STEPPING STONES TO AN EXCLUSIONARY MODEL OF HOME OWNERSHIP IN AUSTRALIA

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For the past thirty years, Australian governments and policy makers have largely placed private housing outside a welfare rubric. Discourses over home ownership affordability have focussed on the complex interplay of macroeconomics, fiscal, financial, urban planning and pension policies. The primary role that private housing plays as a vehicle for attaining a safe and secure shelter in the absence of a robust public housing system has been overlooked.

This has not always been the case. Supported by the labour-union movement and state governments, the Menzies government's pro-home ownership reforms in the 1950s were embedded in the context of social welfare provision (Castles, 1998; Ronald, 2008a; Forrest and Hirayama, 2014). Policies to promote home ownership were regarded as a means of increasing productivity, creating jobs and achieving greater equality in housing access for war veterans, the working class and the growing middle class[1]. Households depended on systems of finance to purchase a home. However, government housing, financial and labour policies partly insulated them from the volatilities of the financial market and enhanced social security. These policies are referred to here as the *'social compromise'* of housing (Castles, 1985), consisting of: rental controls, houses that were affordable in relation to household income (Bourassa *et al*., 1995), centralised wage regulations, full employment policies,

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1 Some scholars also note that the main motivation of Menzies government's conservative politics was to make working class people feel that they had a greater stake in the capitalist economy. This has been described as housing policy being used to create 'Bulwarks against Bolsheviks' (Kemeny, 1980; Paris *et al*., 1993).

regulated financial sector and direct loan subsidies through Commonwealth-owned and State-owned banks (Castles, 1997) [2]. Elsewhere, these policies are described as the '*really big trade-off of the wage earner's model'* (Castles, 1998; Castles, 1997) or the *'social project of home ownership'* of post-World War II (Forrest and Hirayama, 2014). The period from 1945 to 1956 was also the heyday of public housing provision to support those incapable or unwilling to enter the private housing market, particularly during the Curtin-Chifley Labor Governments (see Troy, 2012). Together, these policies promoted a partly-decommodified market that placed equal weight on the social provision of shelter, social security and economic growth via the housing construction sector. This created the conditions for a more equitable distribution of the private housing stock, leading to an increase in the proportion of owner-occupied dwellings from around 50% in 1947 to around 65% in 1961. In the same period, investment properties decreased from 41% to 27% (refer to Figure 3).

From the early-1960s, rates of home ownership stopped rising and remained stable until the mid-2000s (Yates *et al.,* 2008:12). Scholars have generally interpreted this as a successful model of home ownership. Nonetheless, concerns about the sustainability of Australia's housing system have grown. The financial and housing market collapses in 2007-2008 in the United States (U.S.) and globally have markedly intensified these concerns. Home ownership rates in Australia fell by about 3% between 2007 and 2013 (Trading Economics, 2016). Numerous housing studies have established an emerging consensus: that Australia's model of housing provision is increasingly shaky and housing inequalities are increasing (see Yates and Bradbury, 2010; Yates *et al*., 2008; Smith and Searle, 2010; Wood and Ong, 2012; Mortensen and Seabrooke, 2008; Schwartz and Seabrooke, 2008; Forrest and Hirayama, 2014; Ronald, 2008a; Ronald, 2008b; Allon, 2008; Yates, 2011; Troy, 2012). Although written from various vantage points, these housing scholars tend to anchor the disjuncture point in the 1980s, following the financial deregulation of the Australian economy. This article suggests an alternative thesis: the model that facilitated widespread owner-occupancy in the 1950s began to erode from 1959 due to federal government

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2 The sale of 6.6% of the public housing stock to existing tenants, mostly war veterans, from 1949 to 1956, has also facilitated owner-occupancy in Australia at that time (Troy, 2012: 117).

policies that prioritised financial imperatives to the detriment of social goals.

These policies and market-driven changes gave rise to an exclusionary model of home ownership in Australia. It evolved over three stages, primarily as consequence of restructurings in the mortgage and superannuation markets and the development of the risk-management market. The profit-seeking behaviour of the Finance, Insurance and Real Estate (FIRE) industries impacted significantly on housing consumption patterns. The result is that housing property has become the physical asset whose imputed value underpins the system of capital accumulation via debt-trading, house-trading and superannuation contributions.

In developing this argument, I employ historical institutionalism (Streeck and Thelen, 2005) and the notion of '*inverted relations*'[3] (Sweezy, cited in Foster, 2007) to unravel how small, incremental regulatory changes, particularly in finance, have gradually shifted the purpose and effect of Australia's pro-home ownership policies over time. By that, I mean the transition from policy interventions promoting a partly-decommodified market that regarded *home*, *loan* and *social security* as social goods, to ones promoting a commodified market that considered *house*, *debt* and *risk-management* as financialised commodities. The former is referred to here as the social relations of housing of the inclusive model of home ownership of the 1950s. The latter is referred to as the exchange relations of housing of the exclusionary model of post-1959. I pay particular attention to the relationship between home ownership, social security and money, and the interconnections between the mortgage, superannuation and risk-management markets to explore this shift.

To develop this historical account, seeking to uncover the stepping stones to the exclusionary model, it is useful to adapt Swartzman's (2013) periodisation of the U.S. mortgage market to the Australian context. For Swartzman, the U.S. mortgage market evolved over three stages due to financial innovations. The first era was the *'originate to hold'* or the primary mortgage market that occurred up to the early-1970s. Loans were originated and held by financial intermediaries until they were paid off. The second, beginning in the early-1970s, was the '*originate and*

3 This key concept in the financialisation literature relates to the claim that *'the inverted relation between the financial and real is the key to understanding the new trends in the world'* (Sweezy, cited in Foster, 2007).

distribute' era or the secondary mortgage market. Fannie Mae, Freddie Mac and Ginnie Mae created financial instruments to increase liquidity of mortgage debt to allow debt portfolios to be sold to institutional investors. The third was the expansion of the '*originate and distribute'* era from 1986 through the creation of private-label securities and sub-prime loans. Via a process called pyramiding (or credit scoring), the liquidity of mortgage pools with high risk of defaults increased substantially.

A rather different account is needed when considering Australia's finance system, where fundamental shifts in the mortgage market occurred as early as 1959. Indeed, the simple structure of the mortgage market in the earlier period from the 1910s to 1958 should be understood as a key component of an inclusive model of home ownership. This backdrop to more recent policy changes is considered in the next section of this article. The following three sections then consider in more detail (i) financial liberalisation and the rise of the risk-management market from 1959 to the early-1980s; (ii) financial deregulation, private pension welfare reforms and the growth of the risk-management and mortgage markets from the early-1980s to the mid-1990s; and (iii) taxation reforms and changes to the mortgage and risk-management markets from the mid-1990s to the mid-2000s. The overall argument is summarised in Figure 1 below.

Figure 1: Stepping Stones to an Exclusionary Model of Home Ownership

	Inclusive Model: Social Relations (use-value)	**Exclusive Model: Financial Relations (exchange-relations)**
Physical aspect of housing	home	house
Liquid aspect of housing	loan & social security	debt & risk-management
Structure of the mortgage market	originate to hold debt (1910s - 1958)	**Stage 1:** originate to hold securitised debt (1959 – early-1980s) **Stage 2**: originate to distribute debt locally (early-1980s – mid-1990s) **Stage 3**: originate to distribute debt globally

		(mid-1990s – mid-2000s)

An Inclusive Model of Home Ownership (1910s to 1958)

The Social Relations of Housing: the use-value of home, loan & social security (originate to hold debt)

What role did the mortgage market play in the growth of home ownership, which was rising rapidly by the 1950s? And how might we understand the regulation of mortgages as a key component of the inclusive model? As illustrated in Figure 2, the main feature of the Australian mortgage market in its first era was *originate to hold debt*. Loans were originated and held by financial intermediaries until debt was paid off by households. The mortgage market consisted of three interest groups: homebuyers, mortgage originators and funding providers. Despite the Great Depression of 1929 and World War II, this structure of the mortgage market remained relatively unchanged for half a century.

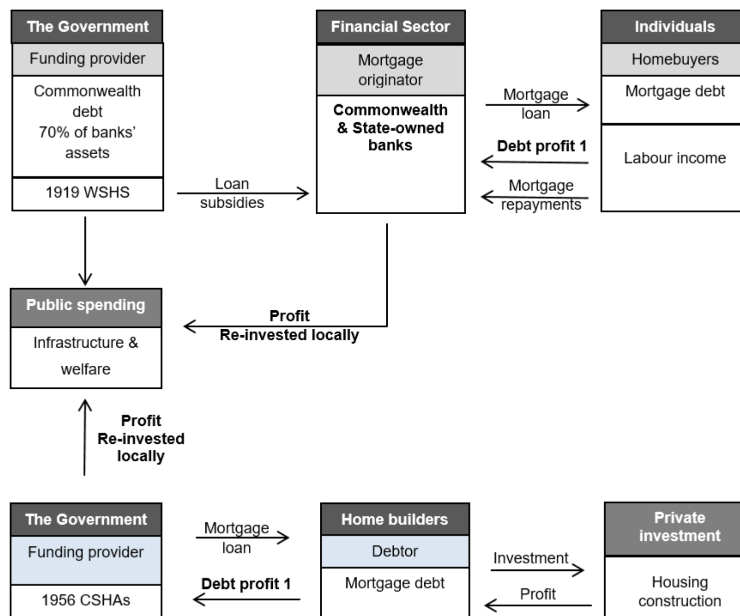
This simple structure is partly credited to reforms by the Fisher Labor government in 1912, which established the government-owned Commonwealth Bank of Australia to carry out the dual role of Central Bank and savings bank. The Commonwealth savings bank together with State-owned savings banks were the primary providers of home loans of that time. In addition to the 1919 War Service Home Scheme[4] (WSHS), the 1956-Commonwealth-State Housing Agreement (CSHA) offered low interest loans to owner builders and home builders (Ronald, 2008b; Merrett, 1997; McIntosh and Phillips, 2001).

As a reflection of this simple structure, the use-value of *loan* prevailed over the exchange-relations of *debt* because debt was not an asset to be accumulated or traded by institutional investors. Rather, it was originated and held by lenders. From a government and capital market perspective, the mortgage debt functioned as a government social good. A proportion of debt profits returned directly to public coffers via home builders and owner builders' loan repayments, and from profits made by Commonwealth-owned and State-owned banks. Profits were largely

4 WSHS was introduced by the Nationalists under the leadership of Billy Hughes (1915-1923).

reinvested locally through public spending in infrastructure and welfare. While a portion of debt was held privately, private banks reinvested most profits locally, stimulating the economy and creating jobs. This social distribution of profits was achieved via the financial sector at a time when regulated government-owned savings banks were (social) development agencies, not prudential regulation or profit-making authorities.

Figure 2: Originate to Hold Debt: the Inclusive Model (Early-1910s to 1958)



Further, the use-value of *home* took priority over the exchange-relations of *house*. Individuals did not purchase much more than they needed, because *home* was a social good: a secure place to live, rather than a means for capital accumulation to self-fund retirement (Schwartz and Seabrooke, 2008: 244; Forrest and Hirayama, 2014). For the government and markets, *home* was a way of disciplining labour, rewarding war

veterans and the working and middle classes, and stimulating the housing construction industry and owner builders (Ronald, 2008a).

Lastly, the use-value of *social security* took precedence over the exchange-relations of *risk-management*. *Social security* functioned as a common good because social risk was largely decommodified, definancialised and socialised. Simply put, there was [1] a robust welfare state; [2] homebuyers were protected by the social compromise of housing; and [3] the risk-management market had not yet been created. Even though a portion of labour income was used to service mortgage debt, this was relatively small and less risky in comparison to recent times. This is because the average price of housing in the main capital cities between the 1950s and the early-1980s was equivalent to only about three times the average annual household earnings (O'Neill, 2008: 9).

Although institutional reforms fostered an explicit familial solidarity of *home,* an implicit social solidarity of *loan*, and a social solidarity of *social security*, this model of home ownership created a fragile housing system. Firstly, outcomes relied on conservative trade-offs and regulatory controls, mostly in the financial, labour and housing markets, which have been progressively unwound (as discussed later). Secondly, investments in public housing have been gradually shrinking (see Troy, 2012). Thus, increasing our reliance on a deregulated and over-inflated private housing market, quasi-markets and the social housing sector. Lastly, the 'great Australian dream' of home ownership has, since then, been used for political gains by those who protect their constituencies (Troy, 2012) and foster conservative social attitudes towards home ownership, interest rates, taxation and public spending in housing and rental assistance (Schwartz and Seabrooke, 2008; Ronald, 2008a; Kemeny, 1980).

The remainder of this article argues the erosion of this fragile system began much earlier than housing scholars have generally claimed. The decline in the rates of owner-occupancy in the early-1960s coincided with small institutional reforms in finance and housing that moved away from the social compromise of housing. These reforms gave rise to the first stage of the exclusionary model of home ownership.

An Exclusionary Model of Home Ownership: Stage 1 (1959 to Early-1980s)

The financial relations of housing: originate to hold securitised debt

During the second half of the Liberal-Country Party Coalition's term of government (1959-1972), the financial sector was progressively re-liberalised and the risk-management market emerged. Starting in 1959, the Central Bank component of the Commonwealth Bank was transferred to the newly created Reserve Bank of Australia (RBA). In the same year, amendments to the Banking Act relaxed entry of foreign banks to invest in or be subsidiaries of Australian banks, or to operate as fringe banks provided capital was held locally (Edey and Gray, 1996). Whilst the RBA's role was to prudentially supervise licensed banks, it exerted little control over rapidly expanding and unregulated fringe banks, such as finance companies, building societies, money market corporations, pastoral financiers and insurance companies[5] (Sykes, 1998; Edey and Gray, 1996).

The growing competition between financial intermediaries triggered government-led and market-led restructurings in housing finance to increase market shares (see Guy, 2010). Of particular relevance is the introduction of the Housing Loans Insurance Corporation (HLIC) in 1965 to manage the risk of savings banks via government-backed securities (GBS) (Bell, 2006). In the same year, privately-owned fringe banks partnered with the lenders' mortgage insurance industry (LMI) to expand their lending capacity. This partnership decreased requirements for loan approvals and began a trend of market-based risk-management via LMI. Borrowers' down-payments were reduced to a minimum of 5% of the total loan (95% LVR), while high LVR mortgages (greater than 80%) were backed-up by LMI (ICA, 2003).

The financial re-liberalisation from 1959 and the government-led and market-led innovations in financial securitisation from the mid-1960s laid the foundations of the risk-management market in Australia. Further,

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5 Alongside these financial restructurings, from 1956 to 1961, the Commonwealth sold 80% of the public housing stock built during the period from 1945 and 1956, and this continued until the 1970s, contributing to the significant changes in the housing landscape (see Troy, 2012: 131).

these innovations mark a shift of government responsibility. Rather than being the direct provider of subsidised loans to support housing consumption, owner builders and home builders, the Commonwealth became the securitiser and credit facilitator of mortgage loans for savings banks. These financial reforms remained unchanged throughout the periods of the Whitlam Labor government (1972-1975) and Fraser's Coalition government (1975-1983). Consequently, the period from 1959 to the early-1980s represents the second era of the Australian mortgage market, during which the dominant approach to housing finance became *originate to hold securitised debt*.

The structure of the mortgage market became more complex than in the previous era. Four interest groups could be identified: homebuyers, mortgage originators, mortgage securitisers and mortgage insurers. Lenders' risks of defaults were progressively transferred from savings banks to the Commonwealth and from fringe banks to LMI. Mortgage debt profits were now shared between three entities: mortgage originators, LMI and the Commonwealth. Nonetheless, profits continued to be primarily reinvested locally due to regulations in the banking system.

Despite greater numbers of financial intermediaries, greater mortgage-credit availability, mortgage securitisation and high LVR mortgages, access to owner-occupancy did not improve. On the contrary, the financial reforms from 1959 created the conditions by which property of all kinds made a steady transition into being primarily a vehicle for capital accumulation. To illustrate this argument, we can analyse changes in the number of investment properties as a proportion of the total housing stock. The purpose is to reveal trends in housing asset accumulation that are generally not detected by other methodologies. Additionally, it is to demonstrate that historical changes in the patterns of housing consumption are as much the effect of a value shift in policy objectives and the society as a whole (house, debt and risk are assets), as they are the effect of a generational shift (generation rent and aging population).

For this purpose, *owner-occupied properties* are defined as all dwellings occupied by established owner-occupiers, first-home buyers and changeover buyers. These are referred to as the use-value of *home.*

Investment properties[6] are defined as privately-owned rental properties, privately-owned unoccupied dwellings and privately-owned holiday houses. *Private properties (other)* include other methods of privately-occupied dwellings[7] and tenure not stated[8]. The last two classifications are referred to as the exchange-relations of *house.* The data was collected from Australian Censuses 1911-2006 and it follows ABS Census standards of data collection.

The Financial Relations of Housing: the exchange-relations of house & debt

Through this methodology, it is possible to observe the emergence of a different pattern of housing consumption, which suggests a value-shift towards housing asset accumulation. Between 1961 and 1981, the proportion of properties that were owner-occupied decreased by 3% and the proportion of investment properties remained constant at around 27% of the total housing stock. The difference was taken up by the growth of 'private properties (other)', rising by 3.9%. These figures (shown in Figure 3) indicate the purchase of houses by repeat buyers for purposes other than owner-occupancy, official rental, holidays/lifestyle or vacant houses.

It might be claimed that these small changes in ownership patterns do not represent a significant negative effect of financial re-liberalisation and innovation. This is because, from the early-1960s to the early-1980s, housing debt remained relatively constant at around 30% of household disposable income (Soos and Egan, 2014). In the same period, housing affordability also stayed stable, with housing costs equivalent to three times the average annual household income (O'Neill, 2008: 9).

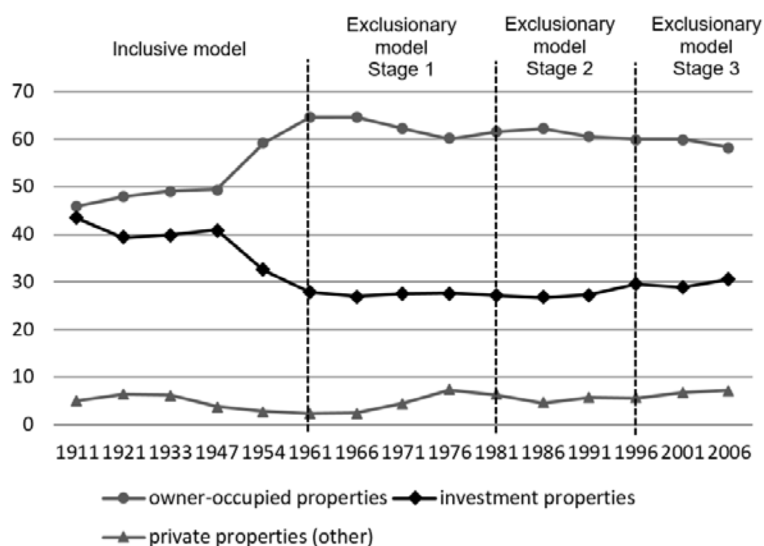
6 A small margin of error in the calculation of investment properties exists because numbers of unoccupied dwellings at the Census collection night may include unoccupied dwellings being built which may or may not fit in the definition of investment properties. For the purpose of this article, however, this margin of error is not significant.

7 Excludes publically owned housing and social housing for private individuals.

8 Data on tenure not stated has not been excluded from the calculations, given they are properties privately owned by someone other than an owner-occupier.

Nevertheless, this analysis shows the decline in the numbers of owner-occupied properties from the mid-1960s coincided with financial re-liberalisation and the rise of securitisation and mortgage insurance. Instead of lessening stratification in access to owner-occupancy or stimulating the housing construction industry, the financial restructurings from 1959 placed housing within a financial context. The social objectives of housing policy became subordinated to the imperatives of the FIRE industries. Crucial to this argument is the notion of '*inverted relations',* meaning that, from the late 1960s, investments in real, tangible commodity production were, to a large extent, replaced by financial investments in the FIRE industries (Foster, 2007). Housing finance became a market on its own, serving the finance industry's quest for profits, rather than serving mortgagors or stimulating housing construction (Engelen 2003 cited in Aalbers, 2008). This is the period in the U.S. that Swartzman (2013) calls the '*originate to distribute'* era. These understandings of inverted relations associate housing unaffordability with the process of financialisation, capital accumulation and government intervention, favouring the FIRE industries and established homeowners.

Figure 3: Owner-Occupied Properties, Investment Properties and Private Properties (Other) as a Total Number of Private and Non-Private Dwellings, Australia



Source: Censuses 1911-2006

Inverted relations could also be associated with the process of commodification of the physical and liquid aspects of housing. In other words, the physical tradable asset—*house*—and liquid tradable assets—*debt* and *risk*. Some scholars focus on the physical aspect of housing, suggesting an inverted relation from shelter as social good to shelter as financial asset (Schwartz and Seabrooke, 2008; Mortensen and Seabrooke, 2008; Forrest and Hirayama, 2014). Others explore the liquid aspect to argue that securitisation and financial derivatives are designed to commodify social risk (Bryan *et al.*, 2009) and to generate high yield returns to the financial market (Aalbers, 2008). High housing cost, therefore, has demanded greater participation of labour in capital accumulation, given that a growing component of the net wage (surplus after-tax and essential consumption spending) is used to consume houses and to service debt (Bryan, 2008).

By employing these financialisation concepts, I argue that, due to stagnation in the growth in house trade from the mid-1960s, and a constant drive for greater capital accumulation inherent to capitalism, the

government and capital markets developed financial instruments to enlarge capital. This presupposes two inverted relations of a financialised housing system: [1] a shift in the primary focus of economic activities from housing production to housing finance and house trade; and [2] a shift in the social relations of mortgage debt.

Firstly, the inverted relation between housing, real estate and financial sectors implies that financial re-liberalisation and innovation should also be understood as a supply-side issue. That is, from a FIRE industry's perspective, the negative impacts of housing supply shortage[9] (stagnation in the productive sector) due to financialisation (higher yields in the financial/insurance sector) could be minimised by higher land and housing values [10] (land and development speculation) and the development of financial instruments. Growth in housing stock became a means to an end. The 'end' was capital formation via GBS, LMIs and growing amounts of capital surplus from investors and owner-occupiers to service debt due to higher housing cost. The impact of these changes on housing affordability, however, was disguised by strong wage growth in the late 1960s and 1970s. Economic growth via the housing construction industry, therefore, came secondary to growth via the FIRE industries.

Secondly, the structure of the mortgage market (*originate to hold securitised debt)* presupposes a shift from banks as (social) development agencies of pre-1959 to banks as (financial) profit-making agencies of post-1959. GBS was designed to safeguard the risks of savings banks. Simultaneously, it enlarged domestic capital through agreed interest rates between bankers and the Commonwealth. As a result, saving banks were better prepared to compete with rapidly expanding and unregulated finance companies. On the other hand, LMI on high LVR mortgages were designed to safeguard the risks of fringe banks to increase their market competitiveness. Access to owner-occupancy became a means to an end. This presupposes an inverted relation from the social relations of *loan* of the 1950s (use-value) to the financial relations of *debt* (exchange-

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9 From the early-1960s, the annual change in total dwelling stock began a trend downwards, dropping 2% points between the early-1960s and mid-2000s (Unconventional Economist, 2013).

10 The ratio of land and housing values to GDP started to rise from the 1960s (Soos and Egan, 2014).

relations). Mortgage continued to be a *loan* for individuals to buy a *home,* although it also became a means to buy a *house*. Nonetheless, policy objectives increasingly regarded *debt* an asset for the government and capital and insurance markets to enlarge capital, via GBS and LMI, to stimulate economic growth via the financial market.

The social compromise of housing of the 1950s, however, continued to provide good levels of social security to homebuyers. Although it became more unstable because financial and housing regulations that supported the inclusive model of the 1950s were increasingly being unwound. This entailed low unemployment rates (see RBA, 1997), stable jobs, a regulated labour market, high wages, low housing-related individual indebtedness and houses that were affordable in relation to household income up to the early-1980s. However, rental controls and security of tenure were progressively deregulated (Schneller, 2013; Bourassa *et al.*, 1995). The Home Builders Account was phased out and land development was gradually corporatised (Troy, 2012). The financial sector was re-liberalised. Unregulated financial intermediaries expanded and foreign fringe banks entered the housing finance market. Lastly, the mortgage market became more complex due to the surge of new interest parties, securitisation and insurance. This analysis suggests that the socially-embedded model of home ownership of the 1950s (inclusive model) was replaced by a financially-embedded model of post-1959 (exclusive model). Once the foundations for financial deregulation and the risk-management market were established, the second stage of the exclusionary model of home ownership followed suit. This is discussed in the next section.

An Exclusionary Model of Home Ownership: Stage 2 (Early-1980s to Mid-1990s)

The financial relations of housing: originate to distribute debt locally

During the thirteen years of the Hawke-Keating governments (1983--1996), the financial sector was deregulated, the superannuation market emerged and the mortgage and risk-management markets expanded. Labor politicians, business leaders and unions were agreed on the need for economic reform to combat stagflation and provide a new basis for economic expansion. The political and industrial wings of the organised

labour movement negotiated the Accord to ensure that lower wage growth would be compensated by a social wage (ACTU, 2013). Of particular relevance was the introduction of a 3% compulsory Award superannuation in 1986, enabling substantial growth of the funds-management sector, especially superannuation and life insurance (Spies-Butcher and Stebbing, 2011; Edey and Gray, 1996). Concurrently, the Hawke government, with the support of the financial and insurance sectors, began the process of deregulation of the banking system, abolishing foreign-exchange controls and floating the Australian dollar (Berry, Chapter 6 in Smith and Searle, 2010). In the same period, credit unions and building societies converted into banks or were formally incorporated into savings banks (Guy, 2010). Banks entered the high LVR market, with the support of the LMI industry (ICA, 2003). Additionally, the government-sponsored (26% government-owned) but privately-run New South Wales First Australia National Mortgage Acceptance Corporation (FANMAC) issued residential mortgage-backed securities (RMBS). The aim was to purchase pools of residential mortgages originated by cooperative housing societies (see Edey and Gray, 1996; Rajapakse, 2006; Ferris, 2008).

In 1988, the Basel Capital Accord and the RBA changed the risk weighting in favour of housing loans instead of business or personal loans, shifting primary lending activities towards the housing market (Guy, 2010). This was followed by the financial recession in the early-1990s, triggering further financial deregulation by the Keating government that fundamentally altered the housing and mortgage markets. Between 1991 and 1996 the Commonwealth Bank was fully privatised. In 1992, regulation of foreign banks was further relaxed to allow capital to flow globally and to permit the establishment of independent foreign branches in Australia (Guy, 2010). In the early-1990s, two types of private sector securitisation institutions emerged: the special-purpose vehicle (SPV) and the funds-management sector. Their purpose was to cover mortgage originators of risks of defaults, and to enable, via RMBS, the transfer of ownership of mortgage debts from lenders' balance sheet into SPVs' books to free up capital for new loans. Concomitantly, urban consolidation arguments intensified (see Searle,

2007; Troy 2012), encouraging large scale developments that needed large scale financial structures[11].

These institutional reforms instigated greater competition between authorised deposit-taking institutions (ADI) that are prudentially supervised by APRA, such as domestic and foreign banks, building societies and credit unions. ADIs decreased credit standards required for loan approvals, offering high LVR loans, low-documentation loans (low-doc) and lower home loan interest rates (Sykes, 1998; Edey and Gray, 1996; Rajendra and Pahlson-Moller, 2008).

Market competition further expanded in 1993 with the emergence of non-authorising deposit-taking institutions (Non-ADI) that are not prudentially supervised, such as wholesale lenders and mortgage brokers. Non-ADIs introduced home equity loans and interest-only loans (known as honeymoon loans). Designed to take advantage of growth in property values, the former allowed homeowners to borrow money against the real value of their houses. The latter minimised mortgage repayments in the first years of the loan (Guy, 2010; Rajendra and Pahlson-Moller, 2008). Consequently, the mortgage market became more complex, the financialisation of pensions advanced and the risk-management market expanded, succeeding GBSs issued by the Commonwealth in the mid-1960s and RMBSs issued by FANMAC in the mid-1980s.

During the third era of the Australian mortgage market, *originate to distribute debt locally* became the dominant approach to housing finance. Mortgage debt was originated by lenders or intermediaries and distributed to institutional investors connected to the local mortgage market. Policy makers and finance experts developed financial instruments to increase the liquidity of mortgage debt to allow debt portfolios to be sold to Australian debt traders. Because of these arrangements, the mortgage market became a complex interplay of powerful players in debt profit distribution, debt profit transactions and risk transfer, which, I suggest, has jeopardised the social relations of housing.

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11 Housing initiatives by the federal government included the introduction of the First Home Owners Scheme (FHOS) in 1983; investments to increase the public housing stock from 1983 whilst maintaining the sales of the previously built stock; and retraction of the FHOS in 1991 (see Troy, 2012).

As shown in Figure 4, the structure of the mortgage market was now more complex, consisting of six distinct interest groups: homebuyers, mortgage originators, SPVs or trustees, funds-managers, LMI and workers. It comprised three debt traders and debt profits were shared between five entities. Economic risk was shared between homebuyers, SPVs, LMIs and the workforce by means of superannuation contributions.

Mortgage originators are the first tier debt trader, in which risks are covered by SPVs and LMIs.

SPVs are the second tier debt trader whose risks are reduced by funds-managers and LMI.

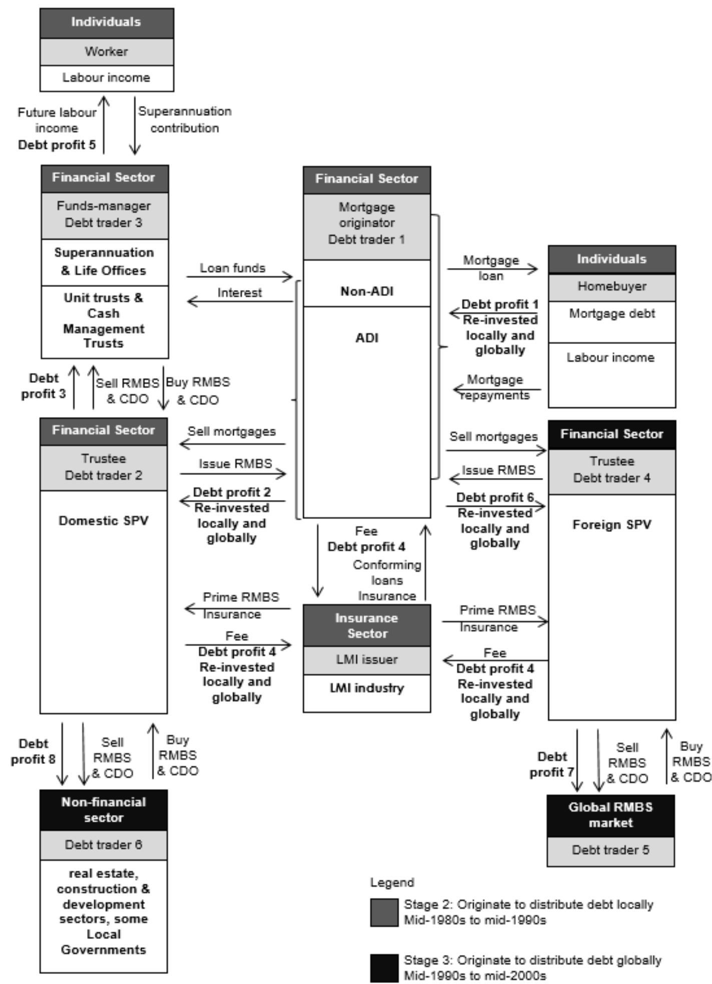
Funds-managers are the third tier debt trader, transferring risks to their members.

LMIs do not trade debt but profit from debt-trading via insurance and administration fees, covering 100% of loan balance and repossession costs in case of mortgage defaults. They insure all Australian high LVR conforming loans and serve as credit enhancement for prime RMBS. The LMI market is monopolised by two U.S. global corporations: Genworth Financial Mortgage Insurance and QBE Lenders' Mortgage Insurance.

Lastly, the sixth party is the workers who make compulsory contributions to private superannuation funds, some of which have used their members' future old-age income to invest in debt-trading, among other types of investments. Workers bear the risk of investments carried by funds-managers.

The FIRE system, not homebuyers, is further safeguarded by the absence of debt forgiveness provisions in the Australian consumer bankruptcy framework, which gives SPVs the right of repossession in case of mortgage defaults (Rajendra and Pahlson-Moller, 2008).

Figure 4: Originate to Distribute Debt: the Exclusionary Model Stages 2 & 3



The Financial Relations of Housing:

the symbiotic exchange-relations of house, debt, superannuation assets and risk-management

The effects of these complex structural changes are self-evident. A deregulated market offered greater and easier access to credit, greater competitiveness between local and foreign intermediaries, and clever innovations in securitisation. This was accompanied by an increase in demand for private housing due to immigration, lower interest rates, tax concessions and the rise of dual-income families, family dissolution and single-person households (Yates, 2011). Consequently, life for many became more unstable, housing costs increased and housing stratification continued to rise[12].

A trend of asset accumulation due to a shift in consumption patterns from owner-occupied properties to investment properties is also evident. From 1981 to 1996, the proportion of properties that were investment properties rose by 2.3%. Owner-occupied properties dropped by 1.6% and private properties (other) declined by 0.7% (see Figure 3). This represented a 4.6% decline in the number of owner-occupied properties since the 1950s. The difference was largely taken up by privately-owned rental properties, privately-owned unoccupied dwellings, and privately-owned holiday houses[13].

Further, housing debt nearly doubled in ten years, rising from 30% of household disposable income in the 1970s-mid-1980s to 60% of disposable income in the mid-1990s (Soos and Egan, 2014). The highest increase occurred during the Keating government years. Housing costs were equivalent to four-and-a-half times the average annual (after-tax)

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12 Some housing experts argue that supply shortage due to high construction cost, urban planning regulations and land scarcity also contributed to housing unaffordability (see Yates, 2011).

13 As discussed in the introduction to this article, the proposed methodology assesses changes in housing consumption patterns as a result of a value shift. Important evidence on generational shift is presented by Yates & Bradbury (2010) and Yates *et al*. (2008), showing a shift in consumption patterns due to declining rates of home ownership among younger cohorts by about 10% points since the mid-1970s, and a projected decline in the rates of home ownership among the over-65 population by about 10% points for the next 30 years. This data raises important questions about the future sustainability of the age pension.

household income; a 50% increase in housing unaffordability since 1983 (Fox and Finlay, 2012: 17). Lastly, the annual change of dwelling stock continued its downward trend since the early-1960s (Unconventional Economist, 2013).

The structure of the mortgage market from the mid-1980s to mid-1990s suggests the shift in the role of the welfare state is central to understanding the second stage of the exclusionary model of home ownership. In other words, economic stagnation in the 1970s prompted the exploitation of new markets, such as risk-management, mortgage and superannuation markets, through neoliberal reforms. These reforms simultaneously deregulated the financial market and privatised and financialised home ownership, pension and social security. This entails two inverted relations: [1] the financialisation of the welfare state and [2] the financialisation of welfare, prioritising the financial relations of housing and intensifying the process of commodification. This process may be called *monopoly-finance welfare*[14].

The first component of inverted relations relates to the financialisation of the institution by means of reforms that have placed the welfare state within a financial rubric; thus creating a symbiotic relation between debt, superannuation contributions and risk-management instruments. This process is illustrated in Figure 4, which shows the financial market has become a market on its own, aimed at serving the FIRE industries and their investors. Firstly, the financial sector captures, via the mortgage market, a portion of labour income to service housing debt (Bryan *et al*., 2009). Secondly, it captures, via the superannuation market, another portion of labour income to compulsorily contribute to private superannuation funds. Thirdly, it creates risk-management instruments to couple the two portions of labour income. Fourthly, debt profits are distributed to debt-investors connected to the financial sector. Finally, a portion of this enlarged capital returns to labour in the form of mortgage loans and future old-age retirement incomes. The first two are ways of linking long-term liabilities (mortgage debts) with long-term assets (superannuation contributions) to protect the system and enlarge capital by means of labour income, via the financial market, rather than taxation.

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14 This concept builds on Foster's (2007) '*monopoly-finance capitalism*', and was developed in a Masters degree thesis by the author of this article that was submitted to Macquarie University in 2014.

The third and fourth are mechanisms to enlarge capital by means of risk-management instruments to distribute profits to interest parties connected to the financial sector via [1] the transfer of debt pools from lenders to SPVs; and [2] the sale of debt pools to debt traders. Elsewhere, these mechanisms have been referred as a process of commodification of risk via securitisation and derivatives (Bryan *et al.*, 2009). The last one is a way of privatising and financialising the social provision of shelter and social protection for the elderly to foster individualised lifecycle redistribution through *'asset-based welfare'* [15] (Sherraden in Katz, 1991). The effect is to legitimise a neoliberal agenda aimed at reducing public spending on retirement incomes support as an intrinsic component of the project of *'great risk shift'* (Hacker, 2006) and '*institutionalised individualism'* (Beck, 2009:9).

For individuals, a *loan* is a means to buy a place to live, which represents the use-value of *home*. However, private housing has increasingly become a means for individuals to accumulate assets to self-fund retirement and to maintain lifestyle choices. These are the exchange-relations of *house*. For workers, superannuation contributions are a means to self-fund retirement, which is the use-value of *retirement incomes*. Nonetheless, for the government and capital and insurance markets, mortgage debt and superannuation contributions, both sourced from labour income, have become sources of funding to enlarge capital via risk-management instruments. They have become mechanisms to stimulate the economy, maintain housing consumption and reduce public spending in retirement incomes support. Moreover, they have become ways of protecting the financial system and increasing profit margins of the FIRE industry through house-trade and debt-trade speculation.

As a result, the use-value of *home*, *loan* and *retirement income*s becomes subordinated to the exchange-relations of *house, debt* and *superannuation assets.* This represents the inverted relations of housing and pension in which exchanges have become more financialised over time. Debt-related profits are distributed, via the financial sector, to mortgage lenders, SPVs, funds-managers and LMIs. A small share of profits and a big share of investment risks are transferred to individuals who, without their knowledge or control, may invest in someone else's debts through their superannuation contributions to grow wealth to self-

15 Meaning private housing, financial and commercial assets.

fund retirement via their private retirement savings funds. This is a hidden antithesis of social solidarity. Although many homeowners have become accomplices of the dynamics of a for-profit housing market and an individualistic society, ordinary workers are largely unaware of the ways in which their mortgage debt and superannuation contributions have become a vehicle for capital accumulation for a privileged few.

The second aspect of inverted relations refers to the financialisation of delivery mechanisms of social provision through the development of financial instruments. Due to financial innovations and deregulations in the financial, labour and housing markets, individuals became, on one hand, more dependent on the financial sector for social provision and protection. On the other hand, they became more exposed to the volatilities of these deregulated markets. Reflecting this growing social risk, the government, capital markets and insurers offered *risk-management* rather than *social security*. In other words, growing vulnerability of housing finance systems became financially risk-managed by RMBS, derivatives, LMIs and superannuation contributions.

Spiking housing unaffordability and high down-payments were disguised by [1] high LVR loans that reduced the deposit gap between the early-1990s and early-2000s; and [2] honeymoon loans and lower interest rates that maintained the cost of servicing mortgage repayments stable during the same period.

Stagnant wages and higher living costs between the 1980s-1990s could be financially risk-managed by equity releases, so that homeowners would earn more through spiking housing prices than wages. Moreover, due to changes in labour and immigration laws, there were growing numbers of casual and part-time workers, low-to-moderate income earners, recent immigrants, the self-employed and the underemployed struggling to enter the housing market. These groups became financially risk-managed by low-doc, honeymoon and high LVR loans, rather than socially protected by wage growth, stable jobs and full employment policies.

Lastly, the system was fiscally risk-managed by social tax expenditures. Monetarily risk-managed by lower home loan interest rates. Materially risk-managed by high housing prices. These risk-management instruments could maintain and increase demand for housing finance and housing consumption, mostly by repeat buyers and investors.

Arguably, these financial instruments made access to home ownership slightly easier for some, but certainly not more affordable or equitable. These instruments, which were largely borrowed from the U.S. system, laid the foundations for further financial innovations from 1996 (as discussed later) that became the root cause of the Global Financial Crisis (GFC) in 2007-2008. Concomitantly, the discourse about housing affordability inverted as well. The financially-embedded discourse that houses were affordable if individuals spent equal or less than 30% of their yearly income on mortgage repayments, replaced the socially-embedded notion that '*future generations should have access to housing on the same cost conditions in relation to income as past generations*' (Brundtland Report, in Yates, 2011:279).

To cut a long story short, the government deregulated the sector that became responsible for managing, not protecting, our social risks: the financial sector. Simultaneously, housing unaffordability, housing-related indebtedness and mortgage stress worsened, wages' growth declined and rates of casual and temporary jobs rose. Additionally, unregulated financial intermediaries and debt-traders expanded and the structure of the mortgage market became much more complex due to new risk-management instruments and new powerful players. The use-value of *social security* of the 1950s (the social compromise of housing) was replaced by the exchange-relations of financial, fiscal, monetary and material *risk-management,* thereby shifting (Hacker, 2006), and individualising (Beck, 2009) and commodifying (Bryan *et al.*, 2009) social risks. The symbiotic relation between mortgage debt, superannuation contributions and risk-management instruments, therefore, became entrenched in financial systems of capital accumulation, risk transfer and low tax. Meanwhile, community attitudes about home ownership shifted towards investment properties. From the mid-1990s, the exclusionary model continued on its path of ascendancy towards greater inequality, as discussed in the next section.

An Exclusionary Model of Home Ownership: Stage 3 (Mid-1990s to Mid-2000s)

The financial relations of housing:

the symbiotic exchange-relations of house, debt, superannuation assets and risk-management (originate to distribute debt globally)

The expansion of the mortgage and risk-management markets during the Howard government years (1996-2007) was a direct result of interventions in taxation and monetary management. These interventions, supported by the financial and non-financial sectors, fundamentally altered the housing, mortgage and risk-management markets. The government implemented income and housing taxation reforms that made investments in residential properties and housing portfolio upgrades even more attractive to investors (Mortensen and Seabrooke, 2008). It made changes to superannuation tax concessions that significantly increased the size of the funds-management sector and their debt security products (Spies-Butcher and Stebbing, 2011). In 1997, the government granted tax exemptions to foreign investors on interest-withholding tax on bonds, opening up Australia's securitisation to the global market (Rajendra and Pahlson-Moller, 2008). This was followed by the emergence of the credit scoring market. The debt of homebuyers mostly at risk of losing their homes or becoming unemployed (junior tranches) became valuable tradable commodities in the stock market. This was the root cause of the housing and financial market collapses in 2007-2008 in the U.S. and globally. Lastly, between 2003 and 2006, new risk-management products designed for hedging (derivatives), such as credit default swaps (CDS) and residential futures, began to emerge[16].

These structural changes produced a mortgage market even more complex than previous eras, which is described here as *originate to distribute debt globally*. As illustrated in Figure 4, the fourth era comprised of nine interest groups. In addition to the six parties of the third era, the market included foreign SPVs, global debt traders and local non-financial debt traders[17]. It consisted of six debt traders: mortgage originator, local SPV, foreign SPV, funds-manager, local non-financial debt trader and foreign debt trader. Debt profits were shared between eight entities, including mortgage originator, local SPV, foreign SPV,

16 Public housing initiatives during the Howard government included: no nett investment in supply, introduction of heavily conditioned access and tenure rules and public housing asset sales (see Troy, 2012). Also, the government reintroduced the FHOS in 2001, but as compensation for GST impacts on cost of new homes.

17 Such as the real estate sector, construction/development sector, and some local councils.

funds-manager, global trader, local non-financial trader, LMI and workers. Economic risk was shared between homebuyers, the workforce (via superannuation contributions), local and foreign SPVs, LMIs, local non-financial debt traders and global debt traders.

Consequently, by 2007, growth of mortgage debt-trading exceeded growth in mortgage lending. The Australian RMBS market grew from $13.6 billion in 1997 to $204 billion in 2007. This represents an average growth of 31% per annum, whereas the mortgage market grew by 15.7% per annum (Austrade, 2010). By 2004, the volume of Australian RMBS sold in the foreign market reached 40% of total RMBS issuance (Rajendra and Pahlson-Moller, 2008). However, after the sub-prime mortgage crisis, the RMBS market began to decline, during which the residential derivatives market evolved rapidly (Fabbro, 2011; Young, 2007).

Due to greater complexity in the mortgage market, greater numbers of debt-traders and new risk-management products, access to owner-occupancy worsened and housing asset accumulation increased. The proportion of properties that were investment properties rose by 1.1% between 1996 and 2006. The proportion of private properties (other) increased by 1.6%, whilst owner-occupied properties dropped 1.7% of the total housing stock (see Figure 3). This represents a 3.9% increase in the number of investment properties and a 4% decline in owner-occupied properties since the mid-1980s. It also represents a 6.4% drop in the proportion of owner-occupied properties, a 3.6% increase in the number of investment properties and a 4.7% increase in private properties (other) since the emergence of the exclusionary model in 1959. This shows a gradual return to the unequal distribution of the private housing stock before the 1950s' pro-owner occupancy policies were introduced.[18]

Likewise, housing-related indebtedness and housing unaffordability escalated. From 1996 to 2004, the cost of buying a house in Australia jumped to seven times the annual average (after-tax) household income (Fox and Finlay, 2012:17). This amounts to a 60% increase in housing unaffordability in only eight years, and a two-and-a-half-times increase since the deregulation of the financial market and the growth of the risk-management market from the mid-1980s. Lastly, between 1996 and

18 The demand side of the equation continued to influence patterns of consumption, as discussed earlier.

2006, housing debt jumped to 130% of household disposable income (Soos and Egan, 2014); a 100 percentage point increase in ten years, and a four-times increase since the mid-1980s.

Ironically, the Howard government claimed home ownership was an important aspect of Australian society from both economic and social cohesion perspectives (see Ronald, 2008a). It framed its discourse in accordance with the use-value of *home,* associating home ownership with social and familial security. Nonetheless, by allowing the debt-trading market to expand globally and locally, the Howard government created the structural foundations that exacerbated housing unaffordability, individual indebtedness, social uncertainty, mortgage stress, housing stratification and land and debt speculations. Equally important, it enabled the emergence of the credit scoring market in Australia, which was the fundamental cause of the GFC.

Conclusion

This historical account suggests that, by placing private housing outside a welfare rubric and within a financial rubric, federal governments have changed the inclusive model of home ownership and social security of the 1950s into an exclusionary model emerging from 1959. This evolution had three stages as a result of institutional reforms that moved away from the social compromise of housing, instead prioritising the exchange-relations of housing and intensifying housing commodification. These institutional changes have led to a symbiotic relationship between mortgage debt, superannuation contributions and risk-management instruments, which has become entrenched in financial systems of capital accumulation, risk transfer and low tax.

The effects of these institutional reforms are wide-ranging. The financial sector was gradually deregulated. The risk-management market emerged and expanded. The complexity of the mortgage market and the interplay of powerful players increased substantially. Consequently, the proportion of owner-occupied properties declined and the number of investment properties rose. Housing unaffordability, housing-related indebtedness and social uncertainty worsened. Under the exclusionary model, profit goals have replaced social goals. Risk-management has replaced social security. The self-interest of already wealthy people seeking to acquire more assets has stymied the common goal of others who seek to acquire

a secure and affordable owner-occupied property. In this environment, debt-trading has become the norm, which is the antithesis of social solidarity.

From the mid-2000s, the exclusionary model of home ownership has continued on its decades-long climb towards inequality and social uncertainty. New risk-management instruments have emerged from the debris of the GFC. Median house prices in Sydney, for example, have grown by about 77% since 2009 (Scutt, 2015), with housing costs reaching twelve times the average annual household income by the end of 2015 (Irvine, 2015). Investors accounted for 60% of all new lending in NSW in 2015 (Yeates and Eyers, 2015). Homelessness has increased and the erosion of the public housing system continues. Moreover, historically low interest rates have reduced yields in the financial market, contributing to a significantly higher net return in investments in housing construction and house trade, particularly for the past two years in Sydney.

The erosion of the fragile housing and financial systems are evident. Nonetheless, federal governments continue to nibble around the edges of the problem in an apparent attempt to please an array of powerful players. This includes some homeowners, state governments and the real estate and land development sectors consumed by the idea of never-ending house price growth. They are supported by a financial sector (and their investors) addicted to risk-management instruments, and over-reliant on the easy money from labour income to service debt and to self-fund retirement.

There have been recent calls by some scholars, policy analysts and civil society representatives, both locally and internationally, to bring private housing back into welfare, political economy and cultural debates. In the Australian case, this may be interpreted as a case for reclaiming a view of home ownership as a social good, or perhaps moving forward to viewing housing as a social right. Central to these calls is the case for considering how housing provision relates to political economic issues, including unemployment underemployment and job casualisation; financial deregulation, risk-management instruments, social uncertainty and risk transfer; power relations, asset accumulation and inequality; individualism, herd behaviour, the role of public housing, taxation and neoliberal ideologies. This article is offered as a small contribution to these big debates.

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