TRANSCRIPT
OF PROCEEDINGS

SPARK AND CANNON

Telephone:

Adelaide	(08) 8212 3699
Hobart	(03) 6224 2499
Melbourne	(03) 9670 6989
Perth	(08) 9325 4577
Sydney	(02) 9211 4077

PRODUCTIVITY COMMISSION

INQUIRY INTO FIRST HOME OWNERSHIP

MR G. BANKS, Chairman
DR D. ROBERTSON, Associate Commissioner
DR E. SHANN, Associate Commissioner

TRANSCRIPT OF PROCEEDINGS

AT SYDNEY ON TUESDAY, 3 FEBRUARY 2004, AT 9.40 AM

Continued from 2/3/04

MR BANKS: Good morning. Our first participant for the second day of hearings here in Sydney is the Association for Good Government. Can I welcome you to the hearings, please, and ask you to give your name and your position with that association.

MR GILES: My name is Richard Giles. I am the secretary of the Association for Good Government.

MR BANKS: Thank you very much for attending today and also for the two submissions you've made - one in the first round before we prepared our discussion draft and one responding to the discussion draft. As I indicated, I'll give you an opportunity to raise whatever points you would like to make and we can have some discussion about those. Perhaps you might like to start by just saying a word or two about the Association for Good Government.

MR GILES: Right. The Association for Good Government is an organisation that represents the Henry George movement in New South Wales.

MR BANKS: New South Wales - statewide, is it?

MR GILES: A statewide organisation, yes. Henry George was probably best known as an American economist who put forward a single tax theory, but I think that's rather a narrow view of George's position, but nonetheless that's how his reputation has come down to us, as a proponent of a single tax on land values.

MR BANKS: He's also an advocate of free trade, I seem to recall.

MR GILES: Yes. Behind it all is an ethic of free trade, particularly free trade in land.

MR BANKS: Yes.

MR GILES: So we made two submissions and I'll endeavour to summarise those submissions. The point I made in the second submission was that I think land could have been more emphasised - rather more emphasised than housing, because I don't see that housing is a real problem. The construction of houses like the provision of any commodity is more or less a stable thing. The land problem is really the problem that I see.

The problem is not housing unaffordability, but land unaffordability. I think that this land unaffordability is a social problem; its not an economic problem. I don't think it can be corrected by economic measures. It's a social problem. It's a mind-set because in our community we claim land price as our own. We claim land ground rents as our own. We even claim land as belonging to us, as owned by ourselves. Now, out of that mind-set I think comes a number of problems and one of those is housing unaffordability for first home buyers.

I think the task of the commissioners is not so much to - I know this is what you're required to do; you're required to solve the problem by economic measures, but the problem, I don't think, can be solved by economic measures. I think it can be solved by public education. If it has a chance of success it lies in public education as to what is really going on. This claim to land price - land price perhaps is not a good term for what it is; it's a location price; it's a site price. These terms "site" and "location" are reminders that we're talking about a community value. It's the value which the community places on land and it's also the value which the community produces in land. It belongs to the community and if it's not collected by the community there are problems. One of these is housing unaffordability.

It's our claim to what is really economic rent of land which causes a problem. It causes us to seize land thinking of it as an investment, as something which will give us security. So we have claims to land that don't originate from actually a desire to use land. It originates from a desire to possess the economic rent of that land, or to gain some security from the possession of land. This creates an artificial land scarcity and it also creates a land price and it makes land expensive; it makes it in short supply which always gives the seller of land, the landowner, an advantage over the land buyer.

In periods such as we're having at the moment when there is a bubble in land prices, this problem comes to our attention. When the underlying economic activity dies away and takes that bubble with it, the problem seems to go away, but the problem is not an acute problem. It only comes to our attention now in its acute form. It's really a chronic problem in our civilisation and since land price is growing faster and, by the nature of things, is growing faster than wages are growing, this problem must get worse.

Therefore I think it's essential that the commission tries to in some way educate the public about this problem. It's a nasty thing. It's selfishness causing an unhealthy society, so it's a difficult problem to bring up. It really tells the public they're not thinking straight and they're not thinking morally and that's very difficult to do, and very difficult particularly for politicians to do. So we can't look for an easy answer to this, so the only way I might suggest that this could be begun - this process of public education could begin is by changing the terminology where it's appropriate to taking housing out of house price, housing taxation, housing unaffordability or whatever, and where appropriate substituting land unaffordability or location and bringing the terms "location" and "site" into it, to remind us that this land value - which we call land value - is really a community-produced value and belongs to the community and I suppose land tax goes as close as possible in our community to collecting such a value. I will conclude there.

MR BANKS: Okay. Perhaps one of the points you've made which I think may potentially be pushing the line a little bit hard is that you are sort of implying that land ownership and people seeking to own a home is all about selfishness, rather than - could I put it to you that for a lot of people, at least not investors but people who want to own their own home, the demand for land is really derived from the demand for having shelter, for having a stable place to live and bring up a family and so on, and therefore to talk about housing affordability in the broad, encompassing land as well as the house, is perhaps not as inappropriate as you say.

MR GILES: Yes. My comment to that is that in our community there are two uses for land: the proper and - let's take "moral" out of it - the normal use of land which you've just mentioned, and the abnormal use of land, the claim to land in pursuit of the rent that can be derived from it, which is something for nothing really. Of course what makes the problem difficult to solve is that when you try to attack the dark side of the problem you're also attacking the good side of it as well. It's a difficult problem to attack properly.

I acknowledge straightaway that most people are trying to use land for legitimate reasons and I think this is the terrible thing - I mean, at the moment land unaffordability is affecting our ability as a community to produce actual families, to have families that have got enough money to spend on good homes, good furniture, good furnishings, good education for their children and allow persons to marry earlier and get on with families, rather than accept the burden of these huge mortgages which cripple them in their early years. Yes, I agree totally. We shouldn't look at the problem as simply one-sided.

MR BANKS: Some would argue that if we move to a land tax arrangement, that that would actually be making affordability even worse in the sense of that tax being passed on to home buyers. How would you react to that?

MR GILES: Well, I think it's just the opposite. I think a holding charge on land - which signals that the community is not any longer going to tolerate private claims to economic rent - will take a large number of persons out of the market and open up the market to land users. It will have the contrary effect of making land more affordable. The economic evidence throughout the centuries is that land taxes cannot be passed on and if you look at the Ricardian theory a full land tax which reduces marginal site to having no land value whatsoever - land value of course belongs to our community. It should be land rent. Land value only occurs in our community because we take land as our own and put a price on it, a capitalised price on it. If there was a land tax it would take that capitalised price right out of it and reduce the price of land to the annual community charge which the community levied on that land.

DR SHANN: I was a bit surprised in your supplementary - we, in fact, suggested the option of removing stamp duties and financing it by applying land tax to unoccupied homes, which I would have assumed would be something you'd be in favour of, but you - I mean, you mention the fact of the removal of stamp duties could fuel land speculation, but you didn't comment on the fact that we were suggesting one of the options for funding that was applying land tax to the - - -

MR GILES: Yes, in the first submission we took the view that removing stamp duty would simply give people more money, or make available to people more money to spend on the land itself. Yes, I've since read Prof Stilwell's submission and Terry Dwyer's submission and your discussion paper and, yes, of course I agree there is some merit in it, but until - measures like this, implemented to some degree will not really change the basic situation. Nobody is going to accept a full land tax on virtual - take away all economic rent. So, yes, certainly I do think of that as a useful thing, from the educational point of view, in that it might make people think about what land tax is all about.

DR SHANN: I think it's also worth saying - I mean, in chapter 6 of the draft report we in a sense make the point you're making - that is, that the increase in the price of housing is largely due to the increase in the price of land. So we've got a discussion pointing out that it's land prices that have been - - -

MR GILES: Yes, but it doesn't destructure the whole discussion. Certainly - yes, I agree, there are an isolated spots where this point is made, but it doesn't act as an organising principle for the whole analysis of the problem. I think it's the analysis of the problem which is far more important, really, than the suggestion of ways of remedying the problem, because the centuries - the millennia have shown that this land problem is not an easy problem to solve and that vested interests - and now the community itself is a vested interest because it's holding so much of its personal wealth in land these days - that it's an extremely difficult problem to solve.

DR SHANN: I guess I've got more faith in price signals than in education.

MR GILES: Yes, but it's until you change people's ways of thinking, then you change their ways of acting and trying to change their ways of acting by, you know, carrots and sticks and prodding them this way and that - they'll tolerate a little bit of it but when they see what it's all about, that it's aimed at getting the economic rent which they believe is theirs, there will be the argument brought up that - you know, they are widowed, which has been used now for 150 years - the poor widow who will suffer from this land tax. It's a difficult problem to solve.

MR BANKS: I guess, if I could still put a bit of a pitch in for using a broader term - I mean, the greater scarcity of land and the increase in price - one reaction to that is to put more dwellings per square metre of land so that you can have a situation in which land prices are rising but housing affordability in the sense of the costs of a square metre of shelter, in a sense is not rising as fast or is reasonably stable. For a lot of people they are not so much interested in the price of the land as in the price of the accommodation or the shelter that they are seeking.

MR GILES: Yes, I know. That, in a sense, creates a lower standard of living in my opinion. That's really my answer to that. Why should we accept a lower standard of living because of this problem? In other words, we are trying to live with the problem of land unaffordability by changing our lifestyle. It's rather like people trying to live on low wages by eating cheaper food and more adulterated food, or something; changing our lifestyle in order to live with a certain social problem. In that case low wages, but in this case high land prices. We are trying to adapt to them rather than to solve the problem.

MR BANKS: Yes. In a sense your solution - if, for example, you had a situation in which land prices didn't reflect locational advantage you would, in a way, have this question of urban sprawl. The implication of what you are saying is that cities would be over a much larger area of land. Is that what you are saying?

MR GILES: No. If you study Ricardo's law of rent it simply means that people will gain more by close association than they will be scattering themselves hither and thither. It's something that numerous people have seen. There always will be a natural tendency for people to gather together because of the huge advantages that come from cooperation, close cooperation. All that the land tax idea does is to recognise that this close association between people generates a rent, a ground rent. That's all it does. The ground rent reflects the advantages that sites have for certain uses. In other words I see the land tax as quite a natural thing. It would lead to natural occurrences. The community certainly wouldn't spread.

When you take the Aboriginal problem, for example, which I saw on television this morning, it's largely due to the idea of economic rent. There those poor people are, way out - away from community advantages - and suffering all the disadvantages, not because they are Aboriginal but because they are in such a remote location that the community can do very little for them. It's that which is the problem. This is a very big thing we are talking about, the concept of economic rent.

MR BANKS: The only other question I was going to ask you goes back to your earlier submission where you had a table under the heading Rent From Advantages of Location, where you showed the share of land and new house prices. The table has obviously been photocopied from some other source. It wasn't clear to me what it was.

MR GILES: Yes. I didn't have any original research to rely on. Is it at the very beginning?

MR BANKS: No. It's at the bottom of page 4 of your earlier submission.

MR GILES: Yes. That comes from the housing industry.

MR BANKS: That's from the HIA's report?

MR GILES: Yes.

MR BANKS: I knew I had seen it somewhere before, but I just wasn't sure where.

MR GILES: Yes, it is. It's a demonstration of the existence of this economic rent or ground rent. As the share of land price goes up - if you put it that way - the land price goes up as people live in a more consolidated settlement; to reflect the advantages that exist in such a place, because of just the huge power of social cooperation.

MR BANKS: Thank you very much for that. As I said, thank you for both your submissions and for coming here today to talk about them with us.

MR GILES: Thank you very much for giving me the opportunity to do that.

MR BANKS: Good. Thank you. We will just break for a moment, please.

MR BANKS: Our next participant is Alan Hall. Welcome to the hearing and thank you very much for coming along. You have provided two submissions: one that was very helpful to us before we did our discussion draft and one responding to the draft itself. As discussed, I'll give you the opportunity to raise the key points. Perhaps you might start by just staying in what capacity you are attending the hearing today.

MR HALL: Thank you for the invitation to the procedures whereby individuals can express their views. Until 20 years ago, I was an economist at the Research School of Social Sciences in Canberra. I was in limbo, a bit like Rip van Winkle, for the next 20 years. In that interval, I became a bush regenerator rather than an economist but, naturally, I retained my interest in economic matters. On occasions I have made submissions to other inquiries, usually in relation to population growth, the economics of which I think are not very well handled by anyone. That doesn't mean that I'd have done it any better. That's the background.

MR BANKS: Can I thank you that you've taken the time and trouble to do that, because we really benefit from individuals who have no particular barrow to push and no particular interest to represent to call it as they see it. I'll let you go on then and make any comments.

MR HALL: I did intend to preface my remarks, but forgot, by saying that I am a home owner not a renter. The worry that I had with the discussion draft was that almost inevitably, in response to what was essentially a cyclical problem, it gave emphasis to cyclical concerns and didn't put the structural issues in the paper satisfactorily and that you did not allow sufficient - for the need to take account of some structural characteristics in whatever recommendations you decide to make. So, the second paper was an attempt, very selectively, to draw attention to the structural characteristics of the market and their implications.

You recognise the virtues, or the supposed virtues, of home ownership and also remind me of a point made in the Australian tariff report, which is probably thought to be a report in favour of the tariff. In fact, the principal issue of a subsequent point that it wanted to make was that there was a limit to increasing the tariff and that that limit had been reached in 1928. I was pleased to see you recognise that there is a limit to home ownership and that your judgment, if I interpret it properly, is that that limit has more or less been reached. The difference I have with that view is that I think the limit has been passed and the assistance to home ownership via taxation is now perverse and that the market has been so interfered with that it is not working as well as it should.

The other issue to which I think the commission hasn't given due recognition is the distribution of the income facets of the problem. As an economist, I know that is a difficult point to handle because it involves value judgment. However, I still think it important that the facts are stated, and I leave it to others to make their value judgments about those facts. The principal fact that is not sufficiently recognised is that, in all competitive markets - actual competitive markets not book simplifications - the distributions of the proceeds of the markets are more or less proportional to the underlying distribution of income. The maximum gain from being in such a market usually will go to the well-off and the lesser gains will be experienced by the poor. Ironically, the main gainers from housing subsidies are the wealthy and the main losers are those who, in effect, pay the subsidy to the wealthy.

I think it could be argued that the subsidies are increasing the maldistribution of both wealth and income because of the nature of some of the aspects of the point that the previous speaker was making - namely, the effects of rising land values and the acquisition of those values by the well-to-do, because they rise most in areas where the well-to-do live. More or less in passing, the commission does note that, in terms of the trend, at least; the increasing value of land is the critical factor contributing to higher house prices. It is the land component around the recent suburbs, not so much the size, that gives them their high value.

I make the additional point, which I think you will find a bit outside your terms of reference, that fairly early in the piece the Reserve Bank started drawing people's attention to the excessive increase in debt - not merely for housing but, in the first instance, it was emphasising debt for housing. I find that somewhat ironic, because the fact that people are borrowing too freely can equally well be interpreted as the lenders lending too freely. In my judgment, the Reserve Bank made a mistake by not attempting to do something about the housing bubble when it was developing, rather than letting it almost deflate of its own accord.

I appreciate the view that increasing interest rates were not appropriate at that time, but interest rates are not the only weapon in the Reserve Bank's armory. From my experience in the 50s and 60s, when Nugget Coombes was in control, the bank did place limits on the pace of extending bank credit. This is no longer fashionable but, because it's not fashionable, it doesn't mean that, if the problem is sufficiently worrying - and I think it is, to allow the housing bubble to proceed - then something ought to be done to tackle it. In that sense, I see the housing bubble as partly a result of inaction, other than jawboning, by the Reserve Bank, which isn't good enough.

I discuss the question of direct assistance for home owners and once again conclude that the limits of providing direct assistance have probably been reached. You make the suggestion, which I partly endorse, that if the home ownership grant is to continue, it should be capped so that it's only available to people on lower incomes. What that limit should be I am not at all sure, but I really think it's a waste of public funds to give the grant to the well-to-do. The point that I really want to make is that that grant is a subsidy for saving. It is a handout the equivalent to saving. The primary long-term difficulty of first home owners, or potential first home owners, has always been that of saving a sufficient deposit. To hand out a grant at the end of the process is not really an incentive to increase saving; in fact, it's a disincentive: you don't need to save so much if you're expecting a handout of X at the end of the period. For all sorts of reasons, not merely housing, Australians are saving insufficiently. The national accounts make that glaringly obvious, but I think the national accounts are probably suffering from a measurement problem which they haven't faced up to.

I don't know the answer, but I think expenditure on housing is being properly recorded and I don't think the funds available for expenditure are, so the savings figure as recorded in the national accounts, is lower than it actually is. Apart from that and whatever the number is, it's still the case that savings are too low. In my view we are relying too heavily on overseas saving. One of the most important policy stances that the government should take, particularly given the spending on advertising for borrowing, is to do what it can to stimulate saving. Whilst I haven't seen the details of the Labor Party's thoughts, I think there is a very strong case - not specifically for home ownership, but it would encompass home ownership - for a dollar-for-dollar savings subsidy, with limits on the amount that can be saved each year.

I appreciate that setting up such a system would not be easy, but I think it could be set up. Something is desperately needed to increase the Australian rate of saving. Now that the housing subsidy is in place, it would be difficult to abandon, but it's not something that is assisting the process of saving, which is what should be assisted.

DR SHANN: A couple of proposals for savings accounts have been suggested to us by participants. I think that's something we're intending to look at more closely in the final report. My uneasiness about them generally, and one of the criticisms, would be that it's easier for the rich to save. If you're providing some sort of matching grant, how do you ensure that the benefit will actually go to lower income people who basically have a lot of trouble in saving, but - - -

MR HALL: My thoughts on that are that there would have to be an income cap on savings. The snag is that the wealthy have got pretty good skills at surmounting that sort of limit. But one has to recognise that one never - I can remember Horry Brown telling me that the wealthy always found means around the tax system, no matter what the tax system is. I had experience of that in a different context when I was in Sri Lanka - when the Kaldor tax had been introduced in Sri Lanka - and the common discussion amongst the well-to-do Singhalese at the cocktail parties that I attended in those days was the latest lurk for avoiding expenditure tax. Sorry, that's by the way.

DR SHANN: The other point would be that if it is linked, say, to using the savings for a house deposit you can say, well, that would be an improvement on the first home owners scheme, and then again a criticism would be that the people most in need are probably not actually going to be able to afford home ownership.

MR HALL: Sorry, the people what?

DR SHANN: Most in need won't be able to afford home ownership and so in a sense again while you're targeting it better at the people who are on the edge of home ownership, in a sense the very poor in the community would miss out on that sort of subsidy arrangement.

MR HALL: That's true. If you can't save at all, you can't benefit from your subsidy.

DR SHANN: If you can't save very much or you can't save enough to be able to get into home ownership.

MR HALL: Sorry, I didn't make it clear. My proposal is that it is an uncommitted - - -

DR SHANN: Uncommitted, right.

MR HALL: It covers saving, but it's for any purpose.

DR SHANN: Any purpose, yes. Okay.

MR HALL: My main issues that I want to put to you are those relating to the tax advantages of home ownership. The discussion draft makes rough estimates of the amounts involved and they are substantial. One thing it doesn't do is pay much attention to who pays for those benefits. In practice, the non-recipients of tax benefits are renters, so the benefit that is being given to home owners is at the expense of the increased tax income - tax paid by the non-owning population. You just do not take up the costs and benefits. You take up the benefits, but you don't take up the costs.

The life of renters is made more difficult because they are, in effect, paying owner subsidies and that reduces their ability to save and their ability to enter the market. At the same time, the capitalisation of tax benefits into house prices - which is inevitable - means that house prices are higher than they would be in the absence of those benefits. The tax system both reduces the ability to save and increases the prices for which one has to save. Far from assisting the transition from renter to home owner, the tax system raises the height of the hurdles that the tax system is supposed to lower and is quite perverse in our alleged intention of those aspects of the tax system.

The case of the inclusion of owner-occupied houses in the capital gains system is quite clear. The increase in capital value of the house is largely the consequence of rising land prices and is an unearned increment, the taxation of which would have little real effect on the pattern of resource use. Capitalisation of the tax benefit raises house prices. Failure to tax realised house price gains means that the after-tax incomes of those with no access to such gains - the renters - is reduced, compared to what it would otherwise be.

This is where I come to my additional point. The case for including imputed rental income in taxable income is also clear in terms both of equity and efficiency. The draft discussion recognises that case, but also gives considerable weight to the administrative complexities that are necessarily associated with such a change in the tax system. It believes that the issue has wider implications and should be referred to a wider inquiry. I don't dispute that it may be that the particular issue is beyond the competence of the commission, but would urge, if they do not accept the point I am about to make, that they do strongly request a fuller investigation of the shortcomings of the tax system.

Initially, when I wrote my second paper, I accepted the argument that the administrative complexities were such that it wasn't suitable for this committee to make judgments about what ought to be done; but I remained unhappy that a really serious source of inequity and inefficiency in the operation of the housing market was being passed over to another inquiry. The main reasons for accepting the draft suggestion for passing the buck was awareness of the problems posed in altering long-established rules in which generations have been formulating their retirement plans on the assumption that imputed rental income was not taxable.

To change those rules raises all sorts of complications. One which is well known is that it has resulted - or is likely to result - in an elderly population, many of whom are asset rich because they are home owners, but income poor. How can you expect such a population to handle a new unexpected income tax? There are possible solutions, but they are all pretty messy. It was only yesterday afternoon actually that I appreciated there was an alternative way of removing this deep-seated bias in the tax system. It is to make the tax treatment of renters equal to that of owners. This can be achieved by allowing renters to deduct their rental payments from taxable income, which is exactly what happens for owners.

My initial response to this bright idea and administratively extremely simple idea was that it would be excessively costly. I don't have it on hand and wouldn't have had the time, anyhow, to examine the tax statistics by income distribution or tax payments to see what was involved; but that isn't really the issue at this point. Any significant improvement in the tax system - or suggested improvement in the tax system - ought to be introduced and defended, in principle, on the condition that it should be revenue neutral. Introducing rental deductions would involve an increase in the level of the schedule or in the shape of the structure of income tax rates. This would obviously involve some reduction in the benefit to renters and it would also involve a long overdue increase in the taxation of well-to-do home owners.

Equity would be achieved between owners and renters on the same taxable income. The choice between owning and renting housing services would cease to be distorted by the tax system. The correction of the long-standing anomaly in the tax treatment of rental income does not need to be examined in a wider context than that of the housing market. Neither the taxation equality of imputed rental income and actual rental income and the removal of the anomaly of the exclusion of the family home from capital gains tax need to be relegated to another inquiry.

Both adjustments to the tax systems would make the transition from renter to owner-occupier easier than it currently is and increase both the efficiency and the equity of the housing market. Both the adjustments to the income tax system and to capital gains taxation fall squarely within the terms of reference of the first home ownership inquiry. That is it.

MR BANKS: Thank you. I believe our assessment of the taxation of owner-occupied housing was one that we did believe was within our bailiwick and weren't seeing it being done by another review, but looking at it in the discussion draft context raised a number of problems, including administrative problems and questions, I suppose, about to what extent there were some spillovers and benefits in home ownership that might - and then the questions of change and so on. Your suggestions are welcome as a response to that, for us to sort of think these things through.

In relation to the capital gains tax, your argument I think is that with the change to the 50 per cent taxation arrangements relating to nominal gains, that the kind of administrative problems and compliance costs that otherwise may have arisen for the average family of home owner would be overcome; but I thought I might just get you to elaborate on that a little bit. Even the taxation of nominal capital gains would presumably involve still some record keeping in relation to - would there still be some deductions that would be legitimate - for example, effectively capital expenditure on the home? What about interest payments and so on?

MR HALL: Perhaps I overstated the simplicity of it, but those sorts of qualifications apply to other sorts of capital gains. I mean, you're not making any special provisions for housing. You're just making housing fit into the standard picture and any difficulties with record keeping are exactly equal to those required for non-home-owner capital gains; the rental housing and shares and what have you.

DR SHANN: With rental housing there is automatic record keeping immediately, because you're getting an income and you're looking for deductions and, therefore, you're keeping records of the expenditure. The problem if you were just applying capital gains tax to owner-occupied housing without starting taxing imputed rent and bringing it completely into the tax system would be - I mean, an existing owner would have to be keeping records of how much they were spending on the house to change the cost base. Would you allow depreciation, in which case you would have to have estimates of depreciation on the changing cost base? There would actually be quite a complicated account keeping system which there would be no automatic reason for a home owner to actually be doing between now and when the capital gains tax was actually applied.

MR HALL: Like the original capital gains tax, it wouldn’t be retrospective.

DR SHANN: Yes, but even if you're starting it now, the problem would be, you know, someone in their 70s or 80s might not be liable for capital gains tax for 10 years. Would they keep all the records about how much they were spending on the house that could influence the cost base for the capital gains tax? There would be a record keeping requirement.

MR HALL: Yes, I appreciate that. I think obviously considerable attention would have to be given to recognising that fact, but trying to keep it to the minimum practicable basis. You're not expecting home owners to be passing the - or perhaps you are these days - problems across to a tax adviser. I have always operated on the principle of self-help as far as tax returns go and that might change if you made capital gains applicable to the owned house. It's not all that different from what has to be done now for shares.

DR SHANN: There is a reason for keeping the records now.

MR HALL: The reason would be whatever the law said about what could be done for the purposes of the capital gains tax.

DR SHANN: Yes. I guess, in a sense, an easier way of reducing the subsidy to owner-occupiers is applying land tax to owner-occupied dwellings in terms of - you know, it's an immediate tax. You don't need the record keeping. If you are looking at a way of reducing the current benefits that go to owner-occupiers, spreading land tax is a much simpler way, administratively, of achieving that end.

MR HALL: Yes, I accept that point but my answer about that, my response to you is: what are you going to say about land tax?

DR SHANN: We've said it's one of the options for financing abolition of stamp duty - that is, we have specifically said that applying land tax to owner-occupied housing is one of the options for financing that.

MR HALL: I think my response to that is, that ought to be made more strongly in the final report. Somehow or other the most practical way of taxing increased land values, whether it comes through capital gains or land tax, needs to be done to offset the effects of the present system on the distribution of income, the distribution of wealth, the excessive costs borne by the less well-off because the well-to-do are not being taxed appropriately.

MR BANKS: If you'd been here yesterday morning you would have heard the Housing Industry Association take umbrage at even mentioning that the non-taxation of imputed rent was a source of advantage to owner-occupiers. As one of their arguments as to why there is no subsidy involved, they say that the government's own official summary of tax expenditures doesn't include the non-taxation of imputed rent as a tax expenditure. Have you got any reaction to that, apart from laughing? I should note for the record that's just happened.

MR HALL: I think that is not to the point at all.

DR SHANN: Perhaps it's worth saying - we go through this calculation of the size of the subsidy. It is legitimate to say that if you change the tax system, there would clearly be changes in behaviour, so there would then be an incentive, for example, for owner-occupiers to gear up, that interest would be deductible and so the size of the subsidy that we've calculated here is sort of the maximum, I suppose. After the changes in behaviour there would clearly be much less of a subsidy because of the behavioural changes that would occur in response to the bringing in of owner-occupied housing to the tax system.

MR HALL: I didn't make the point specifically but I believe that negative gearing is certainly inequitable. I personally believe that negative gearing should be capped at no more than the income to which it's related. It shouldn't be available for other forms of income. That would be part of the tax system, the complete tax system, that I would envisage.

DR SHANN: So what would you do with capital gains tax? Would you revert to the previous system or retain the existing taxation of nominal gains at effectively half your tax rate?

MR HALL: I am in two minds. I've engaged in futures shares transactions over the years and made capital gains and capital losses and found that the longer period I held things, particularly certain things like property trusts, are a damn nuisance. I gave away property trusts because there was just too much record keeping involved - I'm sorry, I lost - - -

DR SHANN: What sort of capital gains tax would you apply?

MR HALL: I don't think the public is fully aware yet of what it really means, in the sense that the higher the rate of inflation, the longer inflation goes on, the more the gain benefit reduces to the real one and may conceivably be less than the real gain. One reaction I had to that was to double the rate of capital gains tax. Instead of the marginal rate, double the marginal rate and then it comes back to - I mean, the capital sum would be halved, but the rate would be doubled.

DR SHANN: It seems to me, even if you don't allow negative gearing, so you can only gear up to the point where effectively you've got no current income, the current tax system still provides you with the ability to effectively not pay income tax, to defer that tax and then pay it at half - when the capital gain accrues, pay tax at half the marginal rate. So there's still a big incentive to effectively defer and reduce your tax, even if there is not negative gearing.

MR HALL: Sure. The negative gearing would only be a restriction of taking excess gains from the taxes from - I really haven't thought this problem through fully. Certainly one of the things that I did consider was doubling the rate on capital gains tax. I agree that it's a bad system which encourages people to convert income into capital.

DR ROBERTSON: I get the feeling that I'm sitting at an academic seminar, here. A lot of the ideas you've put forward are indeed worth consideration. I don't know how we're going to draft it so that the treasurer doesn't just throw the report straight out the window when he gets it, that's the trouble. These are really major changes, much bigger changes than we ever see - well, than we've seen in the last 20 years. I suppose if you go back 30 or 40 years, there were big changes in tax systems but on the whole they've steadied down. So here we'd be dealing with giving tax relief on rent paid, which would be a problem in itself. We're looking at changing the capital gains structure, getting rid of negative gearing. Is that it? There would be such a major distribution of taxes that I wonder if we can even propose all these at once.

I agree that what you're doing is looking at it by standing back and leading us perhaps in the right direction. Some of these things we have to consider. But having heard the Housing Industry Association yesterday - I mean, they regard it as not having anything to do with demand at all; it's all a supply problem and that supply prices are rising. To some extent there are pressures from that direction but we believe that the demand side has actually probably led the way, encouraged a lot of the things that have happened on the supply side.

If you were asked to put forward a package, not throwing the whole lot up in the air and starting again, which of these various proposals you've made would you think are most important?

MR HALL: Before coming here I would have said that capital gains tax was the most effective way, but changes that would be necessary for income tax - I can accept that that would take a lot of arguing. I suppose it's too difficult. The need really is in this context to tax the unimproved capital value of land and if the best way to do that is by land tax, I'd obviously have no objections to land tax. I suppose the proposals that I put to you are sort of logically clear and simple but the practice makes them more difficult to accept than I have allowed.

MR BANKS: Just one aspect of that I was going to ask a little bit about was the grandfathering provisions that would relate to the capital gains tax coming in as you saw it on home ownership. On page 6 you have a paragraph where you talk about when it would cut in. It might have been more clear to my colleagues, but I was just going to ask you to go through that again. What isn't clear to me is whether people, existing home owners, would become liable for the capital gains tax as of the date it came in prospectively, or whether existing homes and owners would be totally exempt until such time as there was a transfer of ownership.

MR HALL: No, sorry, certainly the intention would be that, as with capital gains tax when it was introduced, the past was past and no records or meeting necessary. The existing home owners would not be subject to capital gains tax on their home. The tax in their case would only be prospective, when they sold their existing home, bought a new one and then - - -

MR BANKS: The next home would be liable?

MR HALL: The next time, when they sold that then they'd be liable for capital gains tax.

DR SHANN: Haven't you got a big lock-in factor there? I assumed you were suggesting that you did reduce it on 30 June and then any capital gain on any owner-occupied house would be subject to the capital gains tax from, you know, 20 June 2004.

MR HALL: No, only on newly purchased.

DR SHANN: Only on newly purchased ones? There's a big incentive not to sell your house, then, if you've already got one, because you're not subject to capital gains - not to change it - - -

MR HALL: That already exists.

DR SHANN: I agree, but you're effectively saying you're not taxed if you stay in your existing home but if you wanted to move for any reason - - -

MR HALL: You would then become liable.

DR SHANN: You'd then become liable for tax. So there's a big incentive just to stay where you are because you get the capital gain from your existing home tax-free.

MR HALL: That depends. If you made the decision to move because you expected a capital gain, then you would take that into consideration, but if the capital gain that you expected was sufficient, you would be prepared to pay the tax on it. It reduces the incentive to move but it doesn't mean that people are not interested in moving.

DR SHANN: You would effectively get - being what the capital gains tax was you would - let's say it's half, for ease - let's say it halves the capital gain. Effectively, if you stay where you are you get the full capital gain, assuming both houses rose by the same amount and the one you have moved to, you would only get half the capital gain. So there's a big incentive to stay where you are.

MR HALL: No, but the one you're in is not going to be subject to capital gain.

DR SHANN: No.

MR HALL: Basically my own view is that essentially one looks to the future options rather than - and if they give you a capital gain which you accept is reasonable, then it's reasonable to take that - you know, to act to take that capital gain.

DR ROBERTSON: It runs counter to one of our arguments for removing stamp duty, which is that that can be a disincentive to trade houses, and the capital gains tax would have had that effect as well, so we might be able to trade off the stamp duty by saying, "No further stamp duty" but you're liable for capital gains tax. But it would be sort of self-defeating in a way. Both of them I think would tend to impede people from moving.

MR HALL: My personal judgment is that it would inhibit transfers greatly and that, in any event, would be transitional. I mean, to the extent that it was true you would have to accept it as a transitional cost. When everybody has become liable, then that's not an issue. In the case of housing that could take a long time but on your figures the average turnover of houses is seven years - sorry, 7 per cent - so that means that the average holding life of a house is 15 per cent and the sort of extreme holding is 25 years or so. That's the time horizon you're looking at. But a 6 per cent per annum it's turning over pretty quickly. You would slow that down but you wouldn't, by any means - - -

MR BANKS: No, I'm not suggesting it stops it dead. It's at the margin we're talking about as to whether the transfers occur.

DR SHANN: I found the analysis in your first submission of the actual house price movements quite interesting. Just to make sure I'm interpreting what you've got here correctly, effectively what you've done is look at the average growth in house prices over a 10-year period, by the price of the house. Effectively what that shows is that the bigger percentage gains have been at the top end of the housing market and, on a regional basis, what it shows is that the biggest increases have been in the inner-suburban areas and that small percentage increases in effectively the outer-suburban region. I suppose that's illustrating the point that greenfield land releases on the fringe are not a perfect substitute for housing in the inner-suburban areas.

MR HALL: No, that's true, but one qualification I would put on your interpretation is that those numbers are of a very specific time period - if they were taken at a different time. The point being that, as you would be aware, there are very large lags in house price adjustment. People are going to be making great capital gains on sales for a long time to come and this is a real worry about the nature of house price bubbles; that by raising the level of house prices significantly, it creates an enormous access to finance which did not otherwise exist and is, in a sense, fictitious. So that the inability of the Reserve Bank to do anything about it is going to be a problem for the Reserve Bank for a long time to come.

DR SHANN: You didn't attempt to break this up at all. My memory of the data from Melbourne and Sydney was that the big increases in prices early on were in fact in the more expensive suburbs.

MR HALL: Yes.

DR SHANN: And effectively what you get is a flow-out effect, if you like.

MR HALL: Yes, I would agree entirely. House price booms - the one in the 80s and the one now - were probably triggered by the high value land in Sydney and/or

Melbourne - either one is capable of doing it. Then it spreads. In this particular instance it spread all along the coast and up the Blue Mountains. It has effectively raised the price level of housing above what is realistic in terms of changes in real incomes and I can't see that it is going to be sustained. Something has got to give.

MR BANKS: Just to get you to respond a little bit to what we have been hearing from others, to what extent would greater release of greenfield land at the fringe inhibit such a boom?

MR HALL: Not very much. If the source of the problem is - the increase in land values and prices in the preferred areas, preferred locations is these days, with respect to our previous speaker, more a function of increasing real income and bidding up by people with high income, than it is about the underlying increase in the price of land. That real income bidding-up process these days is the source of the problem and I have certainly got no solution to that except to inhibit the bids a bit by getting rid of the capital gains, or making capital gains taxable.

MR BANKS: We haven't talked much about it but in terms of our diagnosis in our report of what had happened in terms of prices and affordability, were you broadly in agreement with that?

MR HALL: Yes. I was broadly in agreement. I meant to say that at the beginning. I think the function of somebody fronting up to you is to attack you, not to - - -

DR SHANN: We're used to that.

MR BANKS: That's right. I thought it might be quite useful just to draw that out since you are an independent participant, not representing any particular industry group or whatever. That's useful information. I don't think we have any more questions. It has been a very useful discussion. Again, thank you for the time you put into today and preparing those two submissions. We will break now for morning tea.

MR HALL: Thank you.

MR BANKS: Our next participant today is the CFMEU, should I say construction and general division. Welcome to the hearing. Could I ask you, please, to give your names and positions with the union?

MR SUTTON: Thank you. John Sutton is my name. I'm the national secretary of the construction and general division of CFMEU. I have with me our researcher, Ben Stirling.

MR BANKS: Thank you. Thank you very much for the submission, which we have read. We may have a few questions for you. As I said, I will perhaps give you the opportunity to outline the key points.

MR SUTTON: Thank you for the opportunity to appear today and put our organisation's views to this inquiry. Commissioners, we believe that under the federal government's present policy regime a series of poorly conceived policies are interacting on each other to the detriment of the needs of ordinary Australians, including first home buyers. These policies are also having a detrimental effect on the construction industry and its capacity to meet our society's needs in the medium to long run.

We are critical that the present policy regime is fuelling the perennial boom-bust cycle that afflicts the construction industry. That policy regime is doing nothing to meet the real, acute needs in the broader community. The submission that we have submitted deals in the early stages with the dimensions of what we say is a housing crisis in Australia today and it draws upon the work of the Affordable Housing National Research Consortium, which we were participants in together with most of the other major industry organisations such as HIA, MBA and the like. The ACTU was the other union body that was a participant.

We very much stand by the material that was put together by the Affordable Housing Consortium in respect to the present crisis in housing needs in our community. You can see the detail, the dimensions of that crisis, mapped out in particular on page 3 of our submission.

On page 4 of our submission we deal with the serious contraction in the supply of public housing stock in Australia and the impact that that contraction is having on the whole housing market. This is an element that is often overlooked in the debate about the costs of first home ownership but it's an element that we draw to your attention. We say that without some serious efforts to address the public housing crisis it is inevitable that the whole housing market will continue to be impacted in a detrimental fashion; particularly vis-a-vis costs that your inquiry is looking into.

We are seriously concerned about the run-down in the Commonwealth-State

Housing Agreement and the diminution of government moneys going into CSHA to even sustain previous levels of public housing stock. As the current government winds down its commitment to CSHA problems, serious problems in maintaining present stock are evident and there is no capacity to grow stock to meet growing needs when the government has the attitude that it does towards the Commonwealth-State Housing Agreement.

Similarly we are critical of the excessive reliance on the rental subsidy approach in respect to public housing. We don't believe that that is in fact working to create more stock. Our submission suggests that in fact much of that rental subsidy money, which becomes an ever important, ever increasing part of government commitment to public housing, is in fact going into fatter rentals in that sector and is not fulfilling the purpose, in terms of creating any additional stock in that part of the housing market.

We then go on in our paper to deal with the various policies and the combination and interaction of various federal government policies that have, without question, overheated the housing market; in particular, have overheated the investor section of the market, and we deal with those policies in our paper. To touch upon those policies and their interaction of them, let me start with the first home owner grant. We are critical that this grant is helping to fuel the overheated market. It has no relationship to need at present. As you know, it's not means tested and it goes to all and sundry who seek that grant.

We call for the grant to be targeted and we call for it to be means tested. We, in our paper, touch upon - and I will develop it a little bit further in my dialogue now - what we see as the excessive negative gearing that's going on, whereby the tax system is essentially being used to subsidise investors who are making hay in the property market at the expense of the public purse and to the detriment of good public policy.

I use the expression "excessive negative gearing". We don't believe, in the current circumstances, that negative gearing could be turned off overnight. We have seen, in years gone by, the public policy results of negative gearing being switched on and switched off; we are mindful of that. In the current environment if negative gearing were switched off abruptly, given the current circumstances where a bust is looming, then the bust would come that much quicker and would be that much deeper. We don't say that it should be brought to a halt instantly.

We do draw to your attention the fact that under the present policy regime there are no constraints whatsoever and that this inquiry really should start to contemplate some constraints on the negative gearing arrangements. I believe the Reserve Bank shares concerns about this question. In a number of places I've used the expression that I believe all Australians have an inalienable right to have a decent roof over their head: whether they be home owners or whether they be in the rental market. I say to you that there is no inalienable right for Australians to be able to negatively gear three properties or five properties or seven properties. There is no such inalienable right to negative gear to absurd limits.

We know that there are some others, such as the Reserve Bank, that share this kind of concern. There are obviously various ways you could approach the negative gearing question, in terms of starting to bring in some limits or constraints on negative gearing. We urge you to have a look at that, in terms of the various possibilities to constrain negative gearing. We repeat that we don't see why the taxpayer and the public purse ought to be underpinning speculative investment to the extent that is presently going on.

Let me say that another interacting policy in this area is obviously the present government's decision to cut the capital gains tax arrangements, which came through some years ago. Together with those cuts to capital gains tax there is the depreciation regime that is presently in place and the interaction of the capital gains cuts and that depreciation regime are unquestionably helping to further fuel the speculative boom that has been upon us now for quite some time. We know the Reserve Bank has these concerns and it's regrettable to know that the Reserve Bank is moving, has moved and will continue - in our submission - to move to lift interest rates to try to deal with the property bubble that presently exists.

What that really amounts to is that all Australians who are home owners or who have mortgages are in fact having to bear the burden and pay the price of this government's speculative policies which have blown up one part of the market. All of us - myself included - have to meet higher interest rates to try to address these policies that the government should have been more cognisant of and should not have got us into the position we are in. I want to say to you that the speculative investment that we see out there is often the wrong product in the wrong place. It very often does not correspond with or coincide with the needs of young Australians, particularly young Australians with children who are trying to bring their families up.

The product that we see out there all too often - inner-city apartments that are geared purely to an investment market, geared often to overseas investors, often geared to overseas students, the kind of product not exclusively but all too often is product that does not, as I say, correspond with need - much of that product doesn't lend itself to the family situation, young children. A lot of that product coming on stream is completely unsuitable, in terms of any social infrastructure, to bring up young families in. As I say, it's often in the wrong places. It doesn't correspond with where jobs are and of course much of that product is pitched at the middle and the upper income sections of the market. So we say that a lot of resources, a lot of public resources, have gone into putting the wrong product in the wrong places and your inquiry ought to be taking notice and you ought to be cognisant of some of this distortion that's going on in the marketplace. The government has been sending the wrong signals with the wrong policies to help fuel that speculative boom.

Because the Reserve Bank is moving to deflate the speculative bubble, we know that many Australians who have gone into mortgages in a situation where public housing is less and less of an option for Australians, people are going into mortgages in situations where if other stock was available, they may not. Obviously the banks pay no regard any more to the kind of safeguards that the banks once took account of, in terms of the income level of the people they're lending money to, and the capacity for repayments.

What that means is you have a very fragile position presently in the housing market, where some relatively modest moves in interest rates can very significantly impact the capacity of people to service those mortgages. That's because people were forced into that product in the first place because there are not other opportunities available in the marketplace. So these are all elements that we believe you should take on board.

We, in our paper, advance a number of solutions to the present problems, and they include the government's attitude towards the Commonwealth-state housing agreement. We believe this has always been one of the fundamental tools of creating affordable accommodation and it really has to be revisited with some genuine commitment to expenditure under that agreement. We, as I said earlier, think that the rental assistance approach is not working and there's a substantial waste of moneys in that area.

I've already commented on how we believe, in relation to first home owners, negative gearing and the other elements - capital gains tax and depreciation regimes - there has to be significant tightening in our view in order to constrain some of the speculation that's gone on. We also, in our paper, deal with the capacity to create new stock in the market through other financing techniques, than the government is presently prepared to look at. In our paper we outline two possible models of financing of housing stock. We outline the model that the Affordable Housing Consortium developed and that consortium has publicly made available that research and has sought to popularise that financing technique as one way of bringing a substantial amount of additional stock onto the market.

We also deal with another model called, in our paper, the equity model which would also involve innovative financing techniques where state and federal governments could work together with institutional investors, particularly superannuation funds and via them working together and contemplating the

Commonwealth involving itself in bond issues and also underpinning the rate of return on those bonds, we believe that there really is great potential in that area to do something about the crisis in affordable housing stock, and that will have a positive effect in terms of supply across the whole market.

I want to put to you that what we have seen in recent years is the public purse directing resources into one part of the housing market. Those resources have come naturally through the subsidy of the first home owners grant and it has also come in terms of lower taxes. The Commonwealth has forgone significant tax revenue in boosting investment in the housing market. So the combined effect of the government outlays and the impact of a lower tax take means that Commonwealth dollars have been used in recent years to finance certain parts of the housing market.

I say to you that if those Commonwealth dollars were used in the other part of the market in a more needs based way - that is, if those dollars were used to help underpin the kind of financing options that the Affordable Housing Consortium has spoken of, where for a particular amount of Commonwealth money, you can leverage off that amount of money to create a much bigger amount and therefore a considerably greater amount of stock, that is in fact a much more prudent, a much more useful, a much more targeted way of increasing stock, particularly for low income and middle income Australians who are seeking to bring up young families out there in our community.

That would be a much better way, as I say, a much more targeted, a much more useful way of those Commonwealth dollars being spent, than what we've seen in recent years, where the Commonwealth dollars are essentially helping to go into - all too often into the pockets of property developers who have made hay in recent years. There's a role for property developers in our society and my union interacts with them and we interact with construction companies and I don't come here saying there is no role for property developers, but I do say to you the flow of Commonwealth dollars in one direction has been excessive and those dollars can be better utilised and be more targeted if they were used to underpin the kind of financing models that we outline in our paper.

I might also say to you that we know we're on the cusp of another downturn in the building industry and given the sensitivity and the fragility of the housing market, where so many people are vulnerable to small shifts in interest rates, we're already seeing the commencement of that downturn. We say to you that the Commonwealth government, apart from meeting the looming crisis by the more innovative financing methods I've mentioned, the Commonwealth also has a responsibility to anticipate the development in the construction industry and bring forward, to bring on stream some of the infrastructure projects that would have otherwise lagged and would have otherwise been further down the track. The government has a responsibility to bring those forward to cushion the jobs impact in the construction industry.

Now, that may not be on your radar, in terms of what you're looking at today, but let me suggest to you that every time we have a crash, we have the downturn in the building industry, we lose very valuable skills from this industry, the industry suffers a very major decline in people able to deliver capacity - everywhere from professionals through to builder's labourers and I say to you, having experienced the crash in the 90s and the 80s - I've been around a fair while now - we don't need to lose all those people if we can actually put in place some proactive government policies to cushion the impact of the looming downturn and hence my emphasis, not just to the innovative financing models, but the need for this government to bring forward some major infrastructure expenditure.

I can say that in New South Wales I think the downturn will not be as severe on construction industry personnel because there are at least four very major infrastructure projects going on, either happening now or commencing imminently in this stage which will help keep valuable skills in the construction industry with the opportunity for people to be able to deliver the product that you're concerned about - ie, residential product for Australians. So that's the basic shape of the submission that we put to you today. We hope you take our views on board and we think that your inquiry could do a great deal of good in terms of reorienting some of the poor investment that has been going on, and could play a role in trying to right the ship and see some more fruitful and valuable investment in other parts of the housing market. So, again, thank you for the opportunity to be here.

MR BANKS: Good. Thank you very much. I think the points you were raising towards the end there about the boom-bust cycle and how costly that can be, and disruptive, I think we share that. One of the challenges in our report was to find ways that, over time, some of that extreme cyclical activity can be moderated and the issues you raised about tax, I think, are clearly relevant there. Just a few questions, picking up on some of the points - and my colleagues may have other ones - I think one of the first points you made in relation to the policy suggestions was a question of targeting the first home owners grant which, as you know, we also proposed in our discussion draft.

I guess one of the questions for us in taking the discussion draft forward is how one would most effectively target the first home owners grant, and the question really comes down to - if you have any views about means testing versus some kind of ceiling on the value of a home that would qualify.

MR SUTTON: We're not going into the minutiae of it. We know the present regime is completely inappropriate. Whether there is a ceiling or whether it's means tested, we don't have a particularly strong view. We just know that a whole lot of government moneys are presently being wasted on helping to fuel the boom that - you know, the excessive boom out there.

MR BANKS: The other question I was going to ask you about - you referred to a lot of the investment really going into the wrong place for the wrong people. That's also been put to us by other participants, I think, that they are seeing a shortage of affordable rental accommodation and a lot of the investment - there's been huge investment in rental accommodation but it's been in the top end of the market; again, any views you might have on why it has gone to the top end. A lot of the tax arrangements and so on aren't in themselves - at face value anyway - necessarily reasons why investment should go into the top end rather than be spread across the spectrum a bit more. But I don't know whether you have any views on that.

MR SUTTON: It just seems to us that that section of the market is the section where the greater profits are available to be had. The low income section of the market doesn't seem to be as attractive for a range of reasons. You know, we know, that a lot of overseas investors are participating in that section of the market where all the fairly high quality apartments are being put together. You know, rentals are very high in that section of the market. Young Australians can't necessarily get into that part of the market. I just think developers find that a much more convenient, a much more attractive part of the market.

Well, it's self-evident. I mean, why are developers going there? If there was more money to be had by putting up flats out in Campbelltown, they would be doing it. They're not. They're putting up the flats in the inner city and around the harbour because that's where the bigger profits and the better profit streams are to be had. So it's self-evident that something is going on in the policy mix. I mean, we know the way the market works. If there were similar or greater returns to be had by supplying accommodation to young low income Australians, they would be doing so and they're not.

MR BANKS: Clearly what comes out of that is that the market that they're pitching at is reasonably well off but still preferring to rent rather than to buy. It shows that perhaps the rental market in terms of consumers is a bit deeper than one might have thought.

MR SUTTON: Thinking about it, capital gains of course probably has a very big impact. If you've got property in the inner city or around the harbour, you can pretty well write down quite a robust number in annual capital gains whereas, generally, the same product in the outer suburbs, et cetera - perhaps not always but generally - the capital gain is much less.

MR BANKS: I guess I'd have to agree with your comment about the market working and so on, but it is interesting that probably what's happened is there's been rather an optimistic projection about the demand for some of these inner-city flats, and what we're seeing now is a rise in the vacancy rate. There may be some self-correction to the extent that investors think that they may well have pitched too heavily at one section of the market to the detriment of another.

The only other point that people have been making - and I think it's in this study on affordable housing in Australia that you referred to - is that traditionally a lot of the more affordable rental housing has been kind of a cottage investment industry for people, who themselves live in the suburban areas, just investing in a property for rental which is probably in their own suburb. It's a very fragmented and diffuse market. You mentioned the Reserve Bank a couple of times, and one of the interesting things is that it pointed out that a big part of the investment boom that's occurred has actually been the so-called popularisation of negatively geared investment in rental dwellings, but it's not showing up in available, relatively low-cost rental accommodation. Clearly, there is an imbalance which, on the basis of your submission and others, we'll look at a bit more carefully for the final report. I have some other questions, but I should let my colleagues - - -

DR SHANN: In terms of changing capital gains tax and negative gearing, are you suggesting that that be done only for housing, or for housing and shares?

MR SUTTON: I'm speaking only of housing. I know that people draw the parallel with shares, but I would suggest to you that in relation to housing and to property there is a very physical impact from the tax stimulus that exists. In relation to shares, you can buy and sell shares and, obviously, they have some impact on private companies but when you have the same policy in relation to the property market, you actually physically change the landscape. You're directing bricks and mortar to construct concrete activity in particular physical locations, which has a concrete impact on the environment in every sense - the environment in the sense that greenies would mention it and in the sense of where social infrastructure is available for families to grow up and live in.

We say that you've got to be more sensitive in the property area and you've got to be more sensitive to the tax stimulus. It's not a zero sum situation here. You're creating specific, concrete results which, as I say, are going to be with you for a long period of time. Can I ask my colleague to speak to you for a moment?

MR STIRLING: We're not experts on the operation of the capital gains tax regime, of course, but we understand that some notion of income-producing property is a particular category of capital gains tax, at least as far as the operation of the depreciation rate is concerned, and that might cover any consideration of the way that capital gains tax works. If there's a particular part of the capital gains tax system that operates only in relation to property, it seems to me that it would be easier to separate that in analysis and debate.

MR BANKS: I think that the capital gains tax provisions that apply to negatively geared housing can also apply to the share market. In a way, they sort of apply to personal passive investments. You made the point, or others have, that one of the things that coincided with the change in the capital gains tax arrangements was the decline of the share market, so money fluttered into property.

MR SUTTON: Yes.

MR BANKS: The jury is out a bit as to whether we might see a reverse flow as equities pick up. Certainly the point we made is that a number of these provisions are almost interactive in terms of being almost pro-cyclical, emphasising the booms in whichever market prices are going fastest relative to inflation, and so we've got a bit of that. What we've said in our report is that these are important issues and an important part of the diagnosis of what's gone on, but they're quite complex. You've got an interaction between negative gearing, which has been around for a long time, and these new capital gains tax provisions and an increasing number of people finding themselves in the top marginal tax rate and looking around for a way of reducing their tax burden. Therefore, there's a need to look more widely at those issues, rather than picking off parts of them, particularly given the effect that it might have on other asset markets. I take it you agree broadly with our diagnosis. You're probably encouraging us to push a bit harder in terms of the directions for reform, and that's certainly something we'll be thinking about for the final report.

MR SUTTON: It's not within your province anyway, I suppose, to comment on the capital gains tax regime in respect to shares, but I do say that in respect to property and the creation of social infrastructure, which is what we're talking about here - we're talking about the housing needs of our population - the policy has a very specific effect in directing resources and in creating the structures and the infrastructure. Once it's created, if it's a poor product in the wrong place, you're stuck with it for an awful long time. If you buy shares that you don't like, arguably you can on-sell them the next week or the next month, or whatever, without having actually physically altered the environment. That's the point I was trying to make.

MR BANKS: Yes, that's a good point. We also point out ourselves that there are quite significant differences between the operation of the housing or building market and the share market, part of it being that stickiness and so on that we observed. One aspect of capital gains tax is very much housing specific, and we had a former academic from ANU, Alan Hall, who lives here in Sydney now, talking to us before the break about that - that is, the exemption of capital gains tax from the family home. Being an academic, he was bravely suggesting to us that we address this. I don't know whether you have any views on that. He was talking about what he saw as the inequity of the tax provisions relating to home ownership being paid for by those who are in rental accommodation.

MR SUTTON: We haven't explored that policy area. I take it that what you are referring to there is that you could pour enormous sums into the one - - -

MR BANKS: Yes.

MR SUTTON: Whether that's a good use of public resources, our view is that there ought to be limits; what they are, we haven't thought enough about.

DR SHANN: The other thing we suggest in the draft is abolishing stamp duty and replacing it with a broader based tax - either land tax on the owner-occupied housing, or revenue from the GST as it grows, or payroll tax. Do you have any views on that or, again, is that an area you haven't thought about?

MR SUTTON: We would take the view that, at this stage, you can't just come along and abolish that stamp duty without having a pretty major impact on state government revenues. I don't know that state governments are bound to listen to your recommendations anyway.

MR BANKS: Not even the Commonwealth government is bound to.

MR SUTTON: Nor is the Commonwealth, naturally. If any state governments did it, I think the policy impact would naturally be that they would have to find revenue streams from somewhere else, and the consequence would be that the punters that I'm interested in - the ones who might, on the one hand, save money because they can get their housing product cheaper - would only be forking out tax in some other state government tax on the other hand, and the net result would be that I don't think that the tax would work in the highly progressive way that I believe the tax system should, and we make up the revenue shortfall from hitting the wealthiest Australians. Somehow I think that in this day and age it would end up falling upon those who, arguably, need the assistance - namely, first home owners and younger Australians who aren't necessarily flush with money.

DR ROBERTSON: We understand the problems that you've presented to us about rentable housing, low cost housing and so forth. The problem is: how do you deal with it? You mentioned putting up apartments in Campbelltown. In fact, those people are probably going to have to work somewhere towards the centre of the city, which means that they have huge transport and communication costs. If I accept all that you've said about how we need to put more money into the CSHA and even take up these proposals for equity based lending, the real problem we face is location, and you've said that yourself, that you need jobs and houses close together. The other problem is low cost housing.

You're an expert from the construction industry, so you're much better informed than I am, but is there is a big difference between the actual construction cost of low cost housing and the big apartment blocks that we have in the city centres? When we talk about low cost housing, we really mean low cost to rent or to buy. In fact, if the basic costs are still the same, you've got a really big subsidy problem.

MR SUTTON: Over the decades - and I go back a fair way - there was a time when the union had specific industrial relations arrangements in relation to the construction and what was then the Housing Commission. Of course, the rates and conditions were less than you would apply in respect to major commercial developments. The union was always cognisant of that and took that into account - that one was a social product to house young Australians and the other was a product for building something for an insurance company, or whatever it might be. There was always that element in our policy.

Construction costs are less on smaller structures. I don't advocate that we build Waterloo-style accommodation in Campbelltown or in Waterloo, or wherever. I think that the Department of Housing long ago decided that those multistorey concrete monstrosities in Waterloo, et cetera, were not the optimum way to house people. Generally it would be smaller projects and generally the cost is less than for a comparable product in the middle of the city with transport congestion, et cetera. Generally the cost is less. There is not a massive differential, but the costs are somewhat less. That's the best I can answer you.

In respect to where the jobs are, I don't come here today with a demographic study to put on the table to say where they are. Clearly, there are white-collar jobs in the CBD and blue-collar jobs that still exist out in the suburbs and in the industrial areas around Sydney. Campbelltown - there are a lot of people who live and work in and around Campbelltown. I don't say that all the jobs are in the heart of the city.

A somewhat related matter is urban consolidation. We do believe, you know, the best public policy approach is to try to put resources where current infrastructure exists, rather than all greenfields stuff. I see it as a debate before your committee about land supply and opening up tracts of land out the back of beyond. We are strong believers in urban consolidation, but it has to be sensible product, in sensible places, and it has to try to have some correspondence with the needs of the community. That is our big complaint. Too many resources have been going into product that does not correspond with the needs of the community.

DR SHANN: It is actually just a factual query I had on the original submission or - no, it's in the supplementary submission. You are quoting the numbers on page 3, which is drawn, I think, from that Affordable Housing in Australia report; so you have got a series of comments about no households could afford to buy a three-bedroom house in any metropolitan location, et cetera. Is that actually the median-priced three-bedroom home or is it any home? If it's any home, it's rather startling, but I was just wondering if it - - -

MR STIRLING: The way the consortium approached that question is that they looked at median income and then they created the bottom 40 per cent of median household income.

DR SHANN: Yes.

MR STIRLING: I can't offhand respond to the specific question of how did they calculate - - -

DR SHANN: Okay, yes.

MR STIRLING: But they had some model. This research was done for them by the Housing and Urban Research Institute, I think. I think they have sent a submission to this inquiry.

MR BANKS: They have, yes.

MR STIRLING: But the calculation was that based on some sort of housing price average across Adelaide - - -

DR SHANN: Yes, I assume it must be the average house price.

MR STIRLING: - - - Melbourne and Sydney, the bottom 40 per cent - - -

DR SHANN: There must be some awful three-bedroom house somewhere, I would have thought.

MR STIRLING: Yes, the bottom 40 per cent on that basis was locked out of the purchase.

DR SHANN: Yes.

MR STIRLING: But it looks at the bottom 40 per cent of median household income, so it's a study about low to medium income households. I should comment, to end with, that I think that very study is available as a submission to the commission inquiry.

MR BANKS: In fact there are a number of papers that came out, I think, sequentially as a part of that study.

MR STIRLING: Yes, there are.

MR BANKS: And one of them I hadn't been aware of, which we will chase up as a result of this submission. Thanks for that. As you acknowledge on the first page of your submission, our terms of reference are pretty broad and pretty ambitious, but they are pretty much focused on home ownership and first home ownership in particular. We have tried to find a way of raising broader issues that are related to that key point, but obviously there's a limit to how much we can go into the detail of public housing and so on in this inquiry. I think you and others have raised these broader issues which we will certainly try to address as best we can in the final report. Thanks very much for the submission and for coming here today.

MR STIRLING: Thank you.

MR BANKS: We are now going to break for lunch. I think we are resuming at 1.40. Thank you.

(Luncheon adjournment)

MR BANKS: Our first participant this afternoon is Paul Pollard. Welcome to the hearing. Perhaps you might indicate in which capacity you're here today, and then we'll give you the opportunity to make whatever remarks you'd like to make.

MR POLLARD: I'm here as an individual with a long background in urban planning issues and an interest in housing.

MR BANKS: For the record, I thank you for your two submissions, both whilst we were preparing our discussion draft and subsequently, which have been quite helpful to us. No doubt we'll have a few questions for you but first we'll let you proceed.

MR POLLARD: I'll speak to the main points in my submission on the draft. I certainly welcome the opportunity of appearing and participating in this process. I think that the Productivity Commission papers were valuable, as were the submissions, and I found them very informative and helpful. Perhaps I might address some of the issues that drew my attention in the discussion draft - first, the question of long-term affordability of housing.

The draft appears to be reluctant to draw a conclusion about changes in affordability from, say, 1970 to the year 2000. From the evidence it seems to be fairly clear that prior to the present boom in house prices and with a doubling of house prices in real terms at a much faster rate than income rises over that period, there has been a worsening affordability situation. The only counterargument to this is the interest rate argument but, in fact, real interest rates were hardly higher back then than they are now. Taking that into account I think it's fairly difficult to deny that in the long term up to 2000, affordability has become gradually worse. Whilst the various indexes in the discussion draft are valuable as short-term indications of affordability, for various reasons they are not useful in looking at long-term affordability, and they may have been the reason why the draft doesn't seem to draw conclusions about worsening long-term affordability.

One of the arguments in the draft is that house price changes are cyclical. Although in one sense they are cyclical, in another sense they're not - in the sense that falls offset rises. The process of house prices in Australia seems to be more a case of ratcheting up through various periods of price rises, rather than a cyclical process, where they rise and then they fall. An example is that after the 1989 boom nominal prices showed no fall at all. In real terms, of course, they fell somewhat through inflation but, overall, in real terms they didn't fall back to what they had been previously. So we are seeing a sort of ratcheting up through these booms which make affordability much worse over the long term in this ratcheting-up process.

MR BANKS: At one point we might have spoken of them as being cyclical around a rising trend.

MR POLLARD: That's true, yes, but you can't draw comfort from the cyclical argument in relation to the current boom. That's the point. These price booms are the mechanism whereby, over the long term, prices do rise more quickly than incomes. Ownership rates appear to have held up very well up to, say, the year 2000, before the current boom, but there are some straws in the wind that indicate that, in fact, ownership was dropping somewhere. There is a bit of evidence in the draft, and other evidence, that ownership was beginning to fall and become more difficult for many in society prior to the present boom.

I think that one issue is worth going into - that is, the question of what's happening in terms of real wealth terms. There is mention in the draft about rising real incomes leading to higher prices and so on but, if we look at the real wealth effects of the housing market, we see that real prices have doubled from 1970 to, say, 2000 but, at the same time, the average amount of land per dwelling unit is falling because of the gradual shift to apartments and the shrinking size of blocks on the urban fringe. In convenience terms, new additions to housing land on the fringe are, overall, less convenient in a metropolitan sense than existing land. In terms of land per average dwelling unit, the situation is getting worse in a material sense than it was, say, in 1970. This might be offset in real wealth terms by larger floor space for dwelling units but, given the size of the pre-1970 stock, the additional floor space per average dwelling is still only marginal. Overall, we have far worse value for money, as it were, if we look at the real wealth picture.

What is the housing market doing in terms of real wealth? What it is mainly doing is using real demand to add to new additions to the stock in real wealth. What it's actually doing is, for the most part, transferring real wealth from those buying into the market to those exiting the market and greatly increasing inequality of wealth in society, based not on income and effort necessarily but based more on previous position in the urban land market, however that came about.

I agree with a number of the specific recommendations in the draft - for instance, changing the first home owners grant scheme, improved planning processes, and a more rational basis for development charges - but these together are minor on the scene, or they would take a long while to have an effect; improved planning processes, for example. Without major changes to government policies at various levels, worsening affordability is certain to continue and, in fact, probably will become much worse. The cyclical argument can't be used to negate that because, as I mentioned, the cycles don’t lead to falls; they simply lead to a plateauing for a while and further cycles of rises.

In my view, a fundamental problem with the housing market is that people who want to buy housing and who are willing to pay 30 per cent of their gross income to become an owner are forced, because of the high prices, to become part of a capital gains market, in effect, which they may not want and may not be able to afford, but they are forced to do that because of high prices. The disparity between payment for what you might call a housing utility - the use of the housing, which is, say, 25 or 35 per cent of household income - and the price is quite glaring, and that is reflected in the very low returns that investors get on investment. Essentially this has come about because of supply problems but also demand problems, which can relate very much to taxation arrangements.

Australia used to have the most favourable taxation set-up for investment in housing of any developed Western country but, at the same time, this has not led to a generous supply of housing for rental, for instance. The housing market is clearly distorted, partly by supply problems but also very much by demand aspects relating to taxation arrangements. For that reason I very much support the findings in the draft about a review of negative gearing and capital gains tax. However, I think that taxation issues also apply to depreciation of buildings, which is obviously a major concession to investors. In the United Kingdom, I understand that depreciation of buildings isn't deductible and, when you think that you can fully deduct all repairs and maintenance on a building, it's hard to see the justification, from a tax principles point of view, for depreciation being allowed on buildings. After 40 years, which is the period for deductible depreciation, if a building is properly repaired and maintained, it is just as good as it ever was and is extremely valuable.

I support the draft findings in relation to review of negative gearing and capital gains tax, and I think that they should be extended to cover the issue of depreciation of buildings as well and how it relates to capital gains tax arrangements and to negative gearing, because they all relate to one another. However, I think that the recommendation in the draft should be greatly strengthened in relation to review of tax issues to say that, because of the effect on housing affordability, this is a major and very strong ground for reviewing these various aspects of the tax system. The effect on housing prices and affordability is, obviously, a very large part of the broader context, as it were, of these taxation arrangements. In summary, I think that the draft findings in this area of review of tax should be greatly strengthened.

MR BANKS: Thanks very much for that. I should thank you for taking the time as a disinterested individual to come along and put your views, which are particularly valuable given your background and the fact that you don't have any particular interest to pursue. Before we come back, inevitably, to tax issues and so on, at one point you mentioned that what we've observed in recent years has been partly driven by supply constraints, but you went on to talk about demand. Yesterday, members of the industry were here and the Housing Industry Association, in particular, reversed that order and said that what we've observed has been predominantly driven by supply constraints, infrastructure costs and so on, which wasn't our conclusion. I thought I'd give you the opportunity to comment, if you'd like to.

MR POLLARD: I think in the longer term supply is obviously a vital issue. There's no question whatever about that. If supply were enormously constrained, it's obvious that it wouldn't matter what the taxation arrangements would be. Housing would have to become more relatively valuable, more bid for by people and so on. Prices would inevitably rise, so I think in the long term supply is absolutely vital. Imagine a situation where supply were enormously increased - enormously generous - then, in effect, the taxation arrangements would cease to matter because capital gains would fall and therefore the whole investor scene would alter and so taxation issues would be much less important. It's really complex, where they both create the situation.

In the longer term supply is probably more important, but in the shorter term - and, in a way, a more easily dealt with issue is the taxation arrangements. In the shorter term I think the point made in the discussion paper here is quite valid, that the recent dramatic rises in prices have taken place without - obviously are unaffected by supply. Supply has continued on with a relatively stable addition each year to stock, so in the shorter term, taxation and the demand side issues obviously play a bigger part. I think it's more a question of long term as to short term.

MR BANKS: What about even over the longer term? Could greenfields land release be a sort of sufficient supply side response?

MR POLLARD: It's a very very difficult issue, and I can understand why the discussion draft more or less said, "Well, we're not getting into regional policies," and - - -

MR BANKS: No, I was thinking more of the fringe of the city, where the land release at the fringe actually would be sufficient.

MR POLLARD: I think, to make a really big difference, they would have to be pretty generous fringe releases, they'd have to be - and I said this in my first submission - of a very large scale and they'd have to be very well serviced in terms of employment opportunities, as well as the obvious infrastructure side of things. In fact, I suggested in my first submission that we really need a rather radical and large-scale response to this problem, amounting to virtually new urban strategies for Australia, whereby the whole opening up of land is properly managed, for affordability as well as for better city expansion.

I think greenfields on the fringe is - it depends on the city. It's obviously much more feasible in Adelaide and Perth - and possibly Melbourne. Sydney has this physical constraints problem, and greenfields expansion is only possible in one sector and it's a long way. I think greenfields expansion on the fringe is definitely more feasible in some cities than in, say, Sydney.

MR BANKS: Yes. I think in your first submission you were saying that, because of the lack of substitutability, the fringe land releases have little or no impact in lowering land values across the cities.

MR POLLARD: Yes, the way they're run now.

MR BANKS: Yes.

MR POLLARD: They're of relatively small scale. They have high development charges and I think those charges need to be put on a more rational and lower basis. There's a problem of hoarding of land. That was mentioned, I think, in one of the submissions in relation to Melbourne, in particular.

MR BANKS: Is there any evidence of that?

MR POLLARD: Land hoarding?

MR BANKS: Yes. I mean, other than perhaps rational - - -

MR POLLARD: Yes, rational expectations of what you would expect. I may not be able to dig it out right now, but I have seen information in relation to Melbourne, where I think the state urban planning department, or whatever it's called there, said that there was ample land in Melbourne - 15 years' supply or something or other - in blocks which could be built on more or less around the fringe and in some of the infill areas, but it was simply being held back. A lot of it was being held back and pushing up prices. I think there are figures in relation to Melbourne, at least, which support that contention. I think that urban land is such an unusual commodity that quite radical approaches are needed, as I said in my submission, in relation to release, the price, the servicing of it as so on.

MR BANKS: Okay. Just one other point, before I give my colleagues an opportunity: again, in your first submission, you talked about urban consolidation occurring, largely in conditions of high existing house prices.

MR POLLARD: Yes.

MR BANKS: Presumably when prices are surging you get more of a move.

MR POLLARD: Yes.

MR BANKS: We've had people saying to us that a lot of the investment boom that's occurred has been in the top end of the market.

MR POLLARD: Yes.

MR BANKS: It's not been such as to address the needs of lower income people.

MR POLLARD: That's right.

MR BANKS: I see a possible connection there, and I just thought you might like to comment on that.

MR POLLARD: Yes. That was part of my thinking; that for whatever reasons, as far as one can see, urban consolidation doesn't really seem to assist low income earners. It seems to be middle and high priced properties, and there are some fundamental reasons for that. First of all, if it's high density, building costs are higher per dwelling. As I said, it's spurred by higher housing prices, which add to the cost of buying the property and knocking down the earlier development there. It doesn't seem to add to low-cost housing in normal market circumstances. Urban consolidation is not a good issue to rely on, unless it was handled in a very different way, like large-scale urban consolidation, which would have to involve some sort of government coordination of land assembly or something or other and the facilitation by government in some way.

MR BANKS: Is it, in part, that a combination of the very high cost of land and the higher cost of high-density construction means that, even though you're getting more dwellings per square metre, it still - - -

MR POLLARD: It seems to be. Yes, the way the market seems to work, that seems to be the way urban consolidation works under present market circumstances at the moment.

MR BANKS: Okay. Thank you.

DR SHANN: The home ownership rates, just to return to that, which I must say I find genuinely puzzling - I mean, clearly in the lower age groups there's been some fall in home ownership, on the data we have anyway. I guess the question is whether some of that's occurred through social changes - that is, it's actually desired by the people. They're staying in education longer, for example, and therefore they basically form separate households later, in which case - you know, it's what people want to do. I guess that's supported by the fact that there's been that decline in the younger age groups for some time. It's not specifically related to the recent surge in house prices.

While you might argue, "Well, the price of housing has risen, you'd expect some decline in home ownership rates," it's hard to disentangle what are, effectively, two factors. If it's the first factor, would you worry about it? I mean, people are living longer. They will probably spend almost exactly the same time living in their own home. They're just starting later, and they will stay in it longer because they're living longer. I guess it gets hard to really separate out what are the factors changing the home ownership rates.

MR POLLARD: Yes. There was an interesting graph published in an article in the Financial Review, which showed ownership by age groups, and that showed that the age group owning their houses at the highest degree were people in their early 70s. Apart from a small drop-off after 75, there's a direct correlation between age and ownership right down to the age 40 and actually earlier, when it's very steep. It's rather extraordinary that people in their late 70s own their houses more than people in their early 50s or something, to about 8 per cent difference or something.

I can only think the main reason for that is that it has gradually become more difficult to buy a house over the last 30 or 40 years. That's one bit of evidence that affordability has become worse. It's obviously become worse in the current brief boom of the last three years, but prior to that in the long term I think it's become worse. That's a little bit of evidence that it's become worse. Also there was some small evidence in the draft about the 2 per cent drop found by a couple of people - a couple of studies - between the mid-80s and the mid-90s, but I agree that demographic changes which you mentioned may be a factor.

Ownership has held up surprisingly well, in my view, given the gradually rising relative price of housing, but I think that's because people place such a strong emphasis on it. I think people in their late 20s still want to buy a house. I think the desire to own a house is very, very strong, and my personal view would be that if it's being, on average, put off a bit longer it's because it's difficult to do.

MR BANKS: Just on that, I thought as you were talking as to whether some of the social changes, including high divorce rates and so on, may partly explain that. A household traditionally probably - you know, the husband and wife jointly would own the home. They may then subsequently have divorced. One party owns the home, so suddenly the incidence drops by half, and it takes that other party some time to get back into home ownership.

MR POLLARD: Yes.

MR BANKS: But it is a bit of a puzzle at face value, I must admit. I think some of those demographic and social changes over time may be confounding the data as well.

DR SHANN: I agree. I'm slightly puzzled by why there's such high ownership in the 70s age group compared with the working age group, but again one reason would be that there are some people in the working age group who will rent - you know, they've got a job where they move around.

MR POLLARD: Yes.

DR SHANN: Again, you can see a reason why there would be a portion of the working age population who would choose to rent, because they don't want to be tied down by owning a house in a particular area.

MR POLLARD: The only thing about that is that it's assuming someone ceases work, on average, at 60 or something or other and then they buy a house, because they don't have to move around for their work any more. They might get a golden handshake, but usually people, on retirement, aren't in a position to sort of enter into a big mortgage. I can't see people in a relatively late part of their lives being very able to get into the housing market.

DR SHANN: We've got figures on who the first home buyers are. There are some people 55 and over who are buying a first home. It's a very small percentage.

MR BANKS: 3 per cent.

DR SHANN: Yes, so that's 3 per cent out of 100 per cent.

MR BANKS: Is that just from under the scheme; the first home buyers scheme data?

DR SHANN: Yes. So, out of 100 per cent, 3 per cent of them are 55 and over. There are some people that are very old still buying - this is buying a first home.

MR POLLARD: Yes.

DR SHANN: I agree that there is clearly some portion of people who very late in life will move into home ownership.

MR POLLARD: Yes.

DR SHANN: The other area of controversy yesterday was probably taxation of owner-occupied housing. You've commented here on the taxation of investor housing. I'm just wondering what reactions you have in terms of the current tax arrangements in terms of non-taxation of imputed rent, non-application of the capital gains tax to owner-occupied housing, exemption of owner-occupied housing from land tax and what effects you think that has and what, if anything, should be done about it.

MR POLLARD: I didn't suggest that any of those things be taken up, because I don't think any of them would really assist affordability. The taxation of imputed rent seems to be something which very few countries do. You can sort of argue one way or the other about taxing the sort of non-monetary income from owning an asset, but I don't see how that would assist affordability if you did that in any way. It would tend to be a burden - obviously a financial burden to some extent - on owner-occupiers.

On the land tax issue, I don't think that putting a land tax on owner-occupation would assist affordability either. I can't quite see how it would really. The same goes for - what is the other one you mentioned?

DR SHANN: Capital gains tax.

MR POLLARD: Yes, capital gains tax. I can't see how having capital gains tax on - land tax on owner-occupied housing I think might very well be extremely justified as just a form of revenue. It has probably a lot going for it. In terms of affordability, I don't think it's relevant. The same goes with capital gains tax. I can't see how those would benefit affordability for home owners.

MR BANKS: You might care to have a look at a submission that Alan Hall made. I don't know if you know Alan. He lived for some time in Canberra. He was at the ANU and he has been living in Sydney for the last 20 years or so. He made a couple of submissions and he addresses the same issue. I think he is mounting an argument that it would affect affordability. If I remember his arguments correctly, he was saying that, in a sense, those tax advantages for home ownership in a way attract more capital into acquiring homes and that in itself pushes up the price.

MR POLLARD: Yes.

MR BANKS: He was saying there is a double-whammy for those who aren't in home ownership and that is it is their taxes that, in a sense, are funding that advantage. He saw that making it less able to get any home ownership - - -

MR POLLARD: Yes.

MR BANKS: So the two things, on the income and the price side.

MR POLLARD: I'm not sure if actually that would affect home ownership rates. How would someone who can't buy a home be assisted in actually buying a home? Yes, I can see the point that, in effect, what he is really saying is that home owners bid more for their own owner-occupied dwelling because they have this capital gain in mind.

MR BANKS: Yes.

MR POLLARD: I think probably a minority of people bidding for their own home have capital gains in mind, but an awful lot of people simply want to have a house. They might say, "Oh, it's great, because " - I think they have in their mind that it will keep its value. I don't think they're planning in 20 years' time or whatever to have a whacking great capital gain. Some people might. People that buy very expensive houses in the eastern suburbs might have that in mind, but I don't think most people would. I can't see it being beneficial to ownership rates.

I think possibly what he's talking about is actually just a more equitable form of tax revenue. It may very well be a very good equitable and economically rational form of tax to have a land tax and to have capital gains on housing. Of course it used to be the case, too, that there used to be death duties, which was probably mainly tax on - - -

DR SHANN: You have got the section on real prices versus real value. Given rental yields are so low, if you were just making a choice between renting and owning your own home at the moment, you would surely rent, except for the fact that if you buy a house you potentially get a capital gain. Isn't that the logic of what you are saying here?

MR POLLARD: I think what people face is not so much capital gain when they buy their own house, they just hope that it will keep its value, as it were.

DR SHANN: Why would you then rent if the rent is only 3 or 4 per cent and you can - which the rental yields are only 3 or 4 per cent?

MR POLLARD: You are saying rents are cheap, as it were.

DR SHANN: Yes. Compared to the price of a house, yes.

MR POLLARD: In the back of people's minds is the fact that in the very long term - it's a very long-term thing and in the very long term they will be better off if they end up owning their own home. When they pay rent they don't have security. The rents will go up with inflation, whereas in the very long term your mortgage tends to diminish very slowly, as a part of your income, because of inflation. People are greatly attached to a house when they own it. In effect, you are saying capital gains are actually important for - - -

DR SHANN: They certainly are in the investor market. I don't see any reason why they wouldn't be equally true in the home ownership market.

MR POLLARD: I think people in the investment market are probably people who are - a lot of people who would like to be home owners aren't interested in investment. You know, they are interested in living in a house that they own.

DR SHANN: In the investor market clearly people are putting money into housing and negatively gearing it and they get a very low rental yield on the assumption they will get a capital gain.

MR POLLARD: Yes.

DR SHANN: So they are building into their investment decision an assumption of strong capital gains in the future and I would see no reason why an owner-occupier wouldn't be doing exactly - they are often the same people.

MR POLLARD: Yes.

DR SHANN: Why they wouldn't be doing exactly the same when they are thinking about owning their own home. They would be building in an assumption of a capital gain. In fact tax-free capital gain in that case.

MR POLLARD: Yes.

DR SHANN: That would seem to be the logic. People don't usually disconnect between investment decisions. In one case it's investment in rental housing and in the other it's an investment - - -

MR POLLARD: Yes.

DR SHANN: They also use it themselves, but there's also an investment aspect to it, I suppose I would say.

MR POLLARD: So what you are saying is that capital gain is actually a motivation for owner-occupiers?

DR SHANN: Yes, among others.

MR POLLARD: Yes.

DR SHANN: As you say, there are others.

MR POLLARD: Yes.

DR SHANN: You know, the security of tenure. There are certainly other - - -

MR POLLARD: This really relates to the proposal by Alan Hall, that it be taxed. Actually that would tend to dissuade people from ownership, wouldn't it? If his proposal applied and if they do think capital gain is important and there was capital gain tax for owner-occupiers, that would tend to dissuade people from - - -

MR BANKS: At the high price. What you would get is probably a reduction in price. He had various suggestions for transition which were very slow, by the look of them, so I'm not sure how much that would be.

MR POLLARD: Yes.

MR BANKS: You would probably still have people wanting home ownership, but not prepared to pay the price that they might otherwise have paid. Anyway, if you're interested, feel free to download - - -

MR POLLARD: Yes, Alan Hall.

MR BANKS: - - - Alan's submissions or both of them. If you have any further comment, that would be good.

MR POLLARD: Yes.

DR ROBERTSON: He had another idea, too, of course, which was that we should allow people who don't own their own house to get tax relief on the rent they pay, since they pay tax on their income before they pay their rent. That's another way of trying to equalise the advantage that the imputed rent is not taxed.

MR POLLARD: Yes.

DR SHANN: So rather than taxing imputed rent, you allow people who are renting to deduct their rental costs, which I must say I hadn't really thought through.

MR BANKS: No. My first reaction was we might all become - - -

DR ROBERTSON: I think gross rents would rise. That would be my view.

MR BANKS: Yes.

DR ROBERTSON: But I think there's an important point in this and it's exactly what we have just heard, which is are you answering the question about tax equity or are you answering a question about what is happening to affordability?

MR POLLARD: Yes.

DR ROBERTSON: I think you have to keep those separate.

MR POLLARD: Yes.

DR SHANN: In a sense it's one reason why you want these tax issues really considered in the broader context, because they have to be considered against criteria other than purely their impact on affordability.

MR POLLARD: Yes.

DR SHANN: Important as that is.

DR ROBERTSON: Of course one of the things we suggested is introducing a land tax would be an alternative to running the stamp duties. Do you have any comment on that?

MR POLLARD: I would personally favour that, because I think stamp duties are probably an inhibition to ownership to a very small degree, but I would be concerned because I think, as some of the submissions said, it's very likely that if you got rid of stamp duty - they are quite an important form of revenue for the states and you might find it very difficult to put a tax in place. I think that revenue to state governments is quite important and so I would be very careful about getting rid of it; to make sure that there was revenue from some other source to maintain that.

DR SHANN: I'm sure the states won't do it unless there is revenue from another source.

MR POLLARD: Yes.

DR SHANN: Our calculations suggest that if you extended land tax to owner-occupied housing, that provides roughly an amount which would substitute for - - -

MR POLLARD: Right, at the current rates.

DR SHANN: Yes, the current rates. That will vary from state to state, depending on what the particular rates of stamp duty and land tax are and there are other options, so you can use increases in GST proceeds as well.

MR POLLARD: Yes.

DR SHANN: There are other options available. I guess we saw some attractions in that in terms of stamp duty being effectively a tax which discourages mobility in the housing market and land tax falls on the site value.

MR POLLARD: Yes.

DR SHANN: So it isn't a tax on the improved value. You know, if efficient use isn't being made of the land, it's an encouragement for people to move. We could see some long-run structural benefits in such a change.

MR POLLARD: Yes. You have to recognise that in the current situation of a seller's market, I think, a seller of land - yes, a seller's market - for the most part a removal of stamp duty, that sum would simply go into the price of - - -

DR SHANN: If it was being done by imposing a land tax, you would assume that is going to be working in the other direction, wouldn't you? There would be no net change in the taxation of land. You are removing one form of tax - - -

MR POLLARD: Yes.

DR SHANN: - - - on land, but you're substituting another one.

MR POLLARD: You are saying that that would have no sort of - - -

DR SHANN: I think more limited than if you were just abolishing stamp duty.

MR POLLARD: Yes.

DR SHANN: Assuming land tax would be capitalised into the values.

MR POLLARD: That's right, yes.

MR BANKS: We found that very useful and appreciate the opportunity to talk to you. If you have any further thoughts after the hearing or if you're reading Alan Hall's submission and want to get back - - -

MR POLLARD: Yes.

MR BANKS: Even a phone call or a page with a few dot points on it would be welcome. Thank you very much.

MR POLLARD: Fine.

MR BANKS: I am not saying that you should put more time than you have already put into this, which we appreciate.

MR POLLARD: Good.

MR BANKS: Thank you for that. We will break now for a moment before our next participant.

MR BANKS: Thank you and welcome to the hearings. I might just ask you, perhaps, to indicate in what capacity you're here today, and then we'll give you the opportunity to make the main points you want to make.

MR DANZEY: I'm here as a spokesman for an organisation called Land Tax Targets Tenants. We also have another organisation which is affiliated with that, which is Keeping Local in Local Government, which is a topic at the moment here in New South Wales and probably other states, too.

MR BANKS: Would you like us to list you as a participant by the name of your organisation, or by your own name?

MR DANZEY: I don't mind.

MR BANKS: Okay. Perhaps we'll use your name, since I've announced you that way.

MR DANZEY: All right. Okay. My background - and if I could say, credentials - is that I've lived in Sydney for a period of about 43 years. I bought a home at Bronte and I still live there. I'm a registered real estate valuer in New South Wales, and I don't have any restrictions on that. I'm not extremely active in that field now, mainly because of my position as spokesman for Land Tax Targets Tenants. I don't want to be seen as generating professional fees. I was the chairman of a coalition of resident action groups in New South Wales for a period during the 1970s when we were battling to get the planning and environment legislation. I'm an ex-alderman of Waverley Council and, I suppose, I'm the founding chairman of a very large and very successful resident action group founded in 1970 called the Bronte and Tamarama Society which founded a lot of the other Sydney resident action groups - the Coogee, Centennial Park, et cetera.

I have taken an active interest in planning over a long period of time, and I have along the way collected some real estate investments. Primarily they are blocks of flats. What concerns me - I've read through this report here - and I think it's full of excellent suggestions and it also puts a very, very balanced argument, but everybody is talking about affordable housing, and as a registered valuer I don't really understand what that is. I suppose affordable housing is what somebody can afford to pay for a house, and depending on the locality, that somebody would have to be very well heeled or, if they're buying at Brewarrina, not so, well, wealthy. So I was just talking to my wife last night, and I couldn't understand also where this line of medium-priced housing was in Sydney. Like in Melbourne, you can start at the city and go down the two corridors to Frankston and Geelong, go out to the Dandenongs, head up towards Kilmore, head out towards Horsham. You don't have any bridges to cross - or not too many - not like the physical functions and restraints, you know, that affect this great city.

But this city started very close to where we're sitting, and the medium-priced housing probably started at about Millers Point, and then at some stage very early in the piece, drifted out towards Redfern, and then probably at the end of the 19th century was out around Petersham and Stanmore, then swung back with the opening of the eastern suburbs back in the pre-war, first war, and the inter-war period of Waverley and Dover Heights and those places. But I don't know where it is now. It's a bit like that line that Thorpe chases when he's in the pool. It's certainly racing away from Sydney's eastern suburbs and the city. It has gone well past our inner cities, and it's probably at our second city, Parramatta, and it's probably - I say this with professional skill - somewhere west of Parramatta. Where that is, I don't know.

So what is affordable housing? Affordable housing, in the eyes of the development industry, is the renewal or urban renewal of some of the most classic, high-standard housing in the world, which as Australians, we're the beneficiaries of. In this city here, we've got housing - I'll call it the inter-war housing - in established local government areas that were operating extensively during that period. That's probably between here and Parramatta or here and Strathfield, and probably from here to about the Taren Point Bridge. It probably goes to Manly, and it would certainly swing up the corridor, up to Pymble and those places. In that area there, that's the area that's under attack from a development lobby. They are at this very time seeking to amalgamate and take local out of local government, and they are quite proud of the fact that they are extremely generous towards political parties, particularly in this state. I don't know what it's like in other states, and that's a concern when it comes to affordable housing, because what is affordable housing going to be?

Is it going to be a high-rise flat, with less floor space than the so-called high-rise flats of Potts Point that were constructed, say, prior to the First World War and just after the First World War - in McLeay Street - some classic buildings - Werrington, McLeay Regis, Bentley Hall, Franconia - they were the high-rise buildings and they were built of brick, and because they were built of brick they were restricted in their height. Nevertheless they built on all the land because cars weren't too popular, perhaps, when they were coming on-stream, and it wasn't a necessity. Trams were running everywhere and we had a great transport system.

But there have been terrific changes. We've now got concrete pier and beam, and I'm fortunate enough to own a unit on the Gold Coast. Approximately from here to say, Circular Quay, from my unit, the highest building in the world is being built - residential building - and I assume, with the engineering know-how, they can probably even go higher, if allowed to, and if the market warranted that. So where are we heading? Is affordability being used to change the face of Melbourne and

Sydney's inner suburbs? I think it is, and I think that is being supported by a fairly cooperative state government, particularly when it comes down to what I've come here to talk about now, that land tax definitely targets tenants. I'll give you an example.

I was very interested in what this previous speaker had to say about land taxing homes. Let me give you an example. I'm not wealthy. I've owned a home at Bronte for 40 years. If anybody wants to lease my home, they have to pay the Carr government $415 in land tax, before I get any rent, before I pay the land tax to Waverley Council. We all overlook that already there are two land taxes. Local government has only one form of direct taxation on property owners, and that is a land tax which we all call council rates. It's applied as a rate in the value of the land. That's exactly how state land tax is applied, but we don't call it state rates. We call it state land tax. In this wonderful report of yours, we talk about land taxing everything. There's no suggestion as to the impact of that upon local government taxation. Local government doesn't get a mention except that it's slow to approve development. It's the cause of all the frustrations that the Australian Property Council members are suffering, and it's responsible, run by a lot of local people or grassroots - and that's what it is - it's a grassroot form of government. It doesn't even get a mention, although it is suggested that we put a land tax on everything.

Now, the land tax that's on property here in New South Wales is being used to shake loose older properties and, in many cases, make them economically obsolete. Almost any house in Sydney's inner suburbs is now economically obsolete if it had to rely on capitalisation or as an investment. I own a block of flats. It was built in 1936. It's a proud building. I look after it, but it's fairly humble. It's a block of two-bedroom flats. It's actually in the suburb of Bronte, of which I am very proud to say that as an alderman I instigated Bronte and Tamarama becoming suburbs. So it's not in Waverley any more. It's in Bronte. There are young people who are working in the city, a couple of single mums living in that building, and each flat is paying $65 per week land tax. That building is paying 20 per cent of the gross rent in state land tax. I will say, as a professional person, that is clearly economic obsolescence. Is that the intention?

The zoning of the land is residential A. Under Waverley's LEP and under most LEPs in New South Wales, that means you can build a single storey or you can build a single dwelling. You can have a dual occupancy subject to the amount of land. You certainly have a dual occupancy on that property. So under the zoning, the highest and best use, as it's valued for, is a home. So is that the intention? I've got some photos here, but I don't think I need to present them. Look at any block of flats in the inner suburbs of Melbourne, in the inner suburbs of Sydney, and look at these handsome buildings that were built prior to 1960, before strata title, and certainly prior to 1984 in New South Wales before state environmental policy 10, which is an absolute contradiction of terms - that's to save rental housing; that's the state government has to save rental blocks of flats. I've just given you an example: I say how they're being slaughtered by another taxation policy of the same government.

But these buildings, which I previously mentioned, like in McLeay Street - Berkeley Towers, the McLeay Regis, all the suburbs of Bondi, Hall Street, Curlewis Street, Campbell Parade - all those buildings were built as rental housing. Strata title didn't take effect until 1960. There's hardly a rental block left. It's not all the fault of the state government imposing state land tax. When the Second World War broke out, the Commonwealth government quite rightly imposed rent restrictions, where rents were fixed at a 1938 value - and from memory I think it was about August or September - and a lot of the state governments, including the state government of New South Wales, took over that legislation, handed to them by the Commonwealth, and Sydney and possibly Melbourne - I don't know - but the Sydney market right up until probably the mid-70s, but certainly in the 40s, the 50s and the 60s, was gridlocked because tenancies were inherited.

They were part of the tenant's estate. They were handed down to families, all based on a 1938 value, so you can imagine how popular a state politician would be to come along in 1960, as Robert Askin did, and say, "We're going to do something about rent control." You wouldn't be surprised to hear that he did not win the state election and he certainly didn't win any seats in inner Sydney. Nevertheless, it has watered down and there has been a change in the political environment of inner Sydney. There is no longer rent control.

The reason I've raised that is that a lot of those lovely big, handsome buildings, built in the pre-First World War and inter-war period, are on company title. During the 1940s and the 50s and the 60s, for the owners of those places to escape their capital out of those buildings that were returning them nothing, they converted them to companies and sold the shares to the existing tenants. That was a wonderful breakthrough, particularly for tenants, because these people were able to buy an equity in the building at literally no deposit and at a very tiny price.

Since strata title has come along you don't need company title, but 40 years after strata title, this city here - back in the 50s, a very high percentage of it was owned by and was the very base of the wealth of a great Australian corporation called the AMP Society, who owned a lot of the major commercial properties in this city. All sorts of problems occurred, but today the whole place is honeycombed with strata title. This hotel here and the hotels around Potts Point - the Rex, the Landmark, the Gazebo; there are about 15 or 16 of them - they've all gone to strata title as they're no longer viable as hotels. Because as hotels they paid land tax and as hotels they paid GST every time they sold a room, they converted them to strata title.

What I think is going to happen is that instead of having a hotel room that this hotel here might offer, the hotel rooms have been joined up and they've been sold off as strata units and probably a management company will come along and take over the entire building with numerous owners, not one owner paying land tax and whereas the Landmark Hotel paid about 10,000 a week land tax - about five years ago I'm talking about - once you strata it, the site value - and I heard one of the panel mention site value today. You never hear that word used. It's a clear indication that somebody knows what they're talking about. The site value is paid by the one owner. Once it's broken up into strata the site value is apportioned and with the Landmark Hotel overlooking this city, overlooking the harbour, not one unit will pay land tax because the apportioned value doesn't exceed, in 2004, $317.000.

So can I now bring you back to this little block of flats. What are the options for the owner? We could go on paying 20 per cent of the gross rent just in one state tax. I'm very lucky. I'm very lucky. I don't owe any money on it, otherwise it could not survive. So I can apply to Waverley Council and have it put on a strata title. If I have it put on a strata title, immediately there's no land tax on each flat. Four people in this room buy a flat each; they rent it out - there's no land tax because the apportioned value is only 200,000. In fact, you could go and buy two flats and only pay land tax on approximately $200,000. If the owners live in the flats, there's no land tax until the land value reaches over 7 million, and it's only 800,000 now, because the apportioned value then - your land tax threshold is 1.97 million. What's happening with this land tax?

These documents - and thank you, I say, for accepting my very late entry into this - these tables I have supplied are from New South Wales Treasury. They are authentic but they are conservative. They do not include what is called manual assessments. Manual assessments are when a lot of these young people investing in property go and make their investment and think they've missed out on land tax - it's a self-assessment, land tax; I don't know whether you knew that or not - and you don't put your land tax return in. When you go to sell it, you have to apply for a land tax clearance. That's when the commissioner is sitting in the stamp duties office, because the contract has to be stamped. Land tax runs with the land. It does not run with the taxpayer, so anybody buying property in New South Wales and probably all over the nation, make certain you get a land tax clearance because if you don't and there's a debt of 100,000, you'll be called upon to pay it.

They go in for land tax clearance and say, "Well, this has been leased. Let's have a look. This fellow has got a couple of properties." I know a person who's just paying 47,000 on a house at Strathfield. It's absolutely scandalous. Before the Local Government Boundaries Commission the other day, one of the commissioners was a councillor from Blacktown Council. I wrote to every local government authority -

the letter is there - and asked them what the land tax was in their local government area. Not one council in New South Wales could tell me anything about land tax, despite the fact it was a predatory, competitive tax against their own tax revenue. They had no idea.

This counsellor also had no idea that in Blacktown the state government is taking 27.15 million last year out of Blacktown in land tax. They're taking nearly 5 million in rental housing, because there is no premium property in Blacktown. All that residential tax is upon rental housing. They're taking the balance, which is round about, we'll call it, say 24 - they're taking 24 million out of small business and industry. In a council area where the state government wishes to amalgamate - South Sydney and the city, the brawl is on at the moment - it wasn't known that in South Sydney, which is supposed to be a fairly poor council struggling to provide infrastructure, the state government in land tax, a competing predatory tax, is taking 53.2 million, or taking over a million a week out of South Sydney, of which they're taking nearly 11 million in rental housing.

In these inner suburbs, you might notice that in the City of Sydney it's very light. In this city here the great value of the land is the exploitation of the airspace and, as I said probably 20 minutes ago now, with modern building techniques you can probably build 200 floors if you were allowed to; but you can't do that in the great sea of suburbia in any of our cities. The property council would probably like to do it and multiply the use of land because you don't have to be very smart - if you can change the use of land by multiplying its use, that's not affordable housing - that's profit-taking.

In these tables here you'll see that out of the Sydney region, or the statistical division which takes in Gosford, the state government took 824 million in land tax. A great deal of that, about 333 million, was taken from housing. I've called for certain reforms in state land tax. Those reforms include the abolition of state land tax on all residential land outside the Sydney region - that includes Wollongong and Newcastle, in those areas too - to try and diversify development. Because I own flats, if someone said to me, "Mike, will you build us a factory in Albury?" I'd say, "What's the value of the land?" "It's 200,000." I've got to pay full land tax on it, because my threshold is already taken up. It doesn't give me any incentive to invest in decentralisation.

Affordability is not a problem in our regional centres. Affordability of housing is not a problem in wonderful towns like Griffith and Dubbo and Wagga and Albury. Affordability is a problem in Sydney's inner suburbs. A lot of people have got their eye on that, and there's a lot of people watching those, as I say, with their eye on it. I think we should be bringing about some sort of a taxation system that encourages the industry to diversify its investment and seek profits in other areas and be rewarded for risking capital to do that. It's no risk of capital to build a high-rise block of flats at St Kilda. It's no risk of capital to build a high-rise block of flats at Campbell Parade, Bondi. The local council, local residents, will fight to the bone to stop you doing it, but with the abolition and the removal of local from local government, the local residents are being disenfranchised. It's deliberate. It's not something, I say, that's only economies of scale.

I addressed Leichhardt Council recently. They were concerned because the statutory government were putting the arguments that the Anzac Bridge had created some sort of a community of interest. I thought then perhaps Parramatta Road might create a community of interest with Parramatta, so let's just have one great big council; but there's no suggestion to abolish state government. The suggestion is a two-barrelled approach: affordability of housing, where the industry is saying, "We need all sorts of deregulation at the local government level," and that needs to be looked at very carefully because it will be seriously challenged, as I say, by the people in suburban streets, and it's being seriously challenged now; and we have a boundaries commission telling us that locals really should be taken out of the equation of government, at our third tier of government, the very grass roots tier of government. You've seen some correspondence I have submitted to you. I'm getting letters back. They're predominantly from Cabinet, from executive government and shadow ministries.

I'll end by just going to the letter Land Tax Targets Tenants wrote to the mayor of Randwick. We reminded the mayor of Randwick that he's calling for the abolition of Randwick Council; but from 700 per cent less residential assessments, the local member, the chair of the board of New South Wales, the member for Maroubra, Mr Carr, is getting 48 per cent of the revenue that Randwick ratepayers are getting. When you go over to Waverley, the mayor is now the local member for Coogee. From 530 per cent more residential rate assessments than land tax assessments, Waverley is getting 13 per cent more revenue - and they're telling us that Labor government is not viable.

Coming back to my block of flats, the local government land tax on that is $7 a week compared with state land tax at $65 a week per flat. Every one of these letters has evoked the drover's dog tactic, from the premier right through to the deputy premier and every minister: the minister for housing, the minister for decentralisation, regional development, the minister in charge of development for the Illawarra, the minister in charge of development of the Hunter.

You all must see Michael Egan, the number 1 ticket, number 1 on the upper house ticket for the New South Wales Legislative Council. No-one knows me. If Mike Danzey was number 1 ticket, you could bet the life of your favourite child I would get elected, and so would the drover's dog. He's our treasurer, gets elected for eight years every year. The premier and everybody says, "Talk to Michael. He makes all these rules. Cabinet has got nothing to do with it.   The chairman of the board has no say." If you believe that, you believe in the tooth fairy. Thank you.

MR BANKS: All right, Mr Danzey, we've given you a pretty good hearing.

MR DANZEY: You have, and thank you.

MR BANKS: As a result we've probably used up most of our time. Perhaps we should leave it there. Thank you again for that submission. Indeed, if you have any further correspondence that you think we'd benefit from, please feel free to send it along. Thank you very much for your participation in the hearings.

MR DANZEY: Thank you.

MR BANKS: We'll break now for a couple of minutes before our next participants.

MR BANKS: Our next participants are NCOSS, or the Council of Social Services of New South Wales, and Shelter New South Wales. Welcome to the hearings. Could I ask you please each to give your names and positions with your respective organisations.

MR VOLKE: I'm Harvey Volke. I'm acting executive officer for Shelter New South Wales.

MR BANKS: Thank you.

MR MOORE: Gary Moore, director of the Council of Social Services of New South Wales.

MR BANKS: Thank you very much for attending today and also for the submissions that we have received; I think two from NCOSS and one from Shelter, or a combined one. Maybe the earlier ones were as well, yes. They've been very useful - and also to have a submission on our discussion draft which will help us get to the finishing line so I will give you the opportunity to make whatever remarks you would like to make and then we can ask some questions.

MR VOLKE: Okay, thank you very much. I will lead off with a general introduction then Gary will talk specifically about some of the taxation issues. I would like to congratulate you on the comprehensive nature of the report which you have done to date and not merely that and perhaps even more importantly, I really appreciate the clarity of the report. It's refreshing in an era of managerial gobbledygook.

MR BANKS: That's good to hear.

MR VOLKE: It's very readable. I also appreciate the fact that you have attempted to adopt a comprehensive approach to the problem of affordability in home ownership and, as you've clearly indicated in your report and as we certainly agree, in fact, the reasons are complex and many. There are problems with affordability and home purchase; it is not a simple one-on-one thing, as a lot of people would like to think.

The issue that we in Shelter New South Wales would particularly like to draw your attention to is that while there are serious problems with affordability in home purchase, in fact at the low end of the market, the two bottom income quintiles - there are very serious affordability problems but these mostly, in fact, don't relate - as I'm sure you're well aware from your own work - so much to home purchase but to the sheer cost of survival in a housing market which they find difficulty gaining access to.

Just to reiterate, which I'm sure you already know, at least to some degree some of the problems that there are for people at the bottom end of the market whom we represent, factors like housing costs have been outstripping increases in average weekly earnings and CPI for many years now, and particularly in the Sydney metropolitan area - which as you point out is a global city - there have been increases of 40 per cent in housing costs over the last five years. That is certainly felt in the home purchase market but even more so in the social housing market and, more particularly, the private rental market.

Of course, as you will also be aware, more people are renting for extended periods; 40 per cent used to be regarded as a transitional form of housing into owner-occupation but now 40 per cent of private tenants have been renting for the previous 10 years or more. Of course, I think we can almost guarantee that that percentage would be much higher in the traditional high rental areas of metropolitan Sydney. Indeed, when we say metropolitan Sydney, you might as well say virtually out to Penrith, because that's effectively where a lot of the housing affordability problems are for low-income earners.

Investment in private rental housing, however, for all the discussion we have had about high vacancy rates, about drops in rental around the holidays and so on - that's fine at the top end of the private rental market but that is not what is happening at the lower end of the private rental market. Investment in private rental housing has been skewed to the top end of the market with a steep decline in private rental stock for people at the bottom end. Nationwide, according to Judy Yates - and you will be aware of the figure - there is now a shortage of something like 150,000 units of affordable private rental stock for low-income earners. I won't go into all the details that surround that. You will be aware of them anyway.

What are the methods of addressing this? Of course the present federal government is particularly interested in demand side policies rather than supply side policies, with the result that we have seen a long-term rundown in supply side programs like the Commonwealth-State Housing Agreement and a steep increase in demand side programs like Commonwealth Rent Assistance. As you will be aware also, the Commonwealth Rent Assistance program has failed to deliver housing affordability to a substantial percentage of social security beneficiaries and, of course, Commonwealth Rent Assistance does not go to the working poor who are most affected in the private rental market either.

Over one-third, according to a study that New South Wales National Shelter and NCOSS did - and the report is here - more than one-third, 35 per cent of all CRA recipients, spend more than 30 per cent of their income on rent - that is, they are in housing stress on a generally accepted and conservative, it must be said, benchmark.

Nearly one in 10 spend more than half their income in rent. Of course, in higher rental cost areas like Sydney which is where vast numbers of private tenants live, renting is virtually unaffordable across the metropolitan area; plus, of course, it must be said, in some regional areas as well.

The demand side of the program, of course - the Commonwealth-State Housing Agreement - the Commonwealth government has substantially reduced that since 1996. In the 10 years to 2003-4, expenditure on CRA's Commonwealth rent assistance increased by 7 per cent in real terms to 1.92 billion while the Commonwealth-State Housing Agreement from 96 to 97 stood at 1.7 billion and has now dropped to 1.2 billion; a decline in real terms of 30 per cent. If we are talking about problems in housing affordability, while there are some serious and substantial problems in home purchase, the people who have no possibility of gaining access to home purchase are doing it tough.

Public housing is unable to meet the demand for affordable housing for low-income earners. In New South Wales alone there are 80,000 households - not people, households - on the waiting list. Public housing has also been increasingly narrowly targeted to people on social security benefit and with high and complex levels of need. 30 years ago public housing was addressed to the working poor. You virtually had to get a job to get into public housing. Nowadays the situation has reversed. You have to be virtually out of a job and totally defenceless to gain access to public housing. If you don't get priority housing you go onto the waiting list and the waiting lists are effectively closed simply because of the run-down in stock and the run-down in funding. These, to us, are more substantial problems.

Other cheap options for low-income earners like boarding houses, caravan parks and residential parks are also in decline as they close down for profit or redevelopment or upgrading, particularly during events like the Olympics and so on. It has been estimated that in the current year more than 2000 residential park sites in New South Wales were affected by such developments. These are people who even find it difficult to access the private rental market. They are stuck with renting caravans or putting caravans on sites and so on. But those opportunities also are closing down. When we talk about housing affordability, again these are one of our prime concerns.

MR BANKS: Just on that particular point - and there has been no compensating increase in - are you saying - that kind of accommodation in other areas because - - -

MR VOLKE: No.

MR BANKS: - - - typically they were in probably what now have become - - -

MR VOLKE: This is statewide.

MR BANKS: - - - the prime spots along the coast and so on.

MR VOLKE: Which is where caravan parks usually are.

MR BANKS: Yes.

MR VOLKE: It's the case that there are a number of caravan parks in the western districts, for example, the western regions. Often enough these are run by local councils or contracted out by local councils. The problems there are somewhat different in some ways. For example, they have a much more itinerant population with grape pickers or what have you - itinerant workers - but there's certainly been no compensating increase that we're aware of. The numbers I have are simply straight-out numbers of loss. There is a report to that effect by Joy Connor called No Place for Home which details some of these things.

Of course, as you'll be aware also, the last two censuses have classified 100,000 people in Australia as homeless. They're not likely either, mostly, to get access to the home purchase market. I think I should stop now and let Gary take over.

MR BANKS: Thank you.

MR MOORE: I just want to make some comments about some elements of the tax system and the land release and planning system. I would firstly say that from our view abolition of stamp duty will not of itself lead to significant affordability improvements. The commission's own report notes that the impact of stamp duty, whilst not being able to be determined precisely, and I quote, "Has not been a significant contributor to the recent escalation in house prices". Your interim report concludes that, and I quote, "As stamp duties add only marginally to the price of housing their removal could not have a large effect on housing affordability."

I guess the question becomes: why recommend the abolition of stamp duty? In New South Wales, if stamp duty on property transactions were abolished, it would blow a $5 billion hole in New South Wales budget revenues at a time when the New South Wales Treasurer, Michael Egan, in his December 2003 half-yearly budget review, is forecasting a $275 million deficit for 2004-05 without corrective action. The negative impacts of either raising this level of revenue - ie, the $5 billion hole - through increased payroll, land, gambling taxes, fines and fees, or cutting spending, are not ones which NCOSS believes the New South Wales community would tolerate and, of course, which we could support.

In our submission responding to your interim report, your discussion paper, we note that a full review of the tax options available at all levels of government should be conducted to enhance housing affordability in home ownership, private rental and public and social housing. This must include Commonwealth taxes such as negative gearing and capital gains as well as state taxes, such as land tax. We have already proposed to the New South Wales government that it consider reforms to its premium property land tax which make it fairer and which raises more revenue for spending on public and social housing. We have also suggested that the New South Wales government examine targeted land tax exemptions to encourage greater levels of modestly priced private rental housing in certain metropolitan and rural locations. The potential of certain stamp duty concessions for these same purposes could also be considered.

If I can turn just briefly to the land release and the planning system, and as we indicate in our response to your discussion paper, whilst everyone would welcome improvements in land release strategies, the suggestion to move away from using developers' levies to fund social infrastructure for us is a major concern. We do not accept that developer charges to help fund major infrastructure and open space should be replaced by funding from general charges and revenue sources and borrowings. Why is this? At least for the following four reasons: firstly, the proposition that those who stand to and who do make substantial profits out of developing greenfield and brownfield sites should be required to contribute to the long-term well-being of those communities. That is, we believe, a fundamentally sound proposition.

Developer levies are not impacting nearly as heavily on house prices as some developers would suggest and as your own interim report itself notes. The cost of recurrent services, utilising community infrastructure, is inevitably met by governments and the local communities themselves and we believe that any review of the means to finance community infrastructure and recurrent services should be consistent with a framework of achieving positive social outcomes for those local communities, and not solely a question of how to apportion the fixed costs of infrastructure across users and beneficiaries.

We have suggested in our submission to the current New South Wales government review of section 94, and other developer contributions, that a much more integrated approach to funding capital costs and recurrent services between local councils and New South Wales government agencies must be expedited to overcome some of the current problems with lag times, which we do acknowledge. We have also suggested to the New South Wales government in our current pre-budget submission that a trial with betterment taxes be considered in conjunction with a few councils in fast-growing residential and business areas.

If I can just conclude with some comments in terms of other initiatives: it is critical that we not only increase the level of affordable housing but also its locational distribution for both social policy and economic developmental reasons. To this end, our response to your discussion paper also contains proposals for state governments to introduce mandatory affordable housing targets into planning regulations and the establishment of a new national housing policy running across the tenure forms.

In closing, could I also suggest that housing affordability would be further improved if all state and territory governments enact a tenancy-type boarders and lodgers legislation, so that would assist in reducing some of the rate and style of loss of that stock if we did target first home owner type schemes to households on modest incomes but giving priority to achieving a mix of income, family and cultural background types in specific locations - so not just by means but by location - to encourage social mix.

MR BANKS: Thank you very much. You've covered a fair bit of territory there. We haven't talked too much about the order of questioning, so we'll just take it as it comes. I had a couple of reactions to some of the things you've highlighted. In relation to infrastructure charging, our point was not that social infrastructure should not be charged to developers but was more about the nexus or incidence of the benefits in finding a closer relationship than may apply for community-wide infrastructure, which we thought - in principle at least; in practice there may be difficulties - warranted broader funding. It wasn't that we were against social infrastructure in that sense. Indeed, section 94 covers a range of infrastructure, much of which would be legitimately charged to developers, and I think we acknowledge that - much to the chagrin yesterday of some of those representing developers, I should add.

The other issue that we could perhaps talk about now is the question of national housing policy, and I'd ask you to elaborate a little on that - I am conscious that we didn't get to it in the draft discussion paper that we put out - and give some further views about what you imagine that producing in substantive terms. What we're trying to juggle is how you can bring a national perspective to things that often have a strong local or regional dimension. If my colleagues are happy, we could pause on that for a moment and talk about that.

MR VOLKE: For some time now, National Shelter, the various state shelters and a range of other groups, such as NCOSS and the state COSSs as well, have been calling for the development of a national policy framework. In truth, we find it appalling that the federal government does not so much as have a housing minister. We are aware that welfare housing, so-called, is buried away in the Department of Family and Community Services. We're also aware that the skills and expertise that were built over a period of time in the federal Department of Housing in several transmogrifications was more or less dissipated within the department, and housing policy as such is seen either as a welfare policy - and therefore in social security - or as a home ownership issue, in another department. Taxation policy is yet another issue. Welfare reform is seen as bearing on social housing possibilities and so on. Housing issues are scattered across a range of departments.

We would like to see a national coordination of housing policy so that it is set in context and you've got some relationship between the tenure forms, such as home purchase, owner-occupation, private rental housing and so on. We'd also like to see some of the other dimensions, such as how it impacts on employment and locale; where welfare fits into that; and also, of course, taxation policy and the various impacts of various taxation policies. We welcome this study for that very reason - that taxation policy is so essential to housing policy. We regard it as seriously skewed towards the upper end of the home purchase market. If there is a consistent national policy framework, the level of housing subsidies and the variety of housing subsidies might be brought into some form of conjunction. There are a whole range of policy parameters in there that simply are not being considered because there is no national policy framework.

DR SHANN: You comment here that we've said that negative gearing is regarded as beyond the immediate scope of reform; in one sense that's right. We certainly weren't suggesting that it go off the agenda, so it just depends on what you thought we were saying. Our view was that it needs to be looked at in a broader context - the capital gains tax, high marginal rates and negative gearing. In a sense, a lot of the implications of that are broader than the housing market.

MR VOLKE: Indeed.

DR SHANN: There's a limit to what we can appropriately recommend in this inquiry. I just wanted to make it clear that we weren't ruling reviewing - - -

MR VOLKE: Let me make a blunt comment here: we all know that negative gearing is a rort, frankly. We wouldn't find it so objectionable if it were at least used for some useful social benefit - that is, if it were aimed simply at assisting the lower end of the market, so that negative could be written off against investment at the lower end of the market. But, other than that, really it's one of those things that grows in the taxation system like Topsy: once you give people a benefit, it's very hard to take it away. But, let's be honest about it, it's a bit of a rort.

DR SHANN: We had the CFMEU and some of the other participants in the Affordable Housing Consortium here this morning, who were proposing this scheme of - - -

MR VOLKE: Yes, I meant to mention that. Thank you.

DR SHANN: I've got various versions of it, but either subsidising debt or a housing trust with an ongoing subsidy. I'm just wondering what your view is on those sorts of arrangements where there's private sector involvement in providing affordable housing.

MR MOORE: Can I say two things: first, in relation to the planning process, I mentioned the notion of establishing location based affordable housing targets through the planning system. At the end of day, our view is that if we don't bite on that in fact we won't get much improvement. Of course, to achieve that, the private sector has to play a significant role. Also we think that there's a case in that relationship for housing trusts, or other sorts of financing arrangements, to sit alongside that. Part of the problem, one of the attractions of using a housing trust or a not-for-profit mechanism, is that you want to keep that affordable housing in perpetuity so you don't simply lose it after five years, when someone can go and flog on the market at whatever it's doing at the time. There need to be models built in about ownership arrangements, too, as well as financing.

I guess we are supportive of those approaches, and they have to be in selected housing markets. In a city such as Sydney, you have to look at the Parramatta's and Chatswoods and Liverpools, as well as looking at other places where perhaps more affordable housing exists already alongside the greenfield new residential developments.

MR VOLKE: We'd endorse what Gary says. We have some reservations about it in the sense that, if you had a proper policy of public subsidy and a proper supply and demand provision, when you look at the amount of money that's washing around at the top end of the home purchase market, it's a pity in some ways that we are forced to this. We recognise the social reality that if we are going to get affordable housing, some form of partnership like that is going to be necessary, and this is the point of the Affordable Housing National Consortium's approach of developing approaches such as housing bonds, development of a secondary mortgage market and so on. We can see that as a way of releasing private finance into the social housing and the affordable housing sector. Again, of course, our concern would also be to ensure that public funds are used for public service and remain with some level of public accountability.

DR SHANN: You're supporting means testing of the first home owners scheme. Assuming the scheme continues, one of the obvious questions is how you'd go about doing that. Two obvious options would be either putting a cap on the value of the house that would be eligible for the grant or some income testing of those who would be eligible to receive a grant. I'm just wondering whether you have any views on which of those you think is the preferable course.

MR MOORE: It gets difficult to try to pick. We have to do it in line with the affordable housing targets, too, because otherwise we won't get the sort of affordable housing in a range of locations. We won't get the sort of social mix development that we think we need to have. We see it very much as a social policy tool. As I say, it has to be done by location in conjunction with state agencies and their planning arrangements, so that will mean some notion of a cap on the level of purchase price. At the moment, the average male weekly earnings in New South Wales is $45,000 a year. If you were to cap at that sort of level, the sole income into a household, and try to afford a $330,000 minimum Landcom in western Sydney, you simply can't do it. I guess what I'm saying is that, in my view, you've got to look at both things: you've got to look at cap on price, and you've also got to look at something which goes up to above average weekly earnings in New South Wales.

MR VOLKE: Again, I endorse what Gary says. Obviously, the general points you have made about the First Home Owner Grant scheme are valid. It's badly targeted. In effect, it's inflationary on housing prices and, of course, it was originally intended, theoretically, as a substitute for GST. To our mind, as it's presently structured, it's not a good program. At the very least, if it's going to be available, it ought to be on some basis of a cap on price or of means testing, if you like, but which I think is not an issue on which we're competent to make a judgment.

DR ROBERTSON: You leapt to the defence of state stamp duties with some vigour.

MR VOLKE: Are you surprised?

DR ROBERTSON: Yes, in a way, because we were using it as a way of freeing up the market, to remove one of the barriers to people entering the market, if you like. We certainly had no intention of reducing the revenue going to the states.

MR VOLKE: That's the issue.

DR ROBERTSON: We would find another way of doing it, or we would assume that somebody else would find another way of doing it. That's not our job. There has been this tendency for people reading the discussion draft to think that we're hitting at the states and leaving out the federal government. We realise that we have to do more on taxation in general, but we can't make the big decisions. The treasury would get pretty shirty if we - - -

MR VOLKE: But that’s the real issue, isn't it?

DR ROBERTSON: Yes, but we can't actually do that. We can only recommend that they look at it. The same applies in the compensation for stamp duty. We're looking at it as an affordability question, which says that if you take that tax off, it means that you're not paying a lump sum when you transfer from one house to another and some other way has to be found to deal with it. I don't want you to think that we're down on the states in any sense. It's just a way of dealing with it.

MR VOLKE: The conclusions read rather differently from your report. That's what I find baffling.

MR BANKS: It was a discussion draft and, while you say it's clearly written, it was written pretty quickly. In some ways probably what didn't come through enough is our view on stamp duty as a short-term contributor was rather different to our view as to the longer-term structural issue for the reshaping of cities and, therefore, while I think we did use the word "priority", we were thinking within the state armory over a longer period of time.

The question was, you know, whether you could take the weight off stamp duties and replace it. Your reactions are helpful, because part of what we do in moving to a final, is to get a sense of just how viable that would be and what would be the complications in introducing a more efficient tax to replace it.

MR MOORE: Can I just say the scale that I mentioned, that's what you're talking about in the current sort of revenue returns to treasury in this state. It's true and costs are certainly argued for a broadening of the base of payroll tax, because only one in 10 businesses pays it in this state and perhaps - you know, some sort of concessional rate; 100,000 below the current benchmark or whatever. But even so, to get to the scale if you were to take it out completely, is just massive.

The other problem we have is that we now have, as I say, gambling taxes running at somewhere around 11 per cent of total state revenues in this state and fines and fees being the other sort of major - so indirect taxes from our constituency's point of view.

MR BANKS: Yes.

MR MOORE: So they are the sorts of conundrums that you face if you go to fill the hole outside of some other forms of renegotiated Commonwealth-state financial arrangements which - - -

MR BANKS: Or a state land tax.

MR MOORE: Or state land tax, yes.

MR VOLKE: You should actually, I hope, take note of our written response to your paper, because we have tried to address that question in there. My first comment is I think you are clearly right to say that stamp duty is not a major issue really. It doesn't add all that much to the cost of housing. You, in fact, give one or two examples that indicate that quite strongly. That's the first issue.

The second issue is filling the hole. It is a very substantial income stream now for state governments. How is it to be replaced? Ideally land tax is a really interesting idea. You have, no doubt I am sure, read Frank Stilwell's paper on that subject. He hasn't gone right down the road he would like to go on - the old Henry George single tax idea - but what he does suggest very strongly is that land tax could indeed replace stamp duty if it were universally applied to owner-occupation at set rates and so on, you know, with the bonuses at the top end as well.

The difficulty is obviously a political one. You already know from the submissions you have had, including the one just before us, that land tax is an extraordinarily politically sensitive issue. You take off stamp duty. What chance do you reckon we are going to have of getting universal land tax? I will tell you; zero.

MR BANKS: You make the point - and I think I understand now where you're coming from - on the top of page 4 where you talk about, "By opening the Pandora's box of abolition" - now there you're referring to stamp duty and you're thinking it actually could go one way, so there would be more danger of reducing the extent of taxation on owner-occupation than the other way around.

MR VOLKE: I think that's a very serious concern.

DR SHANN: You are advocating extending land tax without abolishing stamp duty. We are suggesting there could be a trade-off.

MR VOLKE: Mutuality is fine if you can get it, but we're worried that you are not going to get that.

DR SHANN: I guess part of our role is to suggest things and - - -

MR VOLKE: Yes, but our worry is the federal program here of shifting the burden onto the states and was saying, "You get rid of stamp duty and that will solve the problem." Now, you know that it won't.

MR BANKS: No, certainly. We have made clear, I think, in our discussion draft that it won't solve the problem in the sense of the short-term affordability.

MR VOLKE: Yes.

MR BANKS: But I think the state's own reviews of taxation, including the Harvey review in Victoria, have also identified it as a problem. It has been, as you say, the politics that have bedevilled it.

MR VOLKE: Yes.

MR BANKS: Of course politics are not irrelevant at the Commonwealth domain as well when it comes to those taxes, too, as we saw, I think, with the opposition in relation to negative gearing. I guess our point there was that in relation to those Commonwealth taxes we did see those as playing that interaction of capital gains tax in its new form, negative gearing in the high marginal - as having been an important cocktail in the kind of second wind of the market in that latter period. I think we are reasonably clear about that. The question then is, in the context of this review, whether we could credibly and sensibly make specific suggestions as David is saying.

MR VOLKE: Yes.

MR BANKS: But what we will be thinking about for the final report is how we get that sense of overall priority clearly coming through in the report.

MR VOLKE: Yes.

MR BANKS: Again, thank you for your contributions to help us get to that point. I don't have any further questions. It has been very helpful and thank you very much for coming today.

MR VOLKE: Thank you for your patience, after the end of a long two days. We look forward to seeing the final product after the election.

MR BANKS: Yes, thank you for that. You will get a copy in due course. I should say actually for the record that we will submit our final report in the first instance to the Commonwealth. It will be released in due course. We can't predict exactly when that will be, but there is a requirement on the government to release our report within 20 sitting days. That's the general provision, but, as you know, 20 sitting days can vary from a short time to a long time, depending on the time of the year. Thank you again for that.

MR VOLKE: It has been a useful exercise for us. We have appreciated it.

MR BANKS: There being no other participants here in Sydney, I adjourn the hearings and we recommence in Melbourne on Monday morning.

AT 3.47 PM THE INQUIRY WAS ADJOURNED UNTIL
MONDAY, 9 FEBRUARY 2004

INDEX