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Reviews

Generation Rent: Rethinking New Zealand's Priorities

By Shamubeel Eaquad and Selena Eaquad,
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Reviewed by Naoise McDonagh

GENERATION RENT BY Shamubeel Eaquad and Selena Eaquad provides critical reading for the people of Aotearoa, social activists and politicians alike. The importance of this compact book stems from its tripartite approach. First its attempt to unravel the forces driving arguably the biggest social issue in Aotearoa today, its housing crisis; second its outline of the consequences of this crisis; and finally, its response to resolve it in a socially responsible manner. On this last point, the authors make a strong argument for substantive regulatory overhaul of the market for real estate and house rental. However this argument may be critiqued for its implicit acceptance and maintenance of a rentier

class of non-productive property owners who siphon wealth off non-property owning workers. Such rent seeking is one of the prime reasons for growing inequality in capitalist economies, Aotearoa included. I will elaborate this point further below, but first let us attune ourselves to the problem at hand, Aotearoa's housing crisis, and then assess what *Generation Rent* has to say about it.

The housing crisis in Aotearoa is typical of a capitalist economy. A speculative bubble arises in a market where demand for a given asset outstrips supply driving prices upwards. This allows capital gains to be made quickly through buying and selling over the short term, further increasing the price of the asset in a self-reinforcing cycle. Rather than rationally realising that prices cannot go upward indefinitely, and a knowledge of history does no harm here, both buyers and sellers hold the 'adaptive expectations assumption' which regards recent past trends as predictive of future trends and the expectation is that price increases continue.¹ The problem which ensues from ongoing asset speculation is that prices increase at a rate far above increases in average income. While this may have limited social consequences when the asset is gold, diamonds or fine art, when it is a social necessity such as housing stock the results can be disastrous. This is the problem which concerns the authors of *Generation Rent*.

The first section of the book aims to unravel the causes driving exceptionally high house prices in Aotearoa. Here the authors begin from the premise that the housing market is broken.² It is broken because it has failed to meet demand with supply and prices have as a consequence risen far quicker than household income. This means that a majority of citizens are either priced out of the market altogether or must shoulder ever larger debt burdens in order to buy a home. Those who are priced out of the market must enter what the authors argue is a sub-standard rental sector that comes with a host of further social negatives.

One social negative is that renters are denied fulfilment of an important cultural norm. In Aoteroa the authors argue that

1 Charles Kindleberger & Robert Aliber, *Manias, Panics and Crashes*, Hoboken 2005, p. 38.

2 Shamubeel Eaqub and Selena Eaqub, *Generation Rent*, p. 29.

home ownership is a 'cultural expectation', one that infers social status by representing evidence of independence and prosperity.³ For much of the 20th century achieving this expectation was within the reach of most people and home-ownership rates steadily increased. Since the 1990s, however, this has changed due to steadily increasing prices, with the effect that since 1991 home-ownership rates have fallen. This has forced many into the rental market which has traditionally been seen in Aotearoa as a 'second-rate' option.

Further issues arising from increasing house prices include the fact that for typical first home buyers in the country's most expensive city, Auckland, half of their income goes on mortgage repayments.⁴ If prices continue to increase at the current rate then the only children of home owners will be able to afford to buy a house in the future, cementing an inheritance-based class system contrary, the authors argue, which is an impediment to creating a fairer more equitable society. Some useful facts support this assessment. For example, in the late 1980s three times the average annual household income was equal to the average house price in Aotearoa. Today that ratio has increased to eight years of income.⁵

Why are house prices so high in Aotearoa? To their credit the authors note that there are no easy explanations to this question, rather there are a host of complex and interrelated issues which have driven prices up at an unusually high rate across Aotearoa, especially in major urban areas. The two major causes driving house price increases are the cost of land⁶ and the fact that market supply is slow to meet demand, creating conditions of scarcity.⁷

Here a detailed analysis is provided by breaking down the demand side and supply side inputs. On the supply side pressures include restrictions on land supply through land use and related

3 Ibid., p. 8.

4 Ibid., p. 9.

5 Ibid., p. 15.

6 Ibid., p. 32.

7 Ibid., p. 40.

government policies as well as government funding priorities. Another factor is speculative land banking by developers who due to adaptive expectations believe that prices will go up indefinitely and hold off developing or selling land in order to make a bigger profit in the future. This makes usable land in urban areas artificially scarce such that demand outstrips supply and prices go up. On this the authors suggest that a 'bare land' tax used in other countries which taxes unused land in areas of high housing so as to prevent speculative land banking would be a progressive move.⁸

On the demand side pressures include such factors as natural population growth, a reducing number of people living per house, and speculative investment aided by favourable tax and finance conditions which all contribute to price increases.⁹ In particular 'easy' money from Aotearoa's financial sector has been a factor in rising real estate prices helped by a process of neoliberal style financial deregulation since the 1980s. Here the authors provide a startling fact regarding the growing prominence of mortgage lending as a total share of all bank lending. Between the 1970s and 1990s mortgage lending in Aotearoa rose from 10 per cent of all lending to 25 per cent in the 1990s, and over 50 per cent in 2015.¹⁰ Such a significant increase in mortgage lending as a share of total lending means that Aotearoa's financial sector stability is now largely dependent on housing market stability. As the global financial crisis has shown, this is a precarious position to be in.

Another factor driving speculative demand is tax treatment favourable towards investors who pay no capital gains tax and can offset losses on investment properties against other income.¹¹ The authors argue that the current regulatory status-quo in Aotearoa's housing market benefits primarily wealthy property owners who are politically influential and 'will do what is needed to protect their interest'.¹² They argue that the influence of vested interests on housing policy must be confronted politically if real reform is to occur.¹³

8 Ibid., p. 62.

9 Ibid., p. 33.

10 Ibid., p. 45.

11 Ibid., p. 46.

12 Ibid., p. 59.

13 Ibid., p. 59.

The second section of the book provides a detailed analysis of the social consequences of housing affordability. It opens by noting that rising house prices can have a positive economic impact by increasing the net worth of the owner. This leads directly to growing wealth inequality when prices rise faster than incomes. In this situation ownership becomes increasingly difficult for low income households while others who can afford to buy then go on to reap all the wealth increases stemming from increasing prices. In Aotearoa speculation has driven prices at a pace far outstripping income growth, leading to a major class divide between those who can and cannot afford to buy. The authors' note that 'Generation Rent' is comprised of a growing majority of lower income families who can no longer afford to buy a home. Within this segment ethnic divisions exist whereby Māori, Pacific peoples and new migrants have some of the lowest home ownership rates nationally.¹⁴ Likewise young people under forty whose parents do not already own a home tend to struggle to get on the property ladder.

Housing affordability, the authors conclude here, has serious social ramifications. They summarize these as follows: 1) wealth increases accruing from house price rises go to the minority who can afford to own a home; 2) excessive increases in house prices can lead to financial, economic and social instability, as for example the US's 2007 subprime crisis showed; and 3) unaffordability sows the seeds for increasing intergenerational inequality.¹⁵ This growing wealth divide is brought into stark relief by the fact that in 2015 only about half of all people in Aotearoa over the age of fifteen live in a home they own.¹⁶

The final section sets out the authors' response to the critique provided thus far. Here they elaborate what needs to change in order to support a growing majority of people hopelessly mired in debt or excluded from the 'Kiwi' home ownership dream. This includes a number of solutions which they argue must be taken as a package rather than piecemeal if any substantial changes are to be effected. Ten solutions are usefully broken into three categories of palliative care, short-term cyclical solutions and

14 Ibid., p. 66.

15 Ibid., p. 67.

16 Ibid., p. 66.

long-term structural fixes. They include options such as improving the rental sector, using monetary policy to reign in the housing market, rezoning urban areas for higher density use, and improving financial literacy to encourage investment in non-property assets such as stocks.¹⁷

While none of their suggestions are entirely novel the authors argue that if taken as a package and implemented in Aotearoa the housing crisis will be largely averted and a much more stable market will be created. Here Germany and Switzerland are given as ideal comparisons of how to regulate the housing market in a socially responsible manner. Both countries have a large rental sector comprised of stock which is as good as privately owned houses and which is regulated by strong tenancy laws. Both countries have strong anti-speculation laws governing the housing market, and in both countries house prices have remained stable, increasing in price only at the rate of general inflation.¹⁸

In closing, the authors offer a rallying call to the disenfranchised majority to put pressure on their elected leaders and other important community groups to ensure that owning a home or renting in secure and good quality accommodation is not only available to the wealthy, but is instead a right of all residents regardless of economic income.

Generation Rent provides a very useful analysis of Aotearoa's housing crisis. However, as noted above the authors' provide only market-based structural solutions to the housing crisis. Furthermore, they seem unable to decide whether a house is in fact a social good, a commodity, or as often appears in *Generation Rent*, both. If a house is treated as the latter then speculation and price distortions are arguably unavoidable. However, if we consider a house to be primarily a social good then we should seriously consider non-market methods for housing provision. The main structural solutions suggested in this book to fix the housing market are all based on orthodox market solutions that aim to regulate the market in order to best meet supply and demand. Market solutions implicitly support the ability of property owners to continue profiting from non-productive rent seeking.

17 Ibid., pp. 105-6.

18 Ibid., p. 112.

This comes at the expense of those without property, who instead enter lifelong debt relations that Lazzarato argues are the basis of modern capitalist exploitation and domination.¹⁹ Property owners constitute the rentier class whom John Maynard Keynes argued must be ‘euthanized’ if we wish to reduce economic inequality. Likewise the great political economist and capitalist David Ricardo also argued against the power of the landed gentry to charge rent while being unproductive.

Considering that the authors do argue for a fairer and more equitable society the problem of rent seeking and inequality is a noteworthy omission from their analysis. Instead they follow Adam Smith’s great optimism that the market does automatically transform self-interest into a public good despite history long proving that this is only the case some of the time. Thus while the authors make many progressive suggestions they ultimately ignore one of the great causes of modern inequality – rent. That aside, this book is highly recommended for providing a useful analysis of the causes driving Aotearoa’s house price boom, the social effects of this, and finally for providing measures that would ameliorate the worst excesses of the current housing market crisis.

19 Maurizio Lazzarato, *The Making of the Indebted Man*, Cambridge MA 2011.

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