

The Commissioners
Inquiry into Housing Affordability
Productivity Commission
PO Box 8036
Wellington 6143
New Zealand

Dear Commissioners

HOUSING AFFORDABILITY

New Zealanders face poor housing affordability because it is and has been convenient for New Zealand Governments that housing should be expensive. This has occurred because both major political parties are heavily mired in the deregulation of NZ's banking industry and wedded to the business elites that deregulation has created. It has been reinforced by the RBNZ and civil service ignoring the limitations of the neo-liberal economics they have peddled since the 1980s.

Your Inquiry is wasteful of public resources. It will reveal nothing that was not canvassed in the Parliamentary Inquiry of 2007 - and then deliberately ignored by NZ's political class. However, I will briefly recap and update the points I made in my submission to that Inquiry, to expedite your work now.

Don Argus is an eminent captain of industry in Australia. He has extensive experience of the Australian banking industry (and therefore the entities that control NZ banking). Last year, in a moment of wonderful candour, he described Australia's banks as "giant building societies" [1].

Australasia's banks have evolved into entities that exist in order to make housing loans – and where they wield their commercial clout and marketing expertise, they drive the outcomes. Generous credit pushes up purchasers' willingness to spend incautiously and consequently makes prices buoyant. The effect of this is to make people who are not yet in the market feel pressured to borrow heavily and buy property before prices rise further. A vicious spiral of higher prices and more borrowing takes shape.

The power of the banks to drive the cost of housing is evident in the fact that on 28 September 2006 Alan Bollard forecast house price falls in the first half of 2007 – and none occurred. Quotable Value data shows that the average sale price of NZ housing, adjusted for inflation, has yet to fall below its September 2006 level. My submission to the NZ Parliamentary Inquiry of 2007 noted that this would occur, and that banks' power would guarantee that outcome.

This obvious disconnect between NZ's neo-liberal economists and reality has become even more stark in the years since the Global Financial Crisis of 2008. The pillar of the economics commentariat – *The Economist* – has had the integrity (on 16 July 2009) to

acknowledge that orthodox economics has a credibility problem. It is therefore very regrettable that NZ economic policy still proceeds on the basis that liberalised financial markets deliver optimal outcomes.

Overall I hope the NZ Productivity Commission (NZPC) will do a scrupulous job in mapping out how to restore sanity to the housing industry. I urge you to take care, because this is one of the NZPC's first inquiries and I note that the Australian Productivity Commission (APC) has played a role in the foundation of your agency [2]. I perceive a risk of the APC exercising inappropriate influence over the NZPC.

The APC is a flawed organisation – in particular on issues concerning the housing industry. In 2003/04 the APC held an inquiry into housing affordability. Its report found that poor affordability was due to cyclical pressures and that improvement was underway. Seven years later the price of housing in Australia is 47% higher than it was in 2003/04.

The people of New Zealand deserve higher quality investigation and analysis than that.

Yours sincerely

Alun Breward

[1] www.businessday.com.au/business/argus-pays-out-on-big-banks-20100324-qwvo.html

[2] www.nzherald.co.nz/economy/news/article.cfm?c_id=34&objectid=10632916