

Land rationing is not rational

[Housing: The Great Australian Dream Project](#) | [Alan Moran](#)
Australian Financial Review 26th September, 2006



Long-established home owners have seen the equity value of their homes rise as a result of the rationing of new land subdivisions. While existing home owners may actually feel better off as a result, this is an artificial addition to their wealth. It is offset by de facto reductions in the real wealth of those who have not mounted the house price escalator and face a formidable cost barrier. Overall national wealth is diminished by regulatory measures that restrict the supply and flexibility of land.

The regulation of land for housing and other urban activities vividly illustrates the interconnectedness of all things economic. Planning restraints on land subdivisions for residential and commercial uses have restricted supply and brought excessive house prices.

Aside from pricing younger people out of home ownership, these regulatory distortions pervade the whole economy.

One important outcome follows from the overstatement of home owners' real wealth that regulatory induced scarcity creates. Notwithstanding a reduction in Australian household savings - partly due to definitional factors - measured levels of household wealth have increased. Treasury estimates that real per capita private wealth has grown 120 per cent over the past 10 years. But two-thirds of the growth is accounted for by housing and this is overwhelmingly a function of inflated house prices driven by government-induced land scarcity.

Hence, much of the increased household wealth - that part created by regulatory restraint of land supply - is apparent rather than real. It does not add to genuine savings, investment and productivity. Indeed, escalating land prices are cannibalising real saving levels and productive investment. They represent a deadweight loss that sucks up savings but does not invest them productively.

People who receive windfall gains tend to spend them. Many people with substantial equity in a home that land scarcity has inflated in value change the pattern of their consumption and savings.

The Reserve Bank has surveyed house owners who have made withdrawals from the equity they hold in their houses. It found that withdrawals into direct consumption comprised 17.6 per cent of the total in 2004. But a further 7.6 per cent might have indirectly been so diverted in that it comprised repayment of other debt, while some of the sums lodged as deposits (33 per cent of the total) might also have eventually been spent in areas other than asset accumulation. Only about 25 per cent (which went to superannuation, business and investments) could be said unambiguously to be reinvestment.

The regulatory fomented inflation of urban land also has other impacts. Urban land rationing restricts retail development as well as housing. This has a direct effect in reducing competitive pressures on retail outlets and therefore raising retail prices. That effect, like the effect on housing, may well be amplified by lobbying costs. Businesses have a great deal to gain in getting the political process to favourably designate their own land and reject such applications with regard to land owned by a competitor.

There are additional knock-on effects. One among these was recognised by the Productivity Commission in its recent report on airport charges. Because most Australian airports were originally under commonwealth rather than state control, they benefit from less stringent planning restraints than those on the land in their vicinity. Under private enterprise, airports have moved to allow their surplus land to be used for retail activities that state governments rejected.

While this, especially in the form of direct factory outlets, has moderated the price increases brought about by state governments' restraint of competition, it also boosts the value of the land for the main business of airports and puts upward pressure on airport charges.

We need to wind back the restrictions on land availability for home building and retail uses. This would bring about lower costs for new housing and lower retail prices. Moreover, it would free up more income for genuine productivity enhancing saving and investment.

An abundant supply of land is as much a part of Australia's comparative advantage as mineral wealth. By erecting restraints to its use, we are not only raising costs of those without their own homes but we are denying ourselves a valuable area of wealth and competitiveness.

[Back to news page](#)

 [Bookmark](#)

[Become a member of IPA today](#)



Archived news

[2014](#)

- > [August](#)
- > [July](#)
- > [June](#)
- > [May](#)
- > [April](#)
- > [March](#)
- > [February](#)
- > [January](#)

[2013](#)

- > [December](#)
- > [November](#)
- > [October](#)
- > [September](#)
- > [August](#)
- > [July](#)
- > [June](#)
- > [May](#)
- > [April](#)
- > [March](#)
- > [February](#)
- > [January](#)

[2012](#)

- > [December](#)
- > [November](#)
- > [October](#)
- > [September](#)
- > [August](#)
- > [July](#)
- > [June](#)
- > [May](#)
- > [April](#)
- > [March](#)

> [February](#)
> [January](#)

[2011](#)
[2010](#)
[2009](#)
[2008](#)
[2007](#)
[2006](#)
[2005](#)
[2004](#)
[2003](#)
[2002](#)
[2001](#)
[2000](#)
[1999](#)
[1998](#)
[1997](#)
[1996](#)

[IPA](#)

[Home](#)
[About](#)
[Key Sectors](#)
[News](#)
[Events](#)
[Publications](#)
[IPA People](#)
[Contact us](#)
[Site Help](#)
[Payment](#)

[News](#)

Useful links

[Top of page](#):: [Site help](#)
:: [Site map](#)
:: [Privacy](#)
:: [Copyright](#)
:: [Subscribe to IPA email updates](#)
:: [Unsubscribe](#)