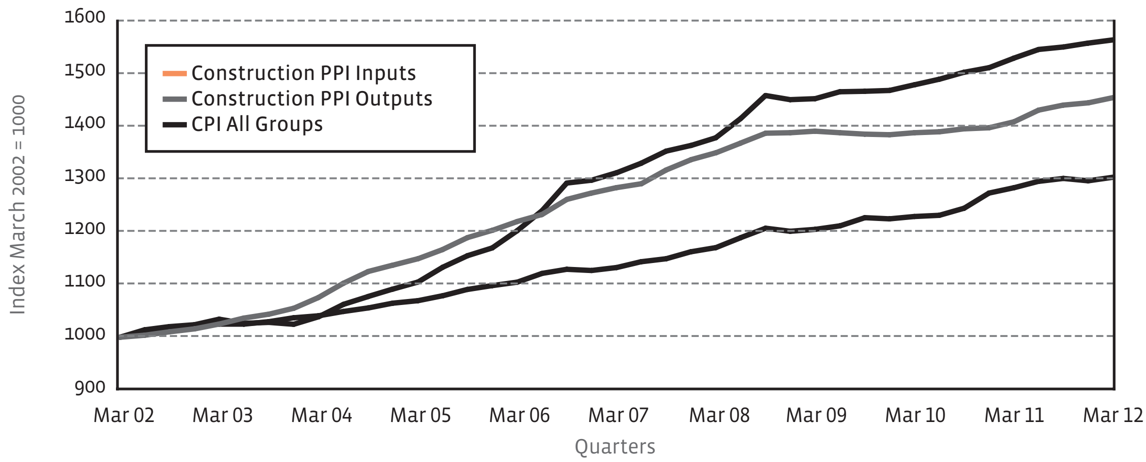
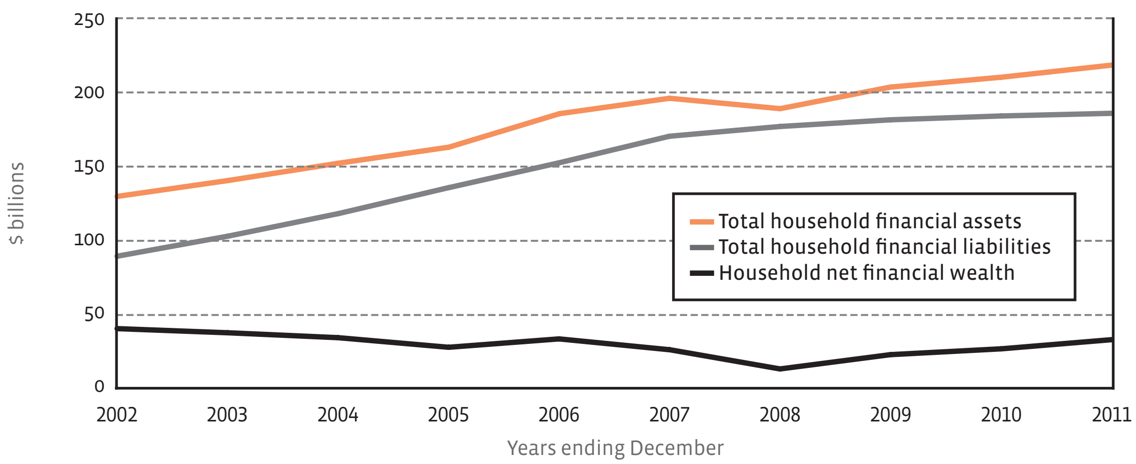


Figure 14: Housing value as share of household wealth

Figure 15: Households' financial position



Moni Mataio inside his unit at the council-owned Otara Court. Residents worried that changes to legislation could see accommodation such as theirs privatised in future.

The Aucklander, 26 March 2010. Photography: Amos Chapple / The Aucklander

4. THE BRAVE NEW NEOLIBERAL WORLD

PROPOSAL FOUR

That without a primary focus on reducing inequality, little progress will be made in addressing housing shortages in Auckland or elsewhere. A first step in bringing about this new focus is to reconsider the role which existing institutions and policy frameworks play in creating and maintaining inequality.

4.1 New Zealand's neoliberal history

Neoliberalism formally came to New Zealand with the election of the fourth Labour Government in 1984 and has remained the political ideology of every government since. Immediately following the 1984 election and in the face of a foreign exchange crisis, the David Lange Government (1984–1990) floated the exchange rate and dismantled foreign exchange controls. Following this, that administration engaged in a number of un-mandated changes to the operation of the public sector through the State Owned Enterprises Act 1986, to the operation of monetary policy through the Reserve Bank Act 1989, and also to the privatization of various publically-owned enterprises and particularly Telecom in 1990.[47]

The National Government of Jim Bolger (1990–1993) as well as the National Party led coalition Governments of Bolger and Jenny Shipley (1993–1999), continued the neoliberal reforms with further privatisation of State assets, cuts to welfare benefits in 1991 and corporatisation of public services—including health and public housing. Changes in housing during this period included the sell-off of the State's housing mortgage portfolio from the end of 1991 onwards,[48] the corporatisation of the State housing agency into Housing New Zealand Ltd,[49] the introduction of market rents and a shift to the delivery of housing assistance through the Accommodation Supplement.[50]

It can be argued that the fifth Labour Government of Helen Clark (1999–2008) abandoned some of the more doctrinaire aspects of the neoliberalism espoused by the previous National and Labour governments and specifically by Roger Douglas, Ruth Richardson and Simon Upton. Labour Government Social Development Minister Steve Maharey openly adopted a new brand of social democracy known as the 'Third Way' which had been developed by British sociologist and political advisor Anthony Giddens.[51] However, there is some doubt that Maharey's enthusiasm for the Third Way was shared by many other of his Cabinet colleagues, and there were significant gaps between the Third Way rhetoric and the policy programme of the Labour Coalition Government.[52] That Government adopted some fairly typical social-democratic programmes or approaches including the reintroduction of income-related rents for State house tenants,[53] the renationalisation of distressed previously privatised State assets such as Air New Zealand and the railways and the establishment of the New Zealand Superannuation Fund. However, in other ways Clark's Labour Coalition Government continued in the neoliberal footsteps of its predecessors, including continued reliance on the Reserve Bank to maintain a monetarist monetary policy and failures to reinstate the 1991 benefit cuts.[54]

More recently, the National-led Coalition Government of John Key (2008–present) has reasserted its neoliberalism with a relatively conservative fiscal stance, the imminent return of privatisation. including of schools and prisons, as well as the greater emphasis on work-focused welfare.

4.2 Defining neoliberalism

Neoliberalism is a modern-day descendant of classical liberalism—a political philosophy developed during the 18th century by such people as John Locke and John Stuart Mills. A basic tenet of classical liberalism is that of freedom or liberty, including the freedoms of association, beliefs and property ownership. Neoliberalism is an extension of such ideas, although it has an economic focus and can also go by the name of economic liberalism. This economic focus means there is no single theory or ideology of neoliberalism, but rather a body of connected economic theories that are or have been persuasive and pervasive since the 1980s. These theories include supply side economics, monetarism, public choice theory and agency theory.[55]

> Neoliberalism is in the first instance a theory of political economic practices that proposes that human wellbeing can best be advanced by liberating individual entrepreneurial freedoms and skills within an institutional framework characterized by strong private property rights, free markets and free trade. The role of the state is to create and preserve an institutional framework appropriate to such practices. The state has to guarantee, for example, the quality and integrity of money. It must also set up those military, defence, police and legal structures and functions required to secure private property rights and to guarantee, by force if need be, the proper functioning of markets. Furthermore, if markets do not exist (in areas such as land, water, education, health care, social security, or environmental pollution) then they must be created, by state action if necessary. But beyond these tasks the state should not venture. State interventions in markets (once created) must be kept to a bare minimum because, according to the theory, the state cannot possible possess enough information to second guess market signals (prices)

> and because powerful interest groups will inevitably distort and bias state interventions (particularly in democracies) for their own benefit.[56]
>
> In so far as neoliberalism values market exchange as 'an ethic in itself, capable of acting as a guide to all human action and substituting all other previously held ethical beliefs' it emphasizes the significance of contractual relations in the marketplace. It holds that the social good will be maximized by maximizing the reach and frequency of market transactions, and it seeks to bring all human action into the domain of the market.[57]
>
> [Neoliberalism] typically involves the selective transfer of state capabilities upwards, downwards, and sideways, as intervention is rescaled in the hope of securing conditions for a smoothly operating world market and to promote supply-side competitiveness on various scales above and below the national level. Urban and regional government and growth coalitions may gain a key role as strategic partners of business in this changed context. A shift also occurs from government to market forces and partnership-based forms of governance, reflecting the neoliberal belief in the probability, if not inevitability, of state failure.[58]
>
> As a project to reorganise civil society, neoliberalism is linked to a wider range of subjects than is typical of orthodox liberalism. It also tends to promote "community" (or a plurality of self-organizing communities) as a flanking compensatory mechanism for the inadequacies of the market mechanism. This is just another area where cities and city-regions acquire significance in the neoliberal project, since they are the major sites of civic initiative as well as the accumulating economic and social tensions associated with neoliberal projects.[59]

4.3 Neoliberalism and the local state

The various political perspectives and theoretical foundations of neoliberalism mean that it has had a comprehensive impact on urban governance and planning, and it seems especially so in Auckland. This impact is perhaps overlooked by those developing and deciding public policy in New Zealand, in part because their policy-making activity takes place in a narrowly technocratic framework defined by legislation such as the Resource Management Act, Local Government Act and the Public Finance Act. As discussed below, this legislation is framed by neoliberal values and practices, so the policies and programmes derived from it are consistent with the neoliberal paradigm. The dominance of this paradigm is perhaps unappreciated by those who work under it, who become captured by a 'bounded rationality' whereby problems are diagnosed in terms of the neoliberal paradigm when, in fact, this paradigm might be some or all of the problem.[60]

An example of such framing, as discussed below, is the linking of Auckland's housing affordability problems with the restrictive zoning policies of the former Auckland Regional Council.[61]

Neoliberalism is said to have had major impacts on both the practice and purpose of urban planning. In terms of purpose, this impact can be characterised by the shift from managerialism to entrepreneurialism; and in terms of practice, as a shift from government to governance.[62]

In Western countries, the first 30 years of the post-war era were dominated by the Fordist-Keynesian economic paradigm. The State played a central role economically throughout this era, especially so in New Zealand—in particular, using fiscal policy to moderate demand, and promoting full employment through a balanced monetary policy and the protection of domestic industry.[63] This era also saw a sustained expansion of the welfare state, including housing assistance programmes that supported homeownership and, to a lesser extent, the expansion of social housing. The strong role of the State was manifest through a State planning agency known as the Ministry of Works, which was responsible for planning and building national infrastructure. In New Zealand during this era, urban planning was dominated by land use planning and regulation, and through the provision of public infrastructure.

In New Zealand, town planning legislation was enacted in 1926, 1953 and 1977, but it was not until the 1970s that the intent of this legislation was taken serious by central or local government.[64] The growing relevance of planning from the late-1970s is attributed by Memon (1991) to 'greater competition and conflict between groups centred on the allocation and management of land and other resources' and to 'the planning process, seeking to articulate and resolve such conflicts and to promote community interests, in relation to national interests and those of particular developers' (p. 27). During this period, the Town and Country Planning Act 1977 was in place. This legislation had a clear managerialist focus, with the local State determining the 'wise use and management of the resources, and the direction and control of the development … in such a way as will most effectively promote and safeguard the health, safety, convenience, and the economic, cultural, social, and general welfare of the people.'[65] While there was often conflict between planning authorities and land owners over the legitimate extent of private property rights and public interventions, the underlying philosophy was one of a 'a place for everything and everything in its place'.

This philosophy of the State managing private property rights for the community's benefit came to an abrupt end with the birth and advance of the neoliberal project from the mid-1980s, although the idea of planning as management continued for some time. In the early 1980s, political or at least scientific concerns around sustainability began to emerge, perhaps as a consequence of growing awareness of the finiteness of fossil fuels, especially oil, and the possibility of human-induced climate change.[66] These concerns were reflected in a report in 1987 by the United Nations World Commission on Environment and Development entitled 'Our Common Future', also known as the Brundtland Report after the Commission's chairwoman Gro Brundtland. 'Our Common Future' called for embracing a new philosophy of development model known as "sustainable development", which the report defined as 'development that meets the needs of the present without compromising the ability of future generations to meet their own needs'.

This challenge of sustainable development was, perhaps cynically, sidestepped in the review of environmental legislation that preceded the enactment of the Resource Management Act (RMA) in 1991. The RMA is about the promotion of sustainable management, not sustainable development. The differences are subtle but significant. Memon and Glesson say:

> Significantly, the definition of sustainable management in the RMA falls short of giving precedence to environmental protection objectives over other objectives. The inclusion of such provisions in the RMA would have entailed constraining economic activity to ensure sustainability of biophysical systems. Any such presumption for environmental control, advocated by some environmental groups, was opposed by Treasury and developers as inconsistent with economic efficiency.

Importantly, the notion of social equity, which is a key concern of the Brundtland Report, has been deliberately avoided in the RMA's definition of sustainable management. In framing the RMA, the Government declared it was rejecting the Brundtland approach to sustainability on the ground that this embraced 'a very wide scope of matter including social inequities' and that it was 'inappropriate for legislation of this kind to include such goals'.[67]

Planning under the RMA became a set of policies and administrative frameworks through which the management of environmental effects or externalities is accomplished. Under the RMA, planning no longer has any social intent except that freedom '... which enables people and communities to provide for their social, economic and cultural wellbeing, and their health and safety'.[68] The RMA can be seen as a prototype of neoliberal environmental legislation that defines the limits of State intervention into private property rights, although it does not define the broader place of planning or, more importantly, the absence of planning in the neoliberal political economy. Such a placement is offered in Table 2.

While some neoliberal rhetoric advocates for a minimal role for the State, the actual practice of neoliberalism is both more complex and more pragmatic than this.[70] In particular, two phases or approaches to neoliberalism can be identified: the 'roll back' phase where the role of the State is reduced and many parts of the public sector dismantled or radically reconfigured; and the 'roll out' phase where new State institutions and roles are assembled.[71] In New Zealand, the 'roll back' phase included the shift from the 'direct and control' mentality of the Town and Country Planning acts to the management of environmental effects under the Resource Management Act. The 'roll out' phase is represented by the reinvention of urban planning as an entrepreneurial activity.[72]

The idea of planning as urban entrepreneurialism stems from the broader idea of globalisation and a global economy. For at least two decades, urban theorists have been talking of global cities and a hierarchy of global cities. John Friedmann and Sacha Sassen, in particular, pioneered thinking around global cities and the relationship between the global economy and the idea of cities as sites of economic growth and innovation.[73] Friedmann highlighted the idea of a hierarchy of cities, of primary and secondary cities in both 'core' or Western

Table 2: **Neoliberal policy settings and planning outcomes**[69]

POLICY SETTINGS	NEOLIBERAL CHARACTERISTICS	POSSIBLE PLANNING OUTCOMES
Role of government	Smaller government	Reduced central government planning capacity. Contracting out planning function.
Social policy	Minimal social policies as a buoyant free market economy should benefit all social groups	Areas not linked to the now more open free market economy become spaces of social exclusion
Planning regulations	Deregulation	Plans with fewer directives. Simplified planning regulations
Public-private relationships	Privatisation	Developer-led development
Taxes	Lower taxes	Less maintenance of existing public services. Limited provision of public services in growth areas. More private provision
Government-community relationships	Self-help	Emphasis on owner-occupied housing, private schools, private health insurance
Central-local government relationships	Downloading central government responsibilities	Local governments contract out selected services
Spacial focus	Place marketing	Large downtown projects built at the expense of government investment elsewhere. Planners as urban entrepreneurs

countries and 'semi-peripheral' or middle-income countries. Sassen's work focused on the global dominance of New York, London and Tokyo—which is not helpful in explaining the functional roles and future prospects of second-tier cities such as Sydney, or third-tier cities like Auckland. This work on second-tier cities was picked up by Ann Markussen and others, who looked at patterns of business and industry location to work out how and why firms choose to locate and relocate or remain where they are.[74] A slightly different strand of work is around the role of broadly-defined urban regional economies or polycentric metropolitan areas as the basis for economic competitiveness.[75] A further extension of this idea of regional economic identities is the concept of networks of cities, and that it is not the size or national importance of a city but the breadth and depth of their networks which gives them global relevance. The works of Manuel Castells and Peter Taylor are important here.[76]

Three compelling ideas emerge from the thinking and analysis of these urban theorists. The first is that cities are the primary sources of economic growth and innovation, especially in a world that is becoming increasingly urbanised. Secondly, the idea that space is being 're-territorialised' so that nation states are less relevant in a liberalised global economy, and that global and local scales are the relevant levels for economic decisions and actions.[77] Finally, there is the proposition that local leadership can make a difference to the economic fortunes of cities. It is these three ideas that drive the notion of urban entrepreneurship.[78]

The rise in local authorities' interest in urban entrepreneurism in Britain and the United States can be traced to the mid-1970s. Urban entrepreneurism emerged as a response to de-industrialisation, rising structural unemployment, the liberalisation of financial markets and capital controls, and to declining support by central government for local initiatives.[79]

In a two-decade survey of literature on neoliberal planning, Sager (2011) identifies four policy areas that can be positioned under the umbrella of urban entrepreneurialism:

- **City marketing and branding:** these are a 'means for achieving competitive advantage in order to increase inward investment and tourism, and also for achieving community development, reinforcing local identity and identification of the citizens with their city and activating all social forces to avoid social exclusion and unrest'. (p. 157)
- **Urban development to attract the so-called 'creative class'**[80] and so create a creative city in which 'creativity is a key concept … because of its ability to act as a catalyst in the cultural transition from "citizens" into "entrepreneurs"

> and "consumers" ... The creative class needs places for consumption, recreation and living. Cultural events, nightlife, downtown "playscapes" and artists' districts would be in demand ... Furthermore, housing the creative class requires a shift from working class quarters to hip, varied and good quality residential areas. The influx of the creative class stimulates gentrification'. (p. 158)

- **Economic development incentives** which normally take the form of tax incentives, interest or land subsidies and tax increment financing and which are intended to attract new investment into a city, often into urban areas that have been blighted by deindustrialisation or social disorder.[81]
- **Competitive bidding** where a quasi-market is established for the access to a public resource, such as a subsidy programme offered by central government or a franchise or licence to operate a commercial venture within the public domain. The bidding criteria often look to combine development and social need outcomes.[82]

This shift from 'planners as managers and regulators' to 'planners as urban entrepreneurs' does not present planners as all-knowing and all-doing, but rather reflects their pivotal role as facilitators within the urban development process and, in particular, their access to the resources and power of local government. This facilitating role is illustrative of the neoliberal inspired shift from government to governance—from the idea of the State, in its various local and national manifestations, as the source of authority and leadership, to the idea that leadership is more broadly found and that authority can usefully be shared.

Stoker defined government and governance in this manner:

> Anglo-American political theory uses the term 'government' to refer to the formal institutions of the state and their monopoly of legitimate coercive power. Government is characterized by its ability to make decisions and its capacity to enforce them. In particular government is understood to refer to the formal and institutional processes which operate at the level of nation state to maintain public order and facilitative collective action.
>
> Governance refers to the development of governing styles in which boundaries between public and private sectors have become blurred. The essence of governance is its focus on governing mechanisms which do not rest on recourse to the authority and sanctions of government. Governance is ultimately concerned with creating the conditions for ordered rule and collective action. The outputs of governance are not therefore different from those of government. It is rather a matter of a difference in processes.[83]

Widely accepted characteristics of governance have been identified as:[84]

- Governance is a set of institutions and actors which are drawn both from government and elsewhere.
- Boundaries and responsibilities for addressing social and economic issues are blurred.
- There is a 'power dependence' between the agencies involved in any collective action.
- Governance is represented by an autonomous self-governing set of actors or what Jessop refers to as 'heterarchy'.[85]
- The capacity to achieve policy goals does not rest entirely with the power and authority of government.

The difference between government and governance may be seen quite benignly as simply a different and more inclusive organisational process than conventional forms of management and control by the State. As with many aspects of neoliberalism, the practice can vary considerably from country to country, so it would be naïve to accept this benign interpretation without some closer scrutiny.

A problem with this apparently more inclusive idea of governance is who gets included and who gets excluded. While the idea of governance can be based on ambitions to broaden democratic processes, the neoliberal practice of governance often ignores such ambitions.[86] This can, of course, be witnessed in recent reforms of local government in Auckland where most of the regions assets and budgets are controlled by unelected boards appointed to council-controlled organisations.[87] There is within the neoliberal practice of governance a clever blurring of the boundaries between community and business with, for example, interchangeable references to the third parties, the third sector, and the association of the private sector and non-governmental organisations as equivalents.[88]

There is a credible and extended argument that neoliberalism is not a monolithic political ideology, but is instead contingent and contested and so dependent for its form on local circumstances such as the distribution of political power, institutional forms and history.[89] If this is the case, the study of the local neoliberal state in a place such as Auckland is more an empirical exercise than a theoretical one. This is not to say that the extensive theorising around neoliberalism is without value, because such theorising can direct an empirical study toward the features or factors which might be expected to emerge in a neoliberal local state. For example, from this theorising the following events or developments might be expected to emerge in a neoliberal local state:

- **Declining democratic practice** such as falling rates of participation in elections and other forms of interaction between the State and citizens.
- **Declining democratic control** of public assets, either as a result of privatisation or of the management of public assets by non-elected boards, as discussed above.
- **Emergence of new governance and ownership forms** to manage public projects and assets such as public-private partnerships, BOOT (Build, Own, Operate and Transfer) schemes or joint ventures.[90]
- **Gentrification** of desirable areas by the middle class, perhaps under the guise of urban redevelopment or in drives to achieve greater social mix in desirable areas occupied by social housing estates.[91]
- **Social polarisation** across neighbourhoods with, for example, poorer groups becoming more concentrated into certain neighbourhoods and so having less access to social or collective goods and services and greater exposure to social risks and social hazards.[92]

As noted in the footnote discussion and its cited references, there is ample evidence that these events or developments exist already in Auckland.

Concerned residents pack the St James Hall in Kepa Road, Orakei, East Auckland to gain support against a proposed 400-unit apartment block to be built in Orakei Road.

New Zealand Herald, 19 January 2007. Photography: Paul Estcourt / New Zealand Herald

5. THE POLITICAL ECONOMY OF AFFORDABLE HOUSING

PROPOSAL FIVE

That greater public support for public spending on social and affordable housing requires a radical rethink of how such housing is funded, initiated and developed in order to address the marginalised position which these forms of housing occupy politically.[93]

In the early 1980s, Jim Kemeny, a British sociologist who was at the time based in Australia, published a work focusing on the politics and sociology of housing. Amongst other things, this work considered the ideological role of homeownership in a society such as Australia and the place of housing in the structuring of welfare. Because of the Australian focus of much of this work and because of the similarities in the political culture and housing sphere in Australia and New Zealand, Kemeny's work is useful in providing a framework to view the place of housing in New Zealand's political culture and more especially for the place of housing in our welfare state.

Kemeny's work offers three insights into how housing tenure influences social structures, urban form and a country's retirement income policies. While this work is dated and the insights offered might now be considered as hindsight rather than foresight, it still provides us with a way of seeing important present-day questions around inequality and social polarisation, as well as those around Auckland's attempts at urban intensification ahead of sprawl, and the viability of our superannuation policies.

5.1 Ideology and home ownership

Kemeny argued that an ideology of homeownership has developed in Australia around such ideas as a property-owning democracy and the representation of such ownership as the 'Australian Dream'.[94] The parallels with New Zealand's experience are exact, with an ideological shift to homeownership from 1950 onward and with characterisation of this as the 'Kiwi Dream'. More recently, these ideas have been reflected in such references as the National Party's 2008 housing policy pamphlet titled 'Helping Restore the Kiwi Dream' and the then Labour Party's Minister of Housing's 2008 speech titled 'Home Ownership—Protecting the Kiwi Dream'.[95] Around this time, the New Zealand Institute also promoted homeownership policies through its advocacy of asset-based welfare.[96]

This ideological preference for home ownership, Kemeny argues, was witnessed in part by State sponsorship of home ownership through extensive subsidy programmes. These were paralleled in New Zealand by the returned servicemen's resettlement loans, capitalisation of the Family Benefit and 3% and 5% State

Advances loans, as well as by relatively weak tenure security for tenants. Kemeny puts the relative insecurity of rental tenure down to amateur small-scale landlordism and the absence of long-term institutional rental housing investors. These investment characteristics make any rental housing investment somewhat contingent—and even precarious—and so make it difficult to introduce more tenant favourable tenancy legislation. This is the situation in New Zealand as well, where nearly two-thirds of landlords own just one or two rental properties and where legislation to regulate residential tenancies was not enacted until 1986.[97]

This ideological preference for homeownership and the lack of tenure security for tenants mean that there is a sharp division between owner-occupiers and tenants in terms of political importance and economic position. In New Zealand, around two-thirds of households are owner-occupiers and these households tend to be wealthier, to have higher incomes, to be older and to be less mobile. As a consequence, it is the interests of owner-occupiers which dominate both central government politics (around concern for monetary policy and interest rates) and local government politics (around concern for providing services to property and not people and shifting revenue from rates to user charges). The media also reflect this preoccupation, with a tendency to report house sale prices rather than rents, numbers of mortgagee sales rather than numbers of tenant evictions and housing affordability measures based on house buying rather than renting (see the Roost Home Loan Affordability Report and Massey University's Home Affordability Report).

5.2 Housing tenure and urban form

The second insight that Kemeny offers us is around the possible connection between housing tenure and urban form. In a comparison of Australia and Sweden housing tenure and urban form, Kemeny makes the observation that Swedes have tended to live in flats which are either cooperatively owned or rented from a not-for-profit landlord, while Australians either own houses or rent privately-owned houses.[98] Kemeny suggests this difference in tenure leads to quite different lifestyle choices around where people choose to live, the mix of private and public space they have around them, and how they allocate their lifetime earnings to paying for their housing. From these suggestions, Kemeny contends that there is a link between more densely-built urban environments that make more use of public facilities (such as space and transport) and which are tenured through some form of corporately-owned rental housing, and less densely built suburban environments that are characterised by individual ownership with greater use of private space and private transport.

While Kemeny's observations are dated and his claims may be seen to be circumstantial, there is some value in considering the basis of his argument around the link between tenure, lifestyle and urban form. The value in such a consideration for Auckland comes in the desire, by some at least, to develop a more densely-settled urban form that makes greater use of public transport. It may be the case, for example, that one of the best ways to encourage higher-density housing is to radically rethink the way housing is developed and owned. Such a rethink may involve a possible move away from privately-initiated development and small-scale private ownership through highly-disaggregated ownership models such as unit titles or strata titles, to publicly-initiated development and more collective or corporate ownership models, such as community-based or cooperative or private company-based approaches.

5.3 The Really Big Trade

Kemeny's third insight is around the possible relationship between the historic housing tenure preferences made by governments in their housing policies and the type of superannuation or retirement income programme they also have elected to build. Kemeny refers to this relationship as the 'Really Big Trade Off'.[99] His thesis is that:

> … in societies with low public retirement pensions and poor public welfare provision for the elderly, households are forced to make private provision for their old age. That is, they are forced to devote resources already in early adulthood to ensure levels of private savings so that personal capital can be accumulated to secure old age … There are many ways of privately funding old age, such as private pension schemes and building up a nest egg in the form of either a savings account or stock market share. Another is that of buying into home ownership in the expectation of having low housing costs in old age to eke out the public pensions. Some may even hope that trading down to a cheaper dwelling in old age will release enough savings both to supplement meagre pensions and to pay for private care in the home for as long as possible. There is also a financial industry around remortgaging the home in old age in order to stave off poverty and ensure at least acceptable levels of private care.

The basis of Kemeny's thesis was therefore that societies made a trade off between having high rates home ownership and generously funded public pension programmes.

Kemeny developed and tested this thesis in late 1970s based on comparisons of eight OECD countries:

- Sweden, The Netherlands and West Germany with low home ownership rates
- United Kingdom and France with average ownership rates
- United States, Canada and Australia with high ownership rates.

Kemeny's thesis has been re-examined at least three times—by Frank Castles in 1998, Kemeny himself in 2005 and by Mary-Ann Stamso in 2010.

Stamso concludes that 'home ownership seems to play a significant role in the welfare state. The data and the analysis do not posit a causal relationship. Homeowner countries such as United States, Canada, Australia, Ireland and New Zealand tend to have lower social public expenditures, while countries with a low rate of home ownership like Sweden, Demark, Germany, Austria and the Netherlands tend to have high public social expenditures' (p. 73). This relationship is illustrated in Figure 16, which is reproduced from Stamso's work. Stamso also identifies that income inequality increased with rates of home ownership and that, outside of the southern European counties, there was a trade off between public spending on pensions and home ownership rates (in 2001 at least). Castles also confirmed this pension-spend to home-ownership relationship between 1960–1990 but suggested that this relationship was fading (p. 11).

Figure 16: Comparison of public social expenditures and home ownership rates: 2001

This absence of a provable causal link between rates of home ownership and public spending on welfare, and on pensions in particular, is supported by Castles and accepted by Kemeny in his 2005 work. There is evidence of a relationship between the two social outcomes but it remains difficult to prove which way the causality runs, if it runs at all. This is probably to be expected given the complexity around housing markets and housing policy on one hand, and incomes and tax policies on the other. On top of this complexity is the added complication that personal decisions around retirement savings are made over the course of a working life, and around opportunities and expectations.

The reason southern European countries were outliers in Stamso's analysis (see Figure 16) is that while these countries had high rates of home ownership, they also had generous welfare systems. The present European sovereign debt crisis has shown this generosity was not sustainable. As well, the collapse of mortgage markets in the United States and United Kingdom may lead to declining rates of home ownership in those countries. It seems likely that settings around housing tenure and welfare provision will change abruptly over the next five to 10 years, making it even more difficult to determine the relationship between the two policy areas.

Regardless of the future, we cannot quickly escape our past, especially around questions of housing-related debt, household wealth and the fiscal cost of retirement policies. This is because of the sheer scale of these questions in dollar terms and because they are embedded in our economic settings and political expectations. As discussed, New Zealand's housing related debt is nearly 90% of GDP, and over 90% of New Zealand households' wealth is held in housing. Against this heavy bias toward housing ownership in our wealth, New Zealand has a fragile public retirement income programme that is right now, quite predictably, experiencing a cost blow out.[100]

It is speculative to say that past New Zealand governments, and New Zealanders as a society, have made a conscious and deliberate choice to promote home ownership ahead of a securely funded and generous retirement pension scheme. As shown in the chronology offered in Figure 17, the evolution of retirement income policy and of housing policy shows no explicit links where such trade offs have been made or even considered. Rather, they have developed apparently independently and, for the most part, without any ideological or philosophical basis, but rather on pragmatic grounds and even from popularist motivations.

Probably the two critical points in this chronology are 1950, with the introduction of home ownership-focused policies; and 1975, with the abandonment of a compulsory earner contribution superannuation scheme and its replacement with a tax-funded 'pay as you go' programme. Although these changes were introduced by different prime ministers, it is feasible that the same group of people benefited from and perhaps voted for these changes. For example, an aspirational middle class 25-year-old in 1950 would feasibly support a political party offering to assist him into home ownership. Twenty-five years later he is likely to support a political party (the same one in this case) which offered him a generous retirement scheme in 10 years' time to which he would contribute little. As with Kemeny's thesis, even though these two critical events may be related by the self interest of the same voters over a 25-year period, it is by no means proven that the high rates of home ownership achieved by 1975 contributed to the political popularity of a retirement income scheme which will probably not prove to be sustainable and is certainly unfair in intergenerational terms. It was, however, the case that there was not a lot of political pressure for a more generous and viable pension scheme prior to 1970, so it is feasible the home ownership status of the majority of voters may have mediated this lack of interest.[101]

Even if New Zealanders did make the 'really big trade off', consciously or unconsciously, the circumstances of the trade off have come unravelled over the past two decades. This has occurred, in part, with the abandonment of home ownership-focused housing programmes from 1991 onward. It is also associated with rising inequality which can be traced back to the late 1980s and the job losses brought about by massive restructuring of State enterprises and the dismantling of tariff barriers.[102] This unravelling has been helped along by the foreseeable retirement of the Baby Boomers from 2011, which has unfortunately coincided with a recession and potentially a period of significant economic adjustment.

The 'really big trade off' has probably run its course, and countries such as New Zealand now face a future not only without high rates of home ownership but also without the savings in place to sustain a viable and generous retirement income programme. It seems likely that over the next two decades the generosity of the current tax-funded New Zealand Superannuation scheme will come under pressure because of the static working-age population, and perhaps because of competition for this population's skills from other Western countries with similar demographic imbalances. As could always be expected, not every New Zealander now makes it into the ranks of debt-free home ownership before they reach retirement, and this group is likely to grow as proportion of each retiring age cohort as younger baby boomers reach retirement. Consequently, the value of the strategy of using home ownership as a buffer against poverty in old age begins to wear thin.

5.4 New Zealand's recent housing history

Figure 17 characterises New Zealand's post-WWII housing history into three phases. The first phase, of the five years immediately following WWII, saw the Labour Government continue with its construction of social rental housing. The second phase went from 1950 through to around 1990 when most Government effort went into supporting and expanding opportunities for home ownership. The third phase from 1990 to the present is characterised in Figure 17 as the era of 'Private Landlordism', although it was ostensibly launched by those responsible as a tenure-neutral housing policy—one which left the choice of tenure to the consumer.[103] This last period can justifiably be defined as the era of 'Private Landlordism' because it was this form of tenure and housing provision which expanded rapidly. Figure 18 shows changes in housing tenure between 1946 and 2006 which, to some extent, illustrate this changing emphasis.

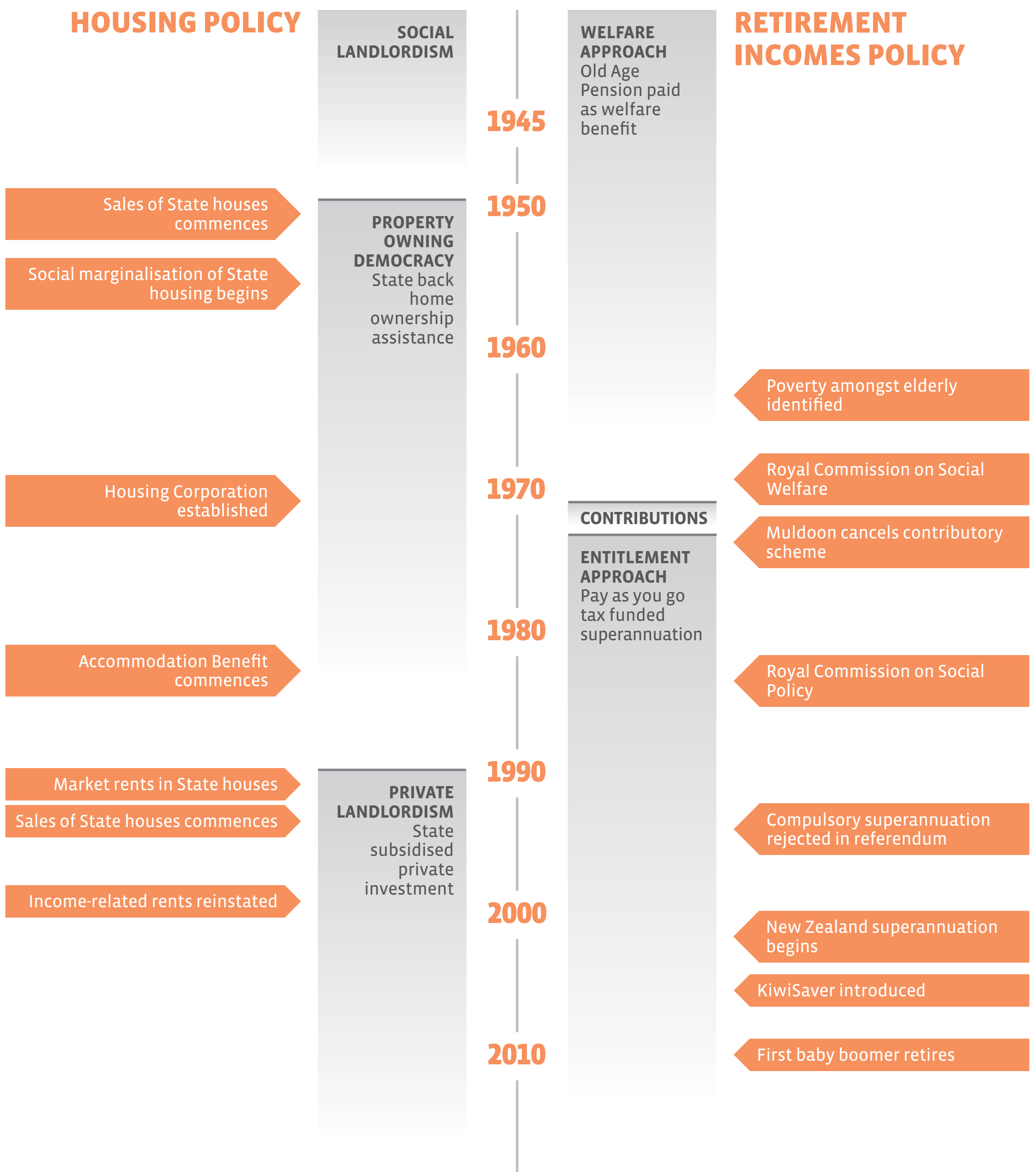
Two significant trends underpin this characterisation of New Zealand's most recent housing history. The first trend is one that began in the 1950s and remains a feature of the political economy of affordable housing today and is that of the social marginalisation of social rental housing. The second trend is the heavy dominance of housing as an investment instrument for wealthier households.

State housing began in 1936 with the creation of the Department of Housing Construction as part of the public agency known as the State Advances Corporation. The houses being built by this new department 'were not to be what was usually called "workers dwellings"; the aim and the need were the adequate provision of good new homes at least up to the standard of, and preferably better than, the houses inhabited by ordinary typical citizens'.[104]

This idealism did not last long, however. By 1949, the soon-to-be-elected National Party of Sydney Holland was campaigning on selling State houses to tenants, and proceeded to do so from 1950 onward. Although State housing continued to be built in fluctuating numbers between 1950 and 1990, the primary housing focus of most governments during this period was on the provision of concessionary mortgages for first-time home buyers; firstly, through State Advances Corporation and subsequently through the Housing Corporation. This assistance was supplemented by families being able to capitalise some of their Family Benefit to raise a deposit.

This preference for home ownership ahead of State tenancy inevitability led to State housing being seen problematically as the site of social dysfunction, and subsequently as slum housing. The media, academics and well-meaning church agencies have received blame for the construction of these perspectives from

Figure 17: Chronology of New Zealand's retirement income and housing policy since World War II

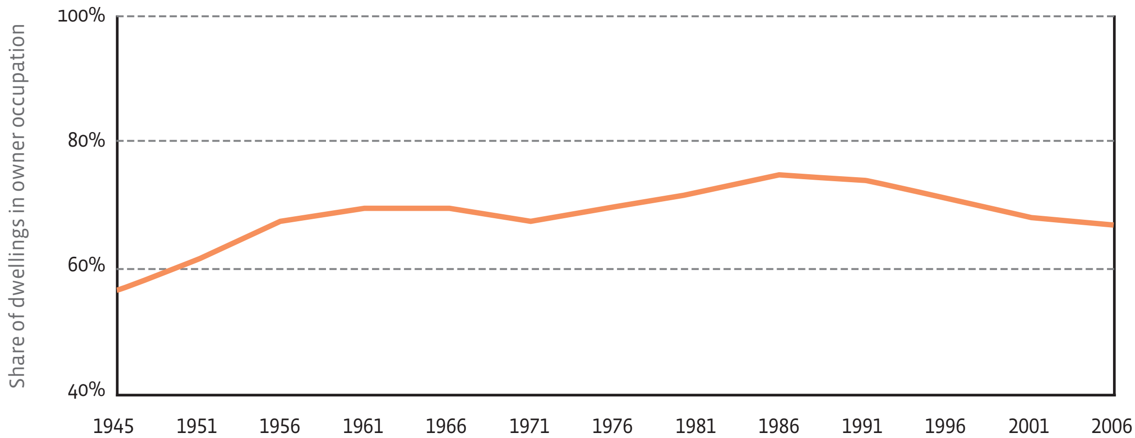


1954 through to the late 1960s.[105] The public's perception of State housing and State housing suburbs has remained largely negative and even hostile ever since the 1960s, even though the lived reality of State tenants does not usually match these perceptions.

In 1991, the mostly benign attitude of the State to State housing became decidedly malign, with the National Government of the time embarking on a so-called 'tenure neutral' approach to housing policy. This approach included both selling off State houses and the introduction of market rents for State tenancies. The cornerstone of this new policy approach was a demand subsidy known as the Accommodation Supplement. This income supplement was offered to all low and modest-income households. It ostensibly allowed them to make a choice between renting and owning, between being a private-sector tenant or a public-sector one.

The extent to which recipients of the Accommodation Supplement actually had the means and opportunity to exercise tenure choice is debatable. One of the outcomes of this approach was a decline in rates of homeownership, matched by a rapid increase in privately-rented housing. Between 1991 and 2012, over half of the additional housing added to the national housing stock was privately rented, and home ownership fell from 74% of the stock to 67%.[106] As discussed, these changes have been supported both by weak tax policy on the part of successive governments and also by indifferent monetary policy management on the part of the Reserve Bank. The financial benefits of these changes have gone to a relatively small group of mainly older New Zealanders.[107]

Figure 18: Share of housing in owner-occupation



Julie Cotton had a fight with the Auckland Council who wanted her white house painted a dark colour to complement the surroundings, but has compromised, allowing it to be painted dark cream.

New Zealand Herald, 26 October 2011. Photography: Natalie Slade / New Zealand Herald

6. THE POLITICAL ECONOMY OF PLANNING IN AUCKLAND

PROPOSAL SIX

That the scale and focus of Auckland's planning needs to change from city-wide planning based on providing physical infrastructure and developing physical capital, to one of neighbourhood-scale planning based on providing social infrastructure and developing social capital.

6.1 Property rights and political culture

The planning and provision of urban housing is inextricably linked to urban land markets and to the way these markets are regulated by both central and local governments. The stated purposes of this regulation can vary from the protection of health and safety, as with building regulation; to protection of environmental quality and values, such as with environmental protection policies; and to the orderly development of urban infrastructure, as with land use planning. Land use planning is often also used to mediate and to protect property rights, as in the control of externalities.

Whatever the stated or unstated purpose of regulation is, regulation often sits uncomfortably with private property rights and markets. This tension between regulation and markets is generally resolved through political processes, although it can also be mediated through legal processes, as in the Environment Court in New Zealand. While the relative dominance of regulation over markets, or of markets over regulation, may change from era to era, the underlying political culture of a society is also influential in determining this balance. It is certainly the case that the political and cultural acceptability of State regulation is greater in some countries—such as those of northwest Europe—than it is in societies like the United States, Australia and New Zealand, where private property rights are more prominent . In other words, the political economy of planning and regulation may vary considerable from one country to the next, and it may be that this variation is related to the way these countries view property rights. With this framing in mind, it is worth recognising that, since its European settlement, New Zealand has had a strong history of preference for private property rights and of State support of these rights.[108]

The political economy of planning and regulation is influential in attempts to plan for affordable housing and so needs to be considered in any efforts at such planning. This influence is played out in at least two ways: through the prevailing focus of planning within a society, and through the practical instruments available to achieve desired public policy goals. For example, in societies where regulation of property rights is less contentious, the focus of planning can be on ensuring that land is available for affordable housing, and policy instruments can include development controls and zoning. In societies where private property rights dominate the political culture, any planning for affordable housing may have to focus on ways of overcoming developers' and land owners' prejudice or indifference toward affordable housing, and the policy instruments used might include compensatory mechanisms like transferable development rights or subsidies and public purchase.

The political economy of Auckland's planning should be seen in the context of both the dominant political culture of the city and the nation, as well as the current paradigm that inspires, or at least informs this culture. As discussed, this paradigm presently is a neoliberal one.

This focus on such things as political culture, paradigms and ideology is important in any attempt to provide more affordable and social housing in New Zealand for at least two reasons. Because paradigms and ideologies frame our imaginations and expectations we often fail to appreciate the nature of the problem we are trying to address or the range of solutions available to address these problems. This is especially so in public policy development, which is largely sponsored by the State, because the political constraints imposed by those with political power are accepted without question by those whose job it is to offer policy advice to those with this political power. In other words, the policy debate is usually constrained even before it is started.

This focus on political culture is also important because of the way public knowledge of a policy issue is framed by paradigms and ideology and by accepted wisdoms and the narrow definitions of problems. Such framing may tend to limit the responses made by those seeking change, which means, in turn, that the extent and nature of any change is limited and perhaps even predetermined. For example, in Auckland, advocacy for affordable housing has taken the form of submissions to local government planning processes such as the Auckland Plan when there is, in fact, no political support within local government for any meaningful action to provide affordable housing.

6.2 The history and practice of urban planning in Auckland

Through influences from Britain and United States, modern urban planning ideas came to Auckland during the decade following World War II. At this time there was also a clear ideological shift from State-centred planning, to a reliance on private sector investment decisions supported by public investment in necessary infrastructure. This ideological shift was signalled most by the election of the First National Government in 1949, which was followed by three notable policy changes. In 1950, legislation was introduced which assisted State house tenants to purchase their homes on favourable terms, a policy subsequently followed by extensive concessionary lending for home ownership.[109] In 1953, the 1926 Town and Country Planning Act was replaced. This revision of the Town and Country Planning removed a 50% betterment tax on value lift from rezoning and public works. This policy instrument had been used to develop much of the Hutt Valley during the previous decade. Also in 1953, the National Roads Act was passed which imposed taxes on car registration and fuels as means of funding roads. The National Roads Act established a dedicated fund for road building and this fund remains today as the National Land Transport Fund. The fund assisted in the development of motorway-based suburbs in south and west Auckland and on the North Shore during the 1950s and 1960s.[110]

Since 1946, there have been a series of attempts to develop regional plans for Auckland.[111] These plans have alternated between land use plans and transport plans, such as the 1951 'Outline Development Plan for Auckland' which defined Auckland's 'urban fence' and the 1955 'Auckland Master Plan' which traded off rail development for motorway building. In 1964, Auckland's future motorway network was more or less determined by the DeLeuw Cather's Report on a Comprehensive Transportation Plan for the Auckland Regional Authority.[112] This was followed by the recently formed Auckland Regional Authority's 'Regional Master Plan', which was a regional development and land use plan.[113] This dichotomy of transport and land use plans is being continued today, with the Auckland Transport Plan prepared by Auckland Transport and the forthcoming Auckland Unitary Plan being prepared by Auckland Council.

It is, of course, feasible to integrate transport and land use plans so that they form a coherent whole. However, because these plans are almost always done by different teams of professionals with different skills and training, and working for different departments or even different organisations, such integration has been difficult to achieve in practice. This has been especially so in Auckland's case where motorway planning is done by a central government agency while land use planning was undertaken in a contested space between local and regional government.[114]

Regardless of the coherence or consistency of these plans, there remains a question around which plan serves which plan. Does the land use plan serve the transport plan, or vice versa? While it would make sense for transport plans to serve land use plans, there is little evidence that this is the case in Auckland. Given that motorway planning has always been undertaken by a central government agency, with its own funding stream and with its own funding rules,

"It is of course feasible to integrate transport and land use plans so that they form a coherent whole. However … such integration has been difficult to achieve in practice."

"Auckland's planning practice as being about cities rather than neighbourhoods ... and as being about addressing people's needs as workers, commuters and consumers rather than as neighbours and families."

there is evidence that this planning is driven by its own imperatives and not the priorities of Auckland's land use planners.[115]

Transport projects are place shaping. For example, the value to land owners of improved accessibility brought about through transport projects is well known.[116] However, the funding rules often applied to transport projects are seldom based on these place-shaping impacts, but rather on more narrowly defined economic costs and benefits.[117] This apparent lack of interest in how roading investment shapes urban form and, in particular, the demand for residential land on the urban fringe is a major 'policy disconnect' in Auckland's planning. This disconnect has significant impacts on the pattern of urban development and infrastructure investment in Auckland as witnessed by changing commuter patterns in response to motorway extensions.

This 'policy disconnect' may, however, be more fundamental and more subtle than just the indifference of road planners to urban form. The association of transport planning with land use planning—while being the conventional and historical approach to urban planning in New Zealand—is by no means the only approach available for us to conceive of the scale and focus of planning.

Guttenberg (2009) considers the history of American planning thought, and suggests that three paradigms or metaphors have been at work at various times within this history: those of city, neighbourhood and family. He claims that American planning focused on neighbourhoods during the first quarter of the 20th century, and particularly through such ideas as the Garden City Movement. According to Guttenberg, the Great Depression brought to focus both the needs and imagery of the family, and was witnessed through New Deal programmes of public works and social security. The post-war era has been dominated by the metaphor of the city. New Zealand's experience would appear to follow a similar sequence, although as Miller (2004) has suggested the Garden City Movement was less successful as an idea in New Zealand.

Guttenberg suggests that these paradigms are useful in terms of how we conceive of social relationships, social identity and space—in terms of scale and meaning. Cities can be seen as far larger in scale, and more autonomous and anonymous in terms of meaning. Families, at the other limit, are conceived of at the scale of the family farm or home, and meaning is derived from intimacy and co-dependency.

A summary of Guttenberg's conceptual framework is provided in Table 3 to illustrate how these metaphorical differences are meaningful in terms of the focus and practice of planning.

Of course, Guttenberg's conceptualisation of planning is not unique. There are a variety of other ways to conceive of and to construct an ideology of planning. His conceptualisation is, however, useful for the way in which it positions Auckland's planning practice as being about cities rather than neighbourhoods; as being about the physical capital of infrastructure rather than the social capital of community level relationships; and as being about addressing people's needs as workers, commuters and consumers rather than as neighbours and families. The primary focus of Auckland's planning on infrastructure rather than on housing is hardly surprising given this prior and unspoken framing of planning as being about cities rather than neighbourhoods.

This unspoken framing of planning can also be identified in another way. From its genesis to its practice, urban planning in New Zealand has been about physical planning and specifically about the regulation of land uses. This focus is not unique and can be traced to the origins and development of planning in both the United Kingdom and United States—two countries that have been the dominant influences for New Zealand planning since the early 20th century.[118]

In reference to planning practice under the 1953 Town and Country Planning Act, a leading New Zealand academic of the mid-20th century claimed planning 'was revealed over the years to be largely defined in the physical sense of referring to a physical design, a design of something already in existence. Planning schemes, disclosed or undisclosed were enshrined in the zonal maps of land use … Economic planning at the national level has existed for a long time, but

Table 3: Summary of Guttenberg's 'Three Paradigms in American Planning'

	CITY	NEIGHBOURHOOD	FAMILY
Organising principle	Individualism, market relations	Social equality, propinquity (nearness)	Kinship, economic interdependence
Basis of relationships	Citizenship	Friendship	Kinship
Relationship to outside	Openness, porous boundaries	Closeness, guarded boundaries	Intimacy, sealed
Land	Commodity	Ground and symbol of community	Resource base
Planning objectives	To maintain access and openness and to overcome insidedness	To achieve recess and protection from the outside	To achieve self-sufficiency and to eliminate outsidedness
Subject of plans	Infrastructure, growth controls, civil rights legislation, public accommodation laws	Neighbourhood units, exclusionary controls, immigration laws	Protection of natural capital, social security legislation

for most of our history it has been on a short-term time scale of 12 months or possibly for a three-year term of a government'. In reference to the dominant political ideology of the period, he cites an unnamed economist as describing 'the durable economic doctrine that government intervention in the economy is justifiable only to allow for social effects which escape the cost price calculus of the market place'.[119] This focus of New Zealand's planning on the local and on the physical rather than on economic, social and political dimensions is supported by others.[120]

A shift of sorts in the focus of Auckland's planning did occur around 2003, with the re-emergence of some interest in regional economic development.[121] This shift has been interpreted variously as some form of new 'Third Way' partnership or as an example of the rollout of the neoliberal state.[122] The shift was, to some extent, encouraged by changes in the government of the day's policy framework, which included both an economic focus with its 'Growth and Innovation Framework' and a sustainability focus with its 'Sustainability Action Plan'. This resulted in two strands of work within Auckland's local government that were not well integrated. The economic strand emerged as the Metro Project Action Plan in 2006, while the sustainability focus resulted in the Auckland Sustainability Framework.[123] The economic focus of Auckland's planning continues with the current Draft Auckland Economic Development Strategy, which focuses on improving transport and communications infrastructure, skills development, business networking and place-based development in the CBD and waterfront.[124]

Related both to this focus on the physical and on the scale of the city rather than the neighbourhood is the interest of Auckland's planning in growth management, or perhaps more accurately, control of urban sprawl. In an excellent history of Auckland's growth management efforts, Greg Hill (2008) suggests that the purpose of these efforts has changed since the first 'Urban Fence' was drawn on a planning map of Auckland in 1951.[125] The 1951 'Outline Development Plan for Auckland' proposed an urban boundary as a way of staging suburban development and making infrastructure provision more efficient, with the intent always being to move the boundary out as demand required. The 1951 Plan contemplated an Auckland population of 600,000 people by 2000. The 1967 'Regional Master Plan' began thinking about urban consolidation through infill, and contemplated the development of Orewa, Okura, Waimauku, Kumeu, Whitford and Beachlands within 20 or 30 years. At that stage, the primary concern for urban containment policies remained efficiency of infrastructure provision and use. Urban containment policies continued in the 1988 Auckland Regional Planning Scheme with the introduction of Metropolitan Urban Limits, or 'MULs', although these were determined by local councils and not by the then Auckland Regional Authority. By then, concerns for infrastructure efficiency and for protection of productive land were the motivating reasons.

The purpose of urban containment policies changed under the Resource Management Act (RMA) and the Auckland Regional Policy Statement of 1994 from efficient provision of infrastructure to environmental protection. At this time and on account of a supportive Environment Court decision, MULs became an accepted, although by no means popular, policy tool for urban containment and the accommodation of growth through greater consolidation. The MULs, as they were positioned in 1994, were subsequently included in the 1999 Auckland Regional Policy Statement and formed the basis of Auckland's urban containment policies until the completion of the Auckland Plan in 2012. On reflecting on this history, Hill notes that 'despite the predictions of these early reports and this rapid population growth, the metropolitan urban limit has moved since the 1950s and 1960s. The region has absorbed over 300,000 more people in the last 20 years without significantly extending the limits'. (p. 6)

While Auckland's metropolitan urban limits may not have changed much over the past 50 years, and while a significant proportion of the region's population growth has been accommodated within these limits, the idea of urban containment and consolidation remains contentious—at least for some. Opposition to containment and consolidation policies appears to have come from at least three directions: those living in well-off suburbs, owners of land outside the MUL, and people who might be expected to live in the medium density housing being anticipated with these consolidation policies.

Perhaps the greatest opposition has come from some of the most privileged Aucklanders—those living in wealthy suburbs who have successfully opposed consolidation policies in their neighbourhoods as well as the owners of large tracts of land outside the MUL who expect to make windfall gains from more liberal zoning regimes. This opposition has, however, not been voiced as exclusionary or as profit-seeking, but as a concern for 'heritage protection' and 'affordable housing'. For example, the MULs have been framed by those on the political right as the singular cause of Auckland's housing affordability problems.[126] Local leaders in coastal suburbs such as Devonport, Beachland, Howick, Orakei, Northcote and Birkenhead have been vocal in their resistance to residential intensification in their neighbourhoods, arguing that these areas have 'special character' that should be protected.[127]

There is an element of truth in these claims, and there is clear evidence also that zoning restrictions such as the MUL do push up land prices in some areas inside urban limits, and perhaps lead to lower than expected values outside of these limits.[128] This is to be expected, partly because it is the socially-condoned use of the land that gives it part of its value. If use of land is restricted by restrictive zoning, we should expect the value created by this process will also be restricted. The real question is the extent of any value/price increase inside an urban boundary that can be attributed solely to zoning and related land-use policies. Related to this question is the consequential one of the likely improvement in housing affordability should a more liberal zoning regime be put in place. This question needs to be considered more closely as it is important that questions of growth controls are separated from those of housing affordability. Such a separation will help identify the validity of arguments, such as those made by the Productivity Commission, that the primary answer to providing more affordable housing is less regulation. More liberal zoning may, for example, only lead to modest reductions in residential land prices because the value-gain created by rezoning has been captured by land owners, or because the real location constraint proves to be infrastructure availability and capacity and not zoning.

Opposition to consolidation policies has also arisen more implicitly, with the widespread antipathy of Aucklanders to living in apartments and other forms of medium-density housing. A survey of Aucklanders' attitudes found that while residents of medium-density housing developments were satisfied with their housing, those living in detached lower-density suburban housing saw medium-density housing as inferior.[129] The reputation of medium-density housing on infill sites has not been enhanced by the ongoing problems of leaky buildings, complex governance arrangements and poor-quality design.

At the conclusion of the Auckland Plan consultation, Auckland Council bowed to pressure to expand the scope for greenfields development on the urban fringe by agreeing to shift the overall development share split of 70% growth though intensification and 30% through greenfields development to what might be seen as a more realistic 60/40 split, still in favour of intensification. However, we are likely to see the debate over Auckland's urban form continue into the development of the new unitary plan for the region. It is through this next process that we may see Auckland's more affluent communities use their political muscle to avoid intensification in their neighbourhoods.

Joe Robson stands outside the State house that he lives in, estimated to be worth $1 million dollars. 21 Fernwood Place, Tamaki, Auckland.

New Zealand Herald, 28 September 2011. Photography: Steven McNicholl / New Zealand Herald

CONCLUSIONS

This paper has dealt with conceptual and theoretical issues rather than with empirical and day-to-day policy ones. This focus is deliberate and has been driven by a desire to substantiate the perspective that our failure to ensure that all Aucklanders have a decent affordable home is due to institutional failures. These institutional failures are fundamental and systemic, and philosophical as well as political. They are fundamental in that New Zealanders have embraced, most often unwittingly, a paradigm or ideology that denies any interest in things such as equity and inequality. They are systemic in that our public servants have applied this paradigm or ideology meticulously and with an illusion of objectivity, but without any reference to power structures or to the fairness of the outcomes being produced. These institutional failures are philosophical because we have failed to appreciate the bias or blindness in our thinking, despite having amongst us lucid and thoughtful critics.[130] These institutional failures are political because we have failed to see how the interests of better off Aucklanders have almost always been the only interests that influence both local government and local public discourse.

We have developed, supported and nurtured systems that have sustained and even expanded inequality. These systems have allowed some Aucklanders to grow rich through property speculation and have allowed some Aucklanders to develop poor-quality housing that not only leaks, but is ugly and unliveable. These systems have allowed some Aucklanders to occupy larger and larger houses, while other Aucklanders live in more crowded houses and in sheds, garages and caravans. These systems have biased our tax system so that not only are house prices excessively inflated but now higher and higher public subsidies are required for modest-income households to be able to afford any housing.

Mees and Dodson (2001) at the end of a paper which summarised half a century of transport planning in Auckland, concluded:

> An improvement in Auckland's transport situation is being prevented not by low densities, dispersed employment or the public's irrational love-affair with cars, but instead by a mind-set which has been established over the last half century.

And so perhaps it is for the planning for affordable housing in Auckland. In a regional plan for Auckland from 1946, housing was planned for literally as identified areas beside the motorways or railways.[131] The plans and programmes which followed from such master plans, perhaps with the exception of early work done in Tamaki, were not about how these houses would be built, what they would look like and what types of neighbourhoods they would create, but about road building and the delivery of water infrastructure.

"We have developed, supported and nurtured systems which have sustained and even expanded inequality. These systems have allowed some Aucklanders to grow rich through property speculation and have allowed some Aucklanders to develop poor quality housing that not only leaks, but is ugly and unliveable. These systems have allowed some Aucklanders to occupy larger and larger houses while other Aucklanders live in more crowded houses and in sheds, garages and caravans."

Central and local government planning for affordable housing is scarcely any better today. While the Auckland Plan offers various ambitions and directives toward affordable housing,[132] the Council's long-term plan over the next decade offers $5.3 billion in capital spending on roads and $5.6 billion in capital spending on water infrastructure, yet no identified budget to meet its expressed concerns for affordable housing.[133] In the 2012 Budget, Government provided for $104 million over the next three years for the development of social housing, while Government plans for $3.1 billion in capital spending on transport projects over the same period.[134]

Just as the failure to provide for affordable housing is an institutional one, the solutions may also be institutional. The institutional change required is as much about the political and bureaucratic institutions we need to create or to reform as they are about changing the conceptual frameworks within which we judge rights and fairness.

The extent of such change will not be achieved in the short term and around one issue, such as housing in one city like Auckland. Suggesting ways forward is problematic, in part, because history has shown us that big changes often start with small actions by small numbers of people. It is simply idle to recommend completely dismantling the dominant political ideology of the past three decades, as such change is likely to happen only as new ideas prove more appealing and useful. Such ideas often emerge through trial and error, and from the margins of intellectual inquiry and political practice. Such ideas also often emerge in response to a crisis and when older ideas no longer appear relevant.

This leaves us with having to look for shorter-term, more local and perhaps more pragmatic responses which may be illustrative of the need for change or of the scope for change. The responses offered here, while by no means modest, are local, achievable and useful in terms of showing such need and scope.

The approaches below involve four points of action for Auckland Council and for Aucklanders interested in building a greater number of affordable houses—and by doing do so, begin to create a fairer, more socially-just city.

The four action points are:

1. **Create an explicit agenda around inequality** firstly by agreeing to a framework for measuring this and then by reporting on a regular basis (perhaps annual). Such an initiative should be owned by our political leadership including the Mayor and a small group of leading citizens not directly involved with the Council.

2. Create an affordable housing agency with meaningful and long-term budgets that is able to assemble opportunities for the development and/or redevelopment of affordable housing in partnership with central government agencies, non-profit housing providers, private sector developers and perhaps investors as well as local communities.
3. **Create an Auckland housing plan** which both directs the work of the affordable housing agency and ensures that the future housing needs of all Aucklanders are anticipated and planned for.
4. **Lobby for legislative change** especially around urban planning and taxation, with the first targets being the ability to undertake inclusionary zoning for affordable housing and to charge betterment levies on value uplift from rezoning. Such lobbying should also develop an Auckland perspective on the broader taxation of housing in New Zealand

Any ambition Auckland has to become the world's most liveable city will be defeated if the housing future being offered by current trends continues to play out. Access to safe, decent and affordable housing is already the single biggest issue facing hundreds of thousands of Aucklanders. This problem will grow in size if the present wishful approach of Auckland Council and the present wilfully negligent stance of Government continues. The alternative scenario is that people will shift away from Auckland and perhaps from New Zealand in search of better lives in other places.

Auckland clearly has a great deal to offer as a place to live, create and recreate, but it cannot be assumed that the present institutional arrangements offer opportunity to everyone and in measures which are useful and fair. Auckland's housing problems are at least a generation in their gestation and most likely will be a generation in their resolution. There are no short-term answers or quick fixes—the problems are too big and the causes too ingrained in our social and economic fabric for that. This means that we need to make a long-term and sustained but immediate commitment to creating responses such as those offered above. Fundamentally, however, such responses depend on gaining a mandate from Aucklanders—and this will only come through informed debate and courageous leadership.

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END NOTES

1. Social housing refers to housing provided by some form of non-market mechanism, such as public ownership as in State housing and council housing or community ownership as in housing trusts and housing associations. Affordable housing may include these various forms of social housing as well as publicly subsidised housing which is privately owned as in first home buyers grants.
2. *New Zealand Herald* article 'Hobsonville air base set to get affordable housing' by Wayne Thompson on 18th July 2006
3. *New Zealand Herald* article 'Housing NZ resurrects development at old air base' 6th June 2006
4. Scoop interview with Kevin List of 16th June 2006 available at http://www.scoop.co.nz/stories/HL0606/S00216.htm.
5. See *New Zealand Herald* article 'A shortage of living room' by Geoff Cumming 2nd May 2009
6. *Western Leader* article 'PM vetoes Hobsonville state homes' by Stephen Forbes 26th March 2009 available at http://www.stuff.co.nz/auckland/local-news/western-leader/2291062/PM-vetoes-Hobsonville-state-homes
7. From 'Hobsonville Point launch speech' of the Hon Phil Heatley Minister of Housing on 5th October 2009. Available at http://www.national.org.nz/Article.aspx?articleId=31005
8. *New Zealand Herald* article 'First houses soon on old airbase' by Anne Gibson on 22nd February 2010
9. *New Zealand Herald* article '30 homes on offer in flagship Govt scheme' by Simon Collins on 12th October 2010
10. *New Zealand Herald* article 'Hobsonville project boon for builders' by Anne Gibson on 30th November 2011
11. *New Zealand Herald* article 'Key backs cut-off for cheap homes plan' by Kate Shuttleworth 18th May 2012
12. Department of Building and Housing (2010) pp. 66–67
13. This estimate is based the annual population growth over the past four years of 21,000 to 23,000 people being housed at the 2006 average household size for Auckland of three people per household with some allowance for additional new dwellings to replace those lost through fire, demolition or land use change.
14. Adam and Dercon (2009) p. 174
15. In 2011/12 Government provided capital funding to NGO housing providers of $37 million. These providers offered bids for $179 million of funding which may have provided around $350 million of new affordable housing units. (Source Social Housing Unit at …) This budget should be seen against the $1.3 billion being spent on the Accommodation Supplement and $650 million paid to Housing New Zealand in income related rent subsidies. (Source Government 2012 Budget)
16. Between 2002 and 2007 the median sale price of a house in New Zealand rose 90% in nominal terms and 66% in inflation adjusted terms. Since 2007 (to mid 2012) this median price has increased a further 5% in nominal terms but declined almost 8% in real terms. This while the peak has been knocked off the market in real terms in these real terms house prices still remain more than 50% higher in 2012 than they were in 2002.
17. See Tax Review Working Group (2001a). This review was also known as the McLeod review after the group's chairman Rob McLeod
18. See press release from Michael Cullen's press secretary of 21st June 2001 titled Cullen on Housing Tax and available at http://www.beehive.govt.nz/node/10936 (downloaded 26/06/2012)
19. See Gareth Morgan's column of 31/10/2001 at http://www.gmi.co.nz/news/623/mcleod-ii--cowardice-under-fire.aspx (downloaded 26/06/12)
20. See *The National Business Review* article 'Cullen, English clash over housing tax idea' on 20/07/2007

21. See Tax Working Group (2010) p. 48
22. Ibid p. 26
23. Inland Revenue Department (2009) p. 15
24. Ibid p. 62
25. See 2010 Budget Speech pp. 22–24 available at http://www.treasury.govt.nz/budget/2010/speech/b10-spch.pdf
26. Ibid p. 22
27. See Tax Tables in Budget Economic and Fiscal Updates
28. See Budget Economic and Fiscal Updates Additional Information Table 1
29. See the Terms of Reference for the New Zealand Productivity Commission Inquiry into Housing Affordability at http://www.productivity.govt.nz/inquiry-content/1509
30. New Zealand Productivity Commission (2012) p. 91
31. Ibid p. 83
32. Ibid p. 94
33. OECD(2011) pp. 75–76
34. Speech by Reserve Bank Governor Alan Bollard to Canterbury Employers Chamber of Commerce Asset 'Prices and Monetary Policy', January 2004 available at http://www.rbnz.govt.nz/speeches/0145812.html
35. Speech by Reserve Bank Governor Alan Bollard to Property Council of New Zealand 'What's happening in the property sector' September 2004 available at http://www.rbnz.govt.nz/speeches/0156216.html
36. Speech by Reserve Bank Governor Alan Bollard to Employers and Manufacturers Association 'Housing debt, inflation and the exchange rate' November 2005 available http://www.rbnz.govt.nz/speeches/2157629.html
37. See Eichengreen, B. et al. (2011) p.iii and pp. 5–12
38. Macroprudential tools are such policy mechanisms as restraints on banks lending and capital and liquidity buffer of banks which either limit the riskiness of bank lending or require banks to have greater equity or capital reserves to engage in risky lending. The tools are considered to be 'macro' because they are focused on the risk to the financial system as a whole rather than microprudential tools which focus on risks to individuals such as lenders. See Eichengreen (2011) pp. 5–12 Group of Thirty (2010) pp. 42–53.
39. See Group of Thirty (2010)
40. Speech by Deputy Governor Reserve Bank to Financial Institutions of NZ 2012 Remuneration Forum titled 'Prudential Lessons from the Global Financial Crisis'. Available at http://www.rbnz.govt.nz/speeches/4770363.pdf
41. Reserve Bank of New Zealand data on floating first mortgage interest rates show that in March and June 2012 the average floating rate offered by banks was 5.9%. Previously nominal interest rates have not fallen below 6% since June 1965. See data at http://www.rbnz.govt.nz/statistics/exandint/b2/
42. Data is from http://www.interest.co.nz/property/60070/roost-home-loan-affordability-report-shows-slight-worsening-may-house-prices-rise-act
43. Household formation is one of the drivers of housing demand. The difficulty in making housing demand forecasts is that household formation patterns may significantly change over time. Such changes can be driven by demographic changes such as an aging population or by changing social behaviours in marriage and cohabitation. Household formation patterns are also influenced by economic factors including employment and the availability of housing. For example, forecasts of increasing numbers of small households of one or two people as the population ages may be not eventuate if more extended families begin living together as a means of economising on housing costs.

44. The question of building industry productivity was considered at some length by the New Zealand Productivity Commission in their inquiry into housing affordability and in particular in their March 2012 report. The Commission identifies a number of contributing factors to the clear evidence that building costs have risen faster than consumer prices and wages over the past decade or more. These contributing factors include the small scale of the building supply industry in comparison with Australia and the cyclical nature of the industry which undermines incentives for longer-term larger scale capital investment and presents capacity problems in boom times and underutilisation in downturns. Other contributing factors include the small scale of most home builders, the extent to which most house building is customised and procurement practices within the industry and in particular the engagement sub-contractors by main contractors. See NZ. Productivity Commission (2012) pp. 170–195.

45. Data available at http://data.worldbank.org/indicator/CM.MKT.LCAP.GD.ZS

46. See Reserve Bank (2011) Financial Stability Report May 2011 Figure A.18 p. 49

47. See Kelsey (1993) pp. 19–59.

48. Murphy (2000) reports that the privatisation of the State's housing mortgage portfolio represented the second largest privatisation of state assets between 1988 and 1999 and totalled $2.414 billion (p. 396)

49. See Murphy and Kearns (1993)

50. See Dodson (2006) pp. 233–235

51. See Maharey's 2003 speech to http://www.beehive.govt.nz/speech/third-way-and-how-i-got-it

52. See David Choat's blog at http://www.policyprogress.org.nz/2010/11/did-the-third-way-give-new-zealand-a-new-politics/ which discusses Harris and Eichbaum's book *The New Politics: a Third Way for New Zealand* and the gaps between the perspectives offered in this book and the policy regimes adopted by the Government. See also Wendy Larner's article (Larner 2005) which examines Helen Clark's claim in 2002 that 'neoliberalism in New Zealand is now over' by a closer examination of Clark's Government's community partnerships suggesting that 'Third Wayism' has tried to articulate neoliberalism to social democratic aspirations.

53. See Murphy (2003).

54. In fact some of the Labour Government's additional policies such as the expansion of work testing of people on welfare benefits (Social Security Amendment Act 2007) and more punitive criminal justice laws (Sentencing Act 2002) were more in line with those of neoliberal/conservative governments.

55. See Kelsey (1993) pp. 7–18. Supply-side economics is based on the economic and employment growth can be stimulated through lower taxes (especially on business and the well off) and less regulation and Government intervention and its chief advocates include Arthur Laffer and Nobel laureate Robert Mandell. (see Mundell's Nobel Prize lecture at http://robertmundell.net/nobel-prize/#inflation and resources on supply-side economic theory at at http://yorktownuniversity.com/grad_libraries_ supply_side.cfm.) This type of thinking is behind this and the recent Governments aversion to regulation and to the 2010 cuts to the top marginal tax rates. Monetarism is based largely on the work of Milton Friedman and holds that Government's single economic most important purpose is to manage the money supply in order to control inflation and ensure price stability. Public choice theory was initially developed by James Buchanan and Gordon Tulloch. This body of work studies and theorises about the operation of collective decision making such as in democracies and claims that the activities and lobbyists and special interest groups can conflict with the interests of the general public and can lead to rent seeking behaviours where parties attempt to gain an economic or social advantage through changes in Government policy or regulation. Agency theory considers how the relationship between a principal (such as an employer) and agents (such as employees) can be structured so that interests of the agents coincide with those of the principal. Usually the principal uses a variety of incentives and threats to modify the behaviours of the agents so agency theory is interested in such questions as rewards

and remuneration and in monitoring and performance measurement. A key interest of agency theory is moral hazard where an agent may accept risks or behaves recklessly in the knowledge that the principal will have to accept the consequences. Moral hazard and agency theory is behind much of recent work around welfare reform.

56. Harvey (2005) p. 2

57. Ibid. p. 3

58. Jessop (2002) p. 454

59. Ibid. pp. 454–445

60. Bounded rationality refers to the humans' limits to make rational decisions. These limitations are based on the an individual's own cognitive ability, the limits to gaining information and the way the information and problem is framed. Herbert Simon undertook early thinking around bounded rationality with his idea that people are not entirely rational but emotional in their decision making. Nobel laureate Daniel Kahneman, along with his colleague Amos Tversky, developed these ideas further into a general theory around decision making—see Kahneman, D. (2003). Maps of Bounded Rationality: Psychology for Behavioral Economic; American Economic Review, 935 pp. 1449–1475

61. See for example Act Party leader Don Brash's press statement during the 2011 General Election campaign 'ACT's Brash slams Auckland's plan to replace Metropolitan Urban Limit with Rural Urban Boundary as locking out young and poor from housing for 30 years' at http://www.interest.co.nz/property/55704/acts-brash-slams-aucklands-plan-replace-metropolitan-urban-limit-rural-urban-boundary

62. See, for example, Harvey (1989)

63. See Easton (1997) especially Chapter 12 pp. 16–178

64. Miller (2002)(2004) attributes the failure of the 1926 Act to affect much change to the Depression, World War II and the lack of trained staff and suggests that the failure of any credible example of the garden city suburbs is due to lack of scale as well as to real estate hype. Memon (1991) in an observation which is prescient of Auckland today, attributed the lack of progress under the 1953 Act to the fact that 'while territorial local authorities were responsible for land use planning, the provision of infrastructure services was undertaken by special purpose local regional agencies. But their purse strings were effectively controlled by Wellington bureaucrats and politicians. Central government, however, did not have a cohesive policy for guiding urban development in the country. On the contrary, investment decisions on funding of infrastructure were often tied up with political patronage and election policies' (pp. 22–23) and that when 'seen in relation to the wider question of the role of the state in a capitalist society, public intervention by local government may have merely served to perpetuate the status quo and benefit largely those with vested interests' (p. 28).

65. Section 4(1) of the Town and Country Planning Act 1977.

66. M King Hubbard, the American petroleum geologist who first developed the theory of peak oil, suggested in 1974 that peak oil production would be reached in 1995 – see Grove, N. (1974) 'Oil the Dwindling Treasure'; National Geographic June 1974. As early as 1980 American meteorologist William Kellogg was suggesting that the 'development of climate change models has recently acquired a sense of urgency, because it now seems clear that humankind is emerging as a significant new factor in the climate change system' Kellogg, W.(1980) Modeling Future Climate: It is Time to Plan for a Climate Change and Warmer World; Ambio 9.5 pp. 216-221. These claims were preceded by work from as early 1971 which were suggesting human induced climate impacts.

67. Memon and Glesson (1995) p. 121

68. Section 5(2) of the Resource Management Act

69. Jackson (2009) p. 405 For an alternative perspective of planning under Keynesian and monetarist regimes see Easton (1997) p. 33.

70. See Larner (2000) and Brenner and Theodore (2005) and for a useful summaries of the key ideas around or perspectives of neoliberalism.

71. Harvey (2005) has suggested that neoliberalism should not be seen as a political project and not necessarily a cohesive and consistent set of ideas and principles. This political project aims to dismantle the so-called embedded liberalism which provided the ideological basis for Fordist-Keynesianism and to instill a set of political understandings based on neo-classical economics and reference to market forces. To achieve this transformation there was firstly a 'roll back of the pre-existing political economy of social democratic welfare state via deregulation and public expenditure cuts and the roll out (the extension and deepening of neoliberal forms such as networked governance, fiscal responsibility and re-regulation)'. Guarneros-Meza and Geddes (2010) p. 116.

72. See Wetzstein (2008) for an Auckland-focused discussion of this shift.

73. Sassen, S. (1991) and Friedmann, J.(1986)

74. See Markusen's discussion in Markusen, Lee and DiGiovanna (1999) Chapter 2 where she identifies four types of generic industrial structures in second tier cities – namely the 'new industrial districts' where production is undertaken by locally owned and directed firms with a locally loyal but flexible labour force with specific skills, a 'hub and spoke structure' which works around one or a few major firms in one ore few industries, the satellite industrial platform that locates production plants for absent multinationals often on the basis of low tax, and the state centred industrial district which is based on government directed investment and spending which is often around the military.

75. This area of analysis looks at the functioning of contiguous cities which grow to form a single economic unit in terms of labour markets and perhaps industrial structures. Examples include the Flemish Triangle of Brussels, Antwerp and Ghent, the RheinRhur region of Cologne, Essen, Dusseldorf, Dortmund and Duisburg and the San Francisco Bay Area of San Francisco, Oakland, San Jose and Santa Rosa. See Cowell (2010), Meijers (2007) and Davoudi (2003)

76. Castells' work has focused on the impact of technology on urban form and social organisation. He talks about the 'space of flows' where he suggests that while 'organisations are located in places, and their components are place-dependent, the organisation logic is placeless, being fundamentally dependent on the space of flows that characterizes information networks' the consequences of which 'are far-reaching, because the more organizations depend, ultimately, upon flows and networks, the less they are influenced by the social contexts associated with the places of their location.' In more concrete terms: the interests of the local business elite, or of a local resident working class, or of a local market, will be constantly subordinated to the need for the organization to be connected simultaneously with the financial markets, the pool of professional labor, the strategic alliances in the world economy…'. The Informational City pp. 170–171. Taylor's work looks at the extent of network connection of cities through the presences of international business services firms noting the huge dominance of London and New York and the extent to which there is a regional (in global sense of region) flavour to the connection—that is that cities are more connected to neighbouring cities than to larger or smaller cities in other regions.

77. Reterritorialisation refers to the changing scale at which economies work. In the Fordist-Keynesian era nation state were important for the formation and delivery of both economic and social policies. In the neoliberal era of globalisation where capital, and increasingly labour, is free to locate wherever it finds the best advantage the role of national politics and policies is diminished. The scale at which economic decisions are made consequently grows to the supranational level or shrinks to the sub-national or city scale level. Early developers of these ideas were Manuel Castells (1972) in The urban question and Henri Lefebvre (1974) in The production of space. See a more in-depth discussion in Brenner (2000).

78. For an example of such advocacy which includes Auckland see Clark (2009)

79. See Harvey (1998) p. 5

80. The idea of the creative city comes from Charles Landy and his 2008 book *The Creative City: A Toolkit for Urban Innovators*; Earthscan, in which he claims at 'the heart of creativity is creative people and organisations who have particular attributes: when these come together in one place they create a creative milieu' which subsequently enable 'cities to become innovative hubs'. (p.xiv) . This work was preceded by Richard Florida and his proposals in his 2002 book The rise of the creative class, where he says the 'nation's geographic centre of gravity has shifted away from traditional industrial regions toward new axes of innovation and creativity. The Creative Class is strongly oriented to cities and regions that offer a variety of economic opportunities, a stimulating environment and amenities for every possible lifestyle' (p.11). He defines 'the distinguishing characteristics of the creative class is that its members engage in work whose function is to "create meaningful new forms." The super-creative core of this new class includes scientists and engineers, university professors, poets and novelists, artists, entertainers, actors designers and architects, as well as the "thought leadership" of modern society: non-fiction writers, editors, cultural figures, think-tank researchers, analysts and other opinion makers. Beyond this core group, the creative class also includes "creative professionals" who work in a wide range of knowledge-based occupations in high-tech sectors, financial services, the legal and health-care professionals and business management.' Florida (2003) p.8. Landy's and Florida's policy prescriptions for creating these creative cities focus amongst other things on providing public subsidies to create places, activities and events which the creative class value. Florida's definition of the 'creative class' will appeal to the same people who are likely to advocate for these policies – in other words the architects and designers, cultural figures, think-tank researchers and other opinion makers who are likely to shape public policy at a local level. But such advocacy for the benefit of the creative class is not self serving because these are the same people whose creative talents, in the Richard Florida world, drive innovation and economic growth and so save cities from economic decline. More recently Florida has moderated his views around the ubiquity of creative cities everywhere the creative class can be enticed to live. In a 2009 article the Atlantic Monthly titled 'How the Crash Will Reshape America' he says 'we need to be clear that ultimately, we can't stop the decline of some places, and that we would be foolish to try... in limited ways, we can help faltering cities to manage their decline better, and to sustain better lives for the people who stay in them ... Different eras favor different places, along with the industries and lifestyles those places embody... We need to let demand for the key products and lifestyles of the old order fall, and begin building a new economy, based on a new geography.' To develop this new geography, Florida suggests that 'we need to encourage growth in the regions and cities that are best positioned to compete in the coming decades: the great mega-regions that already power the economy, and the smaller, talent-attracting innovation centers inside them'.

81. Tax increment financing is an instrument used most often to fund infrastructure upgrades in areas of economic decline. A common approach is for the local government to borrow against the future stream of local tax revenue in order to fund the provision and/or upgrade of local infrastructure and then to repay this debt from the additional tax revenue generated from the revitalised area. See Sager (2011) p. 160.

82. Two relevant examples of such a practice are the bidding process for Government assistance to social housing providers under the Social Housing Unit and the process for building a convention centre in Auckland based on the right of the SkyCity casino to operate more gaming machines.

83. Stoker (1998) p. 17

84. Ibid p. 17

85. Jessop (1998) pp. 29–30 identifies three forms of such 'heterarchy'. Firstly, there is 'self-organizing inter-personal networks' such as business associations and shared school or sporting backgrounds. Secondly, there is 'negotiated inter-organization co-ordination' such as might be achieved through a memorandum of understanding, heads of agreement or a formal joint venture agreement. Thirdly, and more confusingly there is 'decentred, context mediated inter-systemic steering'. Jessop explains this as a

practice or process where the various systems which operate within a society such as the financial system or legal system or the Parliament are recognised as having their unique logics and imperatives but that these systems and are steered toward some commonly agreed purpose by changing the structural or strategic contexts in which these logics and imperatives operate. Jessop usefully identifies that 'heterarchy' or self-organisation can work at the inter-personal, inter-organisational or inter-systemic levels but that it is the inter-organisational level which is usually recognised in governance theories.

86. Larner (2000), for example, argues that neoliberal ideas of governance 'encourage both institutions and individuals to conform to norms of the market' and that the 'conception of a national community of citizens… has been usurped by a new understanding in which not only are firm to be entrepreneurial, enterprising and innovative, but so too are political subjects'. (pp. 2–13)

87. See *New Zealand Herald* 14th May 2010 Idiots guide to Super City available at http://www.nzherald.co.nz/nz/news/article.cfm?c_id=1&objectid=10644838 which reports that council controlled organisations will control 75% of the Council's assets.

88. See Housing Shareholders Advisory Group (2010) p. 5

89. See Harvey (2005) p. 19, and for a New Zealand context see Larner (2005)

90. See, for example, the public private partnership to build a primary school at Hobsonville Point, which was announced by the Minister of Finance on 11th March 2011—see http://www.stuff.co.nz/national/education/4854636/Public-private-partnership-schools-to-open-in-Auckland. On 8th March 2012 the Ministers of Finance and Corrections announced a public private partnership with a consortium known as SecureFuture to building own and operate a 960 bed prison in Wiri—see http://www.beehive.govt.nz/release/next-steps-new-public-private-prison-wiri. In May 2012 the deputy chief executive of Counties-Manukau District announced plans by that Board to build a new clinical building under a PPP—see http://www.stuff.co.nz/auckland/local-news/manukau-courier/6937418/Plan-a-healthy-option.

91. See Murphy (2008) for a discussion of the publically-funded gentrification of the Auckland waterfront. During 2012 Housing New Zealand began the redevelopment of Glen Innes north and which involved the demolition of 156 State houses, the redevelopment of 260 new dwellings of which 78 will be owned by Housing New Zealand and a further 39 will be owned by other social or community housing providers. This represent a net loss of 39 houses. Housing New Zealand argue that the 'proposals will redevelop State housing in the suburb to achieve a better mix of state, affordable rental and privately owned homes—while we increase State house numbers in other parts of Auckland over the next five years to meet demand for housing from those in greatest need.' Source: HNZC website http://www.hnzc.co.nz/housing-improvements-and-development/developments/glen-innes-redevelopment downloaded on 23/05/2012

92. Johnson (2010) identified that between 2001 and 2006 welfare dependency became more concentrated into the poorest 10% of Auckland's neighbourhoods. Ritchie and Johnson (2011) identify that availability of publically subsidised early childhood education places in South Auckland was on average just two thirds of the national average and in some neighbourhoods this availability was less than half.(p. 169–170). Pearce et.al (2008) reported that liquor outlets were more five times more prevalent in the poorest 20% of neighbourhoods than in the wealthiest 20% although access to supermarkets and convenience stores was better in poorer neighbourhoods as well.

93. Social housing refers to housing which is provided by some form of non-market mechanism such as public ownership as in State housing and council housing or community ownership as in housing trusts and housing associations. Affordable housing may include these various forms of social housing as well as publicly subsidised housing which is privately owned as in first home buyers grants.

94. See Kemeny (1977)(1978) and Berry (1999)

95. See the National Party's 2008 housing policy at http://www.national.org.nz/files/2008/Home_Affordability.pdf Maryan Street's speech to the Nelson Chamber of Commerce on 20the February at 2008 at http://www.beehive.govt.nz/speech/home-ownership-protecting-kiwi-dream.

96. See David Skilling's 2004 paper 'Its not just about the money: the benefits of asset ownership' which was instrumental in establishing the KiwiSaver scheme and in allowing participants to utilise this for the purchase of their first home. Paper available at http://www.nzinstitute.org/Images/uploads/pubs/FR_Money.pdf

97. See Saville-Smith and Fraser p. 7

98. Kemeny (1978)

99. Kemeny (1980) and (2005) and Castles (1998).

100. The taxpayer cost of New Zealand Superannuation is forecast to grow from $6.8 million and less than 13% of Government spending in 2007 to $12.4 billion in 2016 and 16% of spending in 2016. (see New Zealand Treasury Budget Economic and Fiscal Update at http://www.treasury.govt.nz/budget/forecasts/befu2012). The population of New Zealanders aged over 65 is forecast by Statistics New Zealand to grow by over 80% between 2011and 2031 and from 13% to 21% of the total population. Treasury is expecting the cost of New Zealand Superannuation to more than double from 4% of GDP in 2010 to over 8% by 2040 (see Whitehead (2006)).

101. In her short history of New Zealand's welfare state Margaret McClure indicated that there had been some agitation for a more comprehensive benefit system prior to the Royal Commission to Inquire into Social Security which ran between 1969 and 1971. The income support for the elderly was apparently not part of this call for change as she reports that the 'rights of the aged gained a dramatic boost when Finance Minister, Robert Muldoon, defied the findings of the 1972 Royal Commission to introduce his own National Superannuation scheme' (p. 151) McClure identifies this move as the beginning of a separation of needs from rights in welfare policy – a separation which 'made the old a particularly favoured group' (p. 151). Subsequent to McClure claims that this the elderly 'became an articulate, politicised lobby group' (p. 152) which quite divisively pitched its interests against those of families, single parents and the unemployed (see p. 154).

102. For evidence of this rising inequity see Perry (2008) and in particular Figure D. 15 and Table D. 9 on page 57 which report changes in the Gini Coefficient for New Zealand between 1982 and 2007.

103. See Luxton (1991) for an outline of the National Government's expectations around the housing reforms which it initiated in 1991. The idea of demand subsidies and anticipated tenure neutral housing policies was first raised by the Treasury in 1987 in its briefing to the incoming government.

104. Firth (1949) p. 6

105. See Schrader, B. (2006) pp. 157–159.

106. These figures are from Statistics New Zealand's estimates of households and dwellings by tenure and may vary from other estimates of tenure split from the censuses and elsewhere.

107. Saville-Smith and Fraser (2006) report that nearly half of landlords surveyed were over 50 years old and 91% were European, p. 5

108. The question of property rights is a very broad one and goes to the heart of the political economy of regulation. New Zealand's land and resource property rights are derived from English common law concepts which are themselves heavily influenced by the works of liberal philosophers such as John Locke. Locke in the second of his Two Treatises of Government claims that the "great and chief end, therefore, of men's uniting into commonwealths, and putting themselves under government, is the preservation of their property" (section 124) and that the purpose of political power is the "right of making laws with penalties of death, and consequently all less penalties, for the regulating and

preserving of property, and of employing the force of the community, in the execution of such laws", (section 3). Locke's idea of property extended to the fruits of individual labour and to a legitimate claim to land made productive by one's labour (see section 51) and was based perhaps somewhat naively on theories of natural laws and social contract. Eighty seven years after the anonymous publication of the Two Treatises, and in the same year Captain Cook first sailed to New Zealand, Adam Smith wrote of political power "civil government, so far as it is instituted for the security of property, is, in reality, instituted for the defense of the rich against the poor, or of those who have property against those who have none at all." (An Inquiry into the Nature and Causes of the Wealth of Nations, Book V Chapter 1) so it was apparent that in Britain on the eve of New Zealand's colonisation the exercise of political power and property rights had not followed Locke's idealism. This colonisation was in part funded by the sale of Maori land confiscated after the land wars of the 1860's. These wars and the confiscations were in part driven by Auckland businessmen such as Thomas Russell who was 1863 appointed Minister of Defence and who10years later headed a syndicate which purchased confiscated land in the Hauraki Plains on concessionary terms from the Crown (see Russell's biography at http://www.teara.govt.nz/en/biographies/1r20/1). Following the land wars, private land ownership subsequently formed the basis of political power until 1879 when universal male suffrage was established. From the 1870 until the 1920's the development and settlement of rural land was an explicit political project from which political power was gained and maintained. During this period land related legislation included Land Act 1877 which offered cheap leasehold land to settler farmers, the Land Acts of 1882 and 1885 which expanded the number of leaseholds and extended leases in perpetuity, the land for Settlement Act 1894 and the Government Advances to Settlers Act 1894 which attempted to split up large estates and assist families onto farms. The Discharged Soldiers Settlement Acts of 1915 and 1917 assisted over 10,000 veterans of the First World War onto land. (see The Encyclopedia of New Zealand at http://www.teara.govt.nz/en/land-ownership/). In the cities in the 1920's Government began lending for suburban homeownership which subsequently collapsed during the Great Depression of the 1930's. In 1949 the newly formed National Party led by Sydney Holland won the election on a campaign of establishing a property owning democracy based on affordable state provided mortgages giving rise to the post-war suburbs and to group housing (see http://www.teara.govt.nz/en/housing-and-government/)

109. See New Zealand History online website at http://www.nzhistory.net.nz/culture/we-call-it-home/the-state-steps-in-and-out

110. See Harris (2006)

111. The first such plan was produced in 1946 for the Ministry of Works and was a corridor plan for Auckland denoting both new housing areas and planned motorways and rail extensions – see Harris p.21.

112. See Mees and Dodson (2001) pp. 8–9

113. See Hill (2008) p. 3

114. See Memon et al (2007) p. 48.

115. An example is the Government's support for the extension of the Puhoi –Wellsford expressway or the so-called 'holiday highway' while it rejects the value of the CBD rail loop which is favoured by Auckland Council despite that fact that both projects have similar capital costs ($2-3 billion) and similarly low cost-benefit ratios

116. Much of the recent literature on this topic deals with the impacts of rail investment on property values. Articles dealing with highway impacts on property values include Coulson, E. and Engle, R. (1987) Transport Costs and the Rent Gradient; Journal of Urban Economics 21.3 pp. 287–297; Carey, J. and Semmens, J. (2003) Impacts of Highways on Property Values, Transportation Research Record 1839 pp. 128–135; Smersh, G ansd Smith, M. (2000) Accessibility Changes and Urban House Price App. eciation; A Constrained Optimization Approach to Determining Distance Effects, Journal of Housing Economics 9.3 pp. 187–196 and Boarnet, M and Chalermpong, S.(2001) New Highways, House Pirces and Urban Development: A case Study of Toll Roads in Orange County, CA. Housing Policy

Debate 12.3 pp. 575–605. These articles provide evidence of the positive impact which new highway construction has on house values although they also acknowledge the impacts of other amenities such as open space and coastlines and the negative impact of being close to busy roads—see for example Giuliano et al. (2010) Accessibility and Residential Land Values: Some Tests with New Measures, Urban Studies 47.14 pp. 3103–3310.

117. The expansion of this focus from narrowly defined cost and benefits is considered in a recent paper by Arthur Grimes (2011) Building Bridges: Treating a New Transport Link as a Real Option; Motu. Available at http://motu-www.motu.org.nz/wpapers/11_12.pdf

118. See Hall (2001) for a summary of urban planning theory and practice during the twentieth century.

119. See Johnston (1973) p. 189

120. Memon (1991) argues that planning 'rather than being seen as an activity of environmental management in the wider sense of the term, the scope of the planning function in local government has been restricted primarily to regulating the process of land use change in the context of the built environment' (p. 19). LeHeron (2006) in reference to a more recent focus of planning on sustainability comments that the 'potential usefulness of the concept (sustainability) has been overwhelmed by preoccupations with the state of the environment, sustainability principles, getting definitions right, developing models of sustainable systems and generating indicators and worrying about their measurement. ....With few exceptions the sustainability industry dissolves the political, convinced that the big gains will come from sorting things into forms that are politically acceptable.' (p. 441)

121. See LeHeron (2009), Memon et al. (2007) and Wetzstein (2008)

122. Larner and Craig (2005) have argued the former, Wetzstein (2008) has argued the later while LeHeron (2009) has claimed that the process has been both.

123. See LeHeron (2009)

124. See Draft Economic Development Strategy p.99 available at http://www.aucklandcouncil.govt.nz/SiteCollectionDocuments/aboutcouncil/planspoliciespublications/theaucklandplan/draftedstrategy.pdf

125. See Hill (2008) pp. 1–6

126. See Act Party leader Don Brash's 2011 election campaign press release of 29/09/2011 'Brash Says the Poor and Young Will Lose Under Auckland Council Plan' where he claims the 'Auckland Council is effectively ensuring that unless people are wealthy, the Kiwi dream of owning their own home will always be out of reach. This will be a massive blow to a generation of Aucklanders trying to get ahead'. Available at http://www.scoop.co.nz/stories/PA1109/S00578/poor-young-will-lose-under-auckland-council-plan.htm. Owen McShane as director of the right wing environmental think thank the Centre for Resource Management Studies in an opinion in the New Zealand Herald on 13/09/2010 claimed that "during the 90s Auckland's planners imported the theory of Smart Growth from the US. The subsequent intensification was enforced through planning policies and the constraints of Metropolitan Urban Limits. One inevitable result is that Auckland now has become one of the least affordable housing markets in the world'.

127. See, for example, the submission to the Auckland Council's Auckland Plan Committee on 3rd July 2012 by the 'Character Coalition' called for more local influence over development through a process of local plans which amongst other things would 'ensure public and private development is consistent with local aspirations' and 'can override the city plan to impose tighter conditions for notification and development'. The 'Character Coalition' includes community groups from St Heliers, Orakei, Freemans Bay, Parnell, Herne Bay Devonport and Northcote. The Pohutukawa Coast Community Association reports opposition by 400 residents to Plan Change 30A for retail development in Beachlands and opposition to an apartment development proposal at Pine Harbour Marina—available at http://www.pcca.org.nz/news-and-updates.html. In its submission to Auckland Council's Ten Year Plan, the Northcote Residents Association expressed its opposition to high rise

development in Birkenhead while the Birkenhead Residents Association reports that in 2007 nearly 500 objections were received to a proposed apartment block in Hinemoa St—available at http://bra.org.nz/category/83-hinemoa-street/ .

128. See Grimes and Liang (2007)

129. See CityScope Consultants (2011)

130. Of the authors cited in this paper Craig, Dodson, Fookes, Harris, Kearns, Kelsey, Larner, LeHeron, Mees, Murphy and Wetzstein are Aucklanders or have lived and worked in Auckland.

131. See Harris (2006) p. 2

132. See Chapter 11 of Auckland Council (2012) The Auckland Plan, pp. 66–287

133. The figures for planned infrastructure capital spending are taken from Auckland Council's Long-term Plan Volume 3 pp. 62–67 while the estimate for the costs of weathertightness claims is provided on page 93 of the same document.

134. See Treasury (2012) Economic Development and Infrastructure Sector: Information Supporting the Estimates 2012/12 B.5A Vol.1, table on page 283. Available at http://www.treasury.govt.nz/budget/2012/ise/v1/ise12-v1-pia-trans.pdf

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