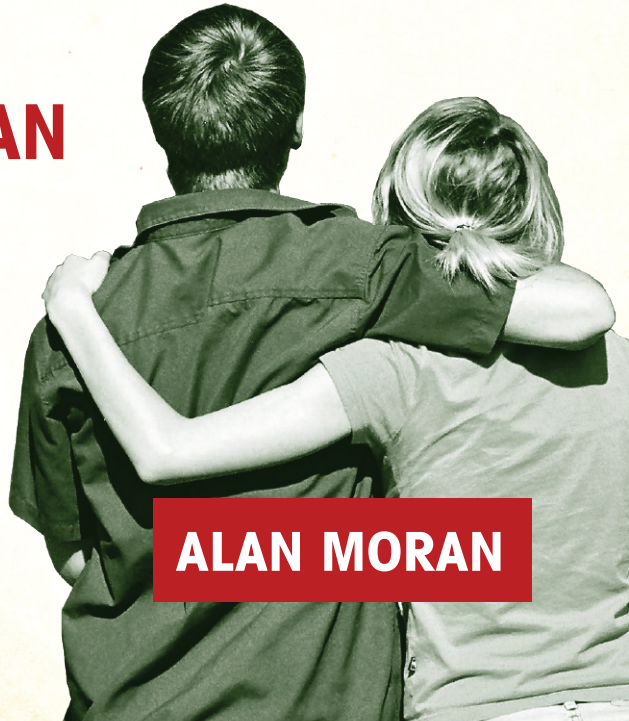


THE TRAGEDY OF PLANNING



LOSING THE GREAT AUSTRALIAN DREAM



ALAN MORAN

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Losing the Great Australian Dream

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Acknowledgements

I was inspired to write this book by observing the regulatory morass that has grown up around the provision of housing. A house is at one and the same time most people's major investment and the source of shelter which, with food and clothing, forms one of the trio of life's essentials. Housing is however much more than this since it also provides our main area of relaxation and the place where we raise our families.

Many people contributed much appreciated information for this work itself including from within academia, industry associations and consultancy services around Australia and overseas. I would especially like to thank Michael Warby for his research assistance in ferreting out facts and offering invaluable analytic insights. Responsibility for errors and omissions of course remains with me.

Alan Moran
June 2006

Foreword

Ron Silberberg

Our homes define how we think of ourselves and the way others see us. They represent places in which we interact with our families away from the sight of others; they are our areas of retreat and relaxation from the world. At the same time our homes bind us to our communities. They become a source of security for retirement, indeed, home ownership is an increasingly important investment as we advance in years.

Unfortunately, housing has become much less affordable in recent times. Taking the initial step towards home ownership now requires a much higher share of income than it did even 10 years ago.

Why has this occurred? Alan Moran's analysis dismisses interest rates as a significant factor—if that were so, poor affordability would be a global phenomenon. But houses in many areas around the world remain highly affordable. Nor is it the cost of building which, notwithstanding the imposts governments have introduced, has remained remarkably stable over time in real terms. There are other reasons.

The increased costs largely relate to the rising price of land on our city fringes. Government-imposed restrictions on land supplies, 'development levies' to fund infrastructure and increasing layers of regulation all contribute. Planning restrictions in particular, are choking our cities and increasingly pushing up the prices in what were once the most affordable places to purchase a home.

For the housing sector and related industries, higher costs mean less activity than would be the case if the laws of supply and demand were free to

operate. But there is a much larger tragedy for society as a whole. The regulatory-induced price burden dashes the hopes of a great many aspiring home owners and has the potential to undermine the social cohesion and property ownership that does much to define us as a community. Reducing the regulatory imposts that are creating these conditions has to be a major priority.

Summary

I think there's an enormous amount of time wasted by people trying to plan for long periods ahead, when history has shown that you just can't do this. You can't place restrictions on people because of things you think should happen in 20 years, when we have absolutely no idea of what is likely to be the situation at that time.

—Clem Jones (ALP), Lord Mayor of Brisbane, 1961–1975.¹

The nineteenth-century social commentator William Cobbett echoed earlier writers in calling London, the first city of the modern era, 'the Great Wen' (wen being Anglo-Saxon for wart). This derogatory description of the crowded city is very much reversed under the present dominant approach to urban planning.

Modern planning typically seeks to ensure greater density and to prevent the geographic spread of urbanisation. Its aims are, in part, to create a Parisian café society and, in part, to obtain cost economies in terms of transport and infrastructure spending. Neither of these goals are realistic: in fact, less than one-tenth of Parisians live within the romantic city that planners aspire to create; and the economies in infrastructure and transport costs from forced densification are similarly illusory.

This modern planning ideology confronts two opposing sets of interests. The first, which opposes plans that seek greater density, comprises incumbent homeowners, who wish to preserve their living environment in the way it has currently evolved and to prevent its densification. The second set of interests comprises those who do not currently own a home, the interests of which coincide with those of the economy in general. Where planning restricts land access it creates scarcity, thereby artificially bringing higher cost homes, more expensive services

and more apartment buildings instead of the houses that people overwhelmingly seek. Regrettably, people adversely affected by these policies—those who presently do not own a home—tend to be unaware of the reasons why prices have moved home ownership beyond their means.

Cities are places where it became convenient to organise trade, and later to facilitate manufacturing. The advent of railroads and cars, and the end of the protective benefit of huddling for protection behind city walls, has meant that the density of cities has dropped dramatically, particularly in the developed world. With modern transport, where almost everyone has access to their own car in the developed world, and with the communications revolution, the city is undergoing further changes, the outcomes of which are yet to be seen. Yet crowding remains the nature of cities.

Urban planning is, at least notionally, about managing that crowding. It has become a network of social protections, sometimes masquerading as a propellant of economic efficiency. One of the common conceits of our times is that social protections have no costs or, that if they do, their costs are somehow automatically born by the wealthiest members of society. In reality, social protections do have costs and their burdens can often fall, in whole or in part, on the weakest and poorest members of society.

Two vital tenets of modern economies involve first, the respect for individual property rights, and second, that governments should not restrict people's choices. Proposals to restrict choice normally have a considerable burden of proof to overcome. Yet contemporary urban planning is very much about both restricting choice and socialising individual property rights. These come about, most obviously, by rationing access to land.

Planning systems are in place across all major Australian urban areas. Invariably, they reduce the quantity of land that is available for conversion into housing. These restraints are accompanied by others which restrict the development of shopping centres, prevent subdivisions of rural land and often require developers to expend resources on features that their customers might not value as highly as they cost. For housing, the upshot is that agricultural land on the periphery of urban areas, which has a value of some \$1,000 per hectare, is worth 100-fold this amount and more when designated for housing development. An increase in value generated entirely from the lifting of prior official restrictions on the use of such property.

If Australia were applying the liberal systems to development that prevail in Texas for example, a house/land package price would at least halve. Australia's ration-induced high prices for new developments on the periphery lift prices throughout the city.

Rather like the government-created shortage of taxi plates, the existence of the housing land shortage creates an unfortunate vested interest among existing house owners to maintain it. Disconcertingly, State governments may have an interest in ensuring high land prices since this inflates their property-specific taxes.

It would be deplorable if the government-induced land shortage were to endure as it has with taxi plates around the world. But it is unedifying to observe people living in garden suburbs reclaimed from former agricultural land decrying the wishes of others—typically considerably less wealthy and less well politically connected than themselves—to have their own houses-with-gardens in new suburbs reclaimed from agricultural land.

This benefits those who have over those who have not. It directs resources and efforts to political rent-seeking, with all the conflict, arbitrary outcomes and tendencies to corruption that creates—it is no accident that land scandals, particularly at local government level, are a notable feature of Australian politics and political history.² And it paves the way for the creation of a less egalitarian society, where today's have-nots face a form of punitive regulatory tax on joining the home-owning haves, perhaps creating a permanent underclass in the process.

The way forward involves ensuring far greater rights for landowners to use their property in ways they prefer it to be used. This means far fewer zoning restraints, a reduction in mandatory charges for land development and reduced rights of those in neighbouring properties to prevent property-owners from selling, subdividing, or redeveloping their land so that they obtain the most value from it.

1 Urban development and its control

The city historically

Until the past couple of centuries, ancient Rome with one million people (2 per cent of the Roman Empire's population) was uniquely large.³ Before modern times, the difficulties associated with providing food, water and sewage systems placed severe limitations on the size of a city. Even with the full resources of an empire at its disposal, Rome was only able to do so by having an incredible population concentration. At something like 57,000 people per square kilometre, ancient Rome was far more tightly packed than modern Rome (3,000 per square kilometre) or Sydney at 2,200 per square kilometre or even the densest metropolis in the world today, Dhaka in Bangladesh, at 32,500 per square kilometre.⁴

Typically, the vast majority of people in any but the least developed countries now live in cities. They do so out of preference based on the different features that urban housing provides: features such as comfort, access to services, proximity to work, friends and so on. Currently, East Asia is in the middle of the largest movement of people in human history, as farmers and young people move to the cities.

Regulatory restraints to development

Planning for amenities

From the Mesopotamian city of Ur of the Chaldees to today, housing and house costs have depended on the same variables. The costs of housing are a function of three factors: the costs of building; the costs of the building materials and other inputs; and the costs of acquiring and preparing suitable land.

It is this last factor that has become less certain and more subject to regulatory discretion over the years, because in so many jurisdictions it has come to be dominated by approval mechanisms. These have morphed into planning arrangements that have, in turn, been channelled into 'smart' growth schemes. Planning, originally a means of facilitating growth by allowing for the building of common-use amenities and services, has become synonymous with the prevention of activity. Its original rationale has been subsumed into a mechanism for moulding urban and rural living environments.

Opposition to urban sprawl can be dated back at least to Elizabeth I, but it is only in recent times that opposition to it has assumed mystical respectability on a par with saving whales, stopping global warming and preventing GM foods. As with those other goals, opposition to urban sprawl is cloaked in a mantle of moral superiority that pretends to self-denial but is invariably laced with self-interest.

The first recorded attempts to stop populations spreading out from the immediate confines of an established city occurred as soon as a relatively settled system of law and order facilitated protections outside a city wall. The early opposition to it stemmed from costs that might be avoided in taxes to government bodies.

Early planning arrangements were geared to relieving overcrowding. However, a romantic attachment to nostalgia began to find favour from the late nineteenth century, which gradually came to dominate the planning profession and has taken a strong hold on the community generally.

Unlike the previous centuries, where the concerned elites had thought of cities as replete with Satanic Mills, new generations came to venerate the crowded urban landscapes. More importantly, they resented the growth of suburbia and its more recent incarnation, 'exurbia', said to be eating up rural land. Much of the genesis of this view came from England, and the rural landscapes that were cherished were the villages, especially those in the south-east. From the 1940s, Green Belts surrounded London.

From the earliest times there have been reactions to urban population growth. In the case of both the two greatest sixteenth-century European cit-

ies, London and Paris, sovereigns attempted to maintain the compact nature of their capitals by preventing development outside the city or on its edges. In 1580, Elizabeth I of England proclaimed that:

... all manner of persons, of whatever quality soever they be, to desist and forebear from [building any new] house or tenement within three miles of any of the gates of the said city of London ...

This early 'green belt' was a conspicuous failure—the boundaries of Greater London now lie 20 miles beyond the city gates of 1580.⁵

In recent years, these reactions to urban population growth have had an oscillatory character. Concerns were first focused on the need to reduce density in the largest and fastest-growing cities. Paris under Napoleon III did so by pulling down many of the teeming central areas and housing their inhabitants in outer suburbs. The outcome, however, whatever measure was used, was the well-documented reduction in density levels, a reduction that is overwhelmingly driven by the personal preferences of individuals themselves.

Bruegmann⁶ identifies three stages of anti-sprawl arguments over the past century. The first began in the 1920s and was spearheaded by the architect Cough Williams-Ellis who wrote that suburban growth 'crawls like a gigantic slug over the country, leaving a foul trail behind it'. The Society for the Preservation of Rural England was formed in 1926 by like-minded people to stop the middle-class encroachments. Soon after, the term *sprawl* was first used in the context of suburban expansion. As a recent article in *The Spectator* by Roger Scruton illustrates, this view about the merits of protecting the rural landscape from the *hoi polloi* still holds strongly among conservative circles in Britain.⁷

The second phase is associated with William Whyte of *Fortune* magazine who wrote *The Exploding Metropolis*, which Bruegmann calls 'A hymn of praise to the dense traditional city and a bitter attack on postwar suburban development'. This attacked US cities, especially Los Angeles, and spawned a literature that focused on the costs—roads, services, and later isolation and environmental—said to be associated with suburban growth.

This led to a third phase which argued against car dependency and congestion that allegedly accompanied 'uncontrolled' growth as opposed to the 'controlled' growth that was based on planning using computer modelling. The popular support for this is fuelled by those, often recent arrivals, seeking protection from adjacent development, especially by people that they deem to have inferior taste to themselves. Self-interest that adds to the value of the incumbent's own property values (both through scarcity value and by reducing any impingements from more recent development) is particularly

powerful. In this respect, the Prime Minister is reported to have said that no home-owner has ever complained to him that their house prices have risen!

Planning in its modern guise

There was an overlap in the application of two rival notions of planning—promoting urban population dispersion and preventing it. During the 1950s, responding to critics whose focus was on overcrowding, London was still building garden cities 50 miles away from the East End from which the teeming multitudes were to be poured. A final British legacy of government population disbursement was the Location of Offices Bureau, which survived until the Thatcher clean-out of otiose and detrimental government agencies.

Other UK cities followed London and inexorably the new ideology came to infect the Oceanic outposts of Australia and New Zealand. Like many such infections it took a highly virulent form here, despite the lack of any population pressure—Australia's urban sprawl covers less than 0.3 per cent of the country (even in England and Wales, urban developments covers only 8 per cent). Moreover, Australia's more recent settlement surely diminishes the pressures for changed urban structures. The policy actually persisted for longer in Australia. Salisbury and Albury-Wodonga were among the dispersed cities that received favourable tax treatment well into the 1980s.

Neither of these policy trends had much effect in restraining the size of the city. Those cities that declined did so for other reasons. Some were re-defined (with their peripheries taking in most of the growth); others saw a movement from a blighted inner urban area, often resulting from restrictions on redevelopment; some, such as Pittsburgh, were dependent on industries that themselves were in decline.

Above all, the decline in density resulted from technological developments, income growth and consumer preferences. People prefer to live in greater personal space, both internal and external, and detached somewhat from their neighbours. Urban sprawl is not the 'inevitable unhappy result of laissez-faire capitalism' but embodies individual preferences, preferences which are expressed, when they have the chance, by people from all walks of life and creeds. Once technology allowed rapid journeys—first via rail and later by road—the cities expanded. Added to this, we have seen a great dispersal of work locations, partly due to the decline of large integrated factories, partly due to the changed nature of work—especially the growth of service industries which tend to be geographically dispersed.

Robert Bruegmann traces the ebbs and flows of geographic dispersions and the policies attached to them. He finds a remarkable similarity across

the world (Soviet-era Moscow being a rare exception made possible by total government control). European and Australian cities have tended to invest more than American cities in public transport and have, in many cases, put in place much stricter planning ordinances and subsidised housing to prevent geographic spread. Nonetheless, the density levels are comparable.

He also points out that there is some reversal of trends, as people see more merit in inner-city living. In this respect he says:

One of the ironies is that much of what is most attractive . . . about cities' 'traditional' character, is that many of the things that once defined them has disappeared. The decanting outward of all kinds of manufacturing and warehousing functions led to a dramatic reduction in street congestion, truck traffic and pollution.

In the process, factories were converted to lofts and the city centre itself became focused on entertainment and other leisure activities. This has also led to a reversal in cities such as San Francisco (and Melbourne and Adelaide) of the affluent/slum centre/suburb polarity.

Anti-sprawl campaigns now dominate urban planning. Fuelling them and mightily facilitating their media profile are the *arrivistes* and others seeking to preserve a suburb or a favoured rural hideaway by keeping out the *hoi polloi*. Contradictions abound in this series of alliances. Thus, while the incumbents (Bruegmann calls them the 'sensitive minority') want to preserve a suburb, the planners want to re-create the denser populations that they hope will feed the café latte society they favour. As a result, the trend back to the centre by 'empty nesters' and others is not leading to the higher concentrations favoured by anti-sprawl activists. Ordinances and other measures are used to stop densities from rising—a phenomenon best observed in Melbourne in the suburb of Camberwell, where opposition to development has led to a very significant reduction in population density.

In fact, urban change is endemic. The row houses on the periphery of major cities that were the sprawl of the 1930s and 1950s are now highly valued by the *avant-garde*. Daly City in San Francisco, about which folk singer Pete Singer despisingly sang in 'Little Boxes' ('all made out of ticky-tacky and all look just the same'), is now respected and preserved. There is, of course, little difference in this from even earlier eras—much of the most prized real estate in Australian cities was last century's urban sprawl—the Prahrans, and Balmain.

While urban change is endemic and its direction is by no means following a universal stereotype, a sea change appears unlikely. According to UK studies reported by Nathan and Urwin:⁸

- City centre populations grew by nearly 100 per cent in Dundee, around 40 per cent in Liverpool and by nearly 300 per cent in Manchester between 1991 and 2001. By 2001, there were 2,900 people living in the centre of Dundee, 13,500 in Liverpool and 10,000 in Manchester. These numbers have risen since 2001—for example, in 2004, the city centre population in Manchester was probably about 15,000 people.
- City centre living has grown massively and seems to have reduced, but not reversed, longer run trends toward suburban living.
- It is dominated by students who mainly live there only for a few years before setting out on the property ladder—there are very few families with children and hardly anyone over 40. So far, the expected ‘empty-nester’ demand has not eventuated.
- It’s heavily consumerist—there’s lots of shopping and clubbing. There’s no conflict with the evening economy—people move in for the nightlife, not despite it.
- City centres aren’t seen as family-friendly. Noise, pollution, lack of space and lack of public services all become big problems when children arrive on the scene. These attitudes are firmly entrenched and have a long history.
- There’s little point trying to put families into city centres—it would be expensive and might not work, and city cores basically work well for their existing residents.

Even though planning restraints have impeded new development, the consumer continues to voice her/his own preferences. Hence, house-building leapfrogged and indented the no-go areas. But regulatory restraints meant it did so at a higher land cost. Such outcomes are the ultimate corollary of scarcity—especially scarcity that is maintained by government frontier guards patrolling the availability of alternative supplies, as they do in Australia where State-wide planning is effectively in place. Inevitably, the higher costs on the periphery are transmitted to adjacent properties and throughout the urban area, creating the house price escalation Australia faces today.

2 Urban sprawl: its supporters and detractors

Consumer preferences

The abusive terminology captured in the term ‘sprawl’ is about objecting to other people living as they wish. The growth of prosperity means that, unless they are prevented by official restrictions on land use which raises prices beyond their reach, most families can aspire to owning their own home-with-a-garden. Even with reasonable provision for parklands and nature reserves, of all the world’s developed countries, Australia should have the least difficulty in permitting land use to reflect the preferences of its citizens. Especially given that Central Business Districts generally provide only about 15 per cent of total employment.

Given relatively high immigration, and the general preference for the amenities of urban living, Australian cities only have the choices of growing *out* or growing *up*. People’s preferences should be the crucial determinant here. Clearly, people’s preferences are for their own homes on their own land.⁹ They are impeded from fulfilling those preferences by zoning restraints that raise the cost of bringing new land into use for urban purposes.

Moreover, *growing out* generally makes far more sense as it imposes considerably less crowding, pollution and congestion and allows households significantly more living space. Policy makers may, however, prefer placing a more intensive load on existing infrastructure to providing new infrastructure on the urban fringe. Often such preferences are motivated by claimed cost savings; yet many such savings, for example on water and sewerage costs,

are spurious once the age of existing facilities and their inaccessibility are taken into account.

Simultaneously opposing 'sprawl' (on the grounds that the greenery someone else owns should not be converted into the homes-with-gardens other folk want to live in) and opposing *building-up* (on the grounds of loss of amenity) is not a sustainable policy duet. The pressure on existing facilities from such policies clearly imposes considerable costs on those who are not already home-owners, thereby increasing the divide between the 'haves' and the 'have-nots'.

Planning and Public Transport

Much of the basis of planning is posited on outdated notions of the city. These notions see the city as a radial development centred on the CBD. Yet, facilitated by the car and communications advances, different work patterns and an increased need for space-extensive shopping centres have been among the factors that have refashioned modern cities. These trends and developments have changed the nature and importance of the CBD.

These trends are exemplified by a declining share of employment in CBDs. Melbourne is typical: jobs in the central city fell from 55 per cent to 28 per cent of the total between 1961 and 2001. In that latter year, the core CBD itself accounted for only 10 per cent of jobs. This has immense ramifications for planning, especially road development and public transport.

Many planners (and governments generally) are predisposed against the car, presumably for similar reasons they are antagonistic to urban growth—the car epitomises the ability to free oneself from the constraints of a centralised transport system. It also allows the vast reductions in population density that is much opposed by the café latte set.

Typical of planning schemes that discriminate against the car is the Transport Green Paper put out by the Queensland Government.¹⁰ This places the emphasis for government spending on public transport. In its comments on the paper in February 2006, the Royal Automobile Club of Queensland estimated that the State government's documented spending on transport over the next 20 years was weighted 80 per cent towards public transport. The imbalance of such an allocation is clear when data show that car travel comprises 56 per cent of all trips and public transport only 8 per cent.

Plans are designed to ensure job and commercial growth is largely confined to transport hubs, many of which are ill-suited to the types of growth required to meet consumer needs most efficiently.

The Queensland Government's plans are not untypical of those of other State governments. Indeed, before the 1990s, the Labor Government in Vic-

toria was required (under pressure from public transport unions and others favouring public transport) to construct 'arterial' roads with traffic lights and intersections rather than freeways with overpasses, since the latter, it was feared, would take too much clientele from trains, trams and buses.

Transport economist John Cox finds antecedents for this modern authoritarianism when he suggests that:

Quixotic endeavours by ... governments to delay the building of freeways and limit the mobility of motorists in order to push them onto public transport reminds me of the opposition of the Duke of Wellington to the introduction of railways. He was opposed to railways, he said, because they would 'only encourage the common people to move around needlessly'.¹¹

To encourage greater use of public transport, many advocate an increased use of toll roads. There are also frequent calls to make public transport free, sometimes in conjunction with the introduction of road pricing.¹²

While user-pays principles are generally a sound basis for policy, advocates often overlook the fact that the car user, in aggregate, pays twice as much in transport-specific taxes as governments spend on roads.

Moreover, 'user pays' also involves some greater sophistication in charging (for example, differential charges by time of day). Along these lines, 'user-pays' would also entail charges on alternative modes—including public transport—which presently rarely recovers more than 20 per cent of its total costs, and a proper allocation would likely result in a five-fold fare increase, especially for peak-hour travellers.¹³ Public transport is even 'peakier' than road usage. If there were to be a time-of-day charge on car usage, would it not also make equal sense to charge public transport users similarly? This would be even-handed and would surely be preferable to having governments making people's choices for them.

Increased subsidies to public transport for journey-to/from-work peak-time users would increase system 'peakiness' and also, in many cases, degrade comfort—during the peak, many public transport facilities, especially those on fixed tracks, generally operate quite close to capacity limitations.

In addition, further subsidisation of public transport also gives rise to an equity issue. The areas that are almost universally best served by public transport subsidies are those located relatively close to city centres; routes converge on these areas, which not only means improved frequency but also closer proximity to transit stops. Hence, subsidies from general taxation would amount to a redistribution, most often from poor to rich.

A further problem is one of monopoly. As government has the exclusive power to allow or prevent the building of new roads, might they not see road pricing as a taxation bonanza? The prospect of obtaining increased tax

revenue would prove irresistibly attractive to some governments, and would encourage them to allow a scarcity of road space to develop. Governments' enthusiasm for this would be constrained only by fears that they might deprive the city of the transportation services it needs in order to flourish.

These matters aside, although free public transport would certainly attract more patronage, it would not attract as much as its advocates think. This can be tested by observing the transport choices of workers in the public transport industry who already travel free. The number of workers' cars parked at tram, train and bus terminals is testimony to the attractions of car travel—even to people who are far from affluent and work within the industry itself.

Sadly for those favouring public transport, the tide of demographic history is running strongly against them. Public transport needs high concentrations of people. A rule of thumb is that rail-based systems require 40,000 people per square kilometre to be viable. Such a system therefore works, after a fashion, in Hong Kong, which has that population density. Express bus systems need 26,000 per square kilometre.

Australian cities have densities of about 1,500 per square kilometre and reach only 5,500 even in the densest suburbs. On top of this, concentration levels have been falling for decades in spite of land rationing by the government designed to promote denser urban living. Even an intensification of this government-created shortage of land will not reverse the trend.

The estimates of what is required for a viable public transport system with growing patronage levels are also being made worse by the changing nature of workplaces. More and more trips are cross-town. These trends are exemplified by a declining share of employment in central areas where radially-based public transport systems work best. As previously noted, in Melbourne, jobs in the central area fell from 55 per cent to 28 per cent of the total between 1961 and 2001. In that latter year, the CBD accounted for only 10 per cent of jobs.

This has immense ramifications for planning, especially road development and public transport. Not only is Melbourne, like virtually all other cities, getting less dense, but the trip profile is becoming far more dispersed and difficult to jam into a public transport service.

The car is most people's preferred means of transport, unless parking is expensive and/or public transport frequency is high. Trying to discriminate against it not only offends against personal choice but will reduce the value of the city and jeopardise its future attractiveness as a living, working and leisure centre.

Hence, attempts to use transport subsidies or taxes to counteract congestion are difficult to find, apart perhaps from in a handful of the largest and

most densely settled cities such as Hong Kong, New York and London. The modern city and modern life generally revolve too heavily around the motor car for people to prefer the inferior service that is concomitant with public transport. The car is the mode of choice for 90 per cent of motorised trips and, in turn, 90 per cent of the population own or have ready access to a car. Attempts to combat its use will not only constitute attempts to frustrate consumer choices but will rebound on the urban areas that attempt to do so by making them less attractive and less vibrant, causing them to lose activities and people to other areas.

Trying to force the city's development around a mass transit system is a variant of preventing car use and offers few advantages over it. Both such approaches, except in a few mega-core urban concentrations, will constrain the city's adaptability to the needs of the people using and living within it and result in it losing relevance and attractiveness. It was Charles de Gaulle who proclaimed, to the wrath of youthful demonstrators, that Paris must adapt to the car. This allowed the centre of Paris to be compromised, but at the same time retain its commercial viability, thereby preventing its relegation to that of an ancient curiosity shop.

Behind the shifts in urban geography

Ancient cities, often walled and desperately overcrowded, sprawled almost as soon as relatively settled law and order allowed for something other than an overwhelming priority on personal security and defence. In all these metamorphoses, we have seen a reduction of the density of the city and its central areas until today, notwithstanding the ease of multi-storey apartments, no major developed-world city has a population density greater than one-tenth that of ancient Rome.

The sprawl represented several factors:

- The need for some activities that were particularly noxious (such as leather tanning) to move away from residential areas.
- Increased affluence among the richest inhabitants and with it the resources to move away from the bustle into more sanitary, cooler and quieter areas where more land-extensive homes could be built; in Paris the *faubourgs* (i.e. suburbs) such as St Honoré were the outer areas in the eighteenth century and anticipated moves to equivalently far-flung suburbs that developed in Melbourne (Toorak) and Sydney (Vaucluse).
- Improved transport. Train lines in London allowed the ribbon development (called strip development in the US) which spread out in fingers during the nineteenth century. The development of the car

and bus brought the in-fill between the corridors.

- The changing functions of the city centre from a centre of manufacturing to a commercial centre and increasingly to a leisure centre within which only 15–20 per cent of jobs are located. As a leisure centre, there are some trends to increased population within the centre of the city, particularly by those with high incomes: in many cases using their city-living accommodation as a second home—reversing the previous and still dominant trend of second homes outside of the city.

The target almost universally sought within the modern planning fraternity is to achieve a greater density. This accords with goals that favour greater use of public transport and a general anti-car philosophy. But it tends to run up against a NIMBY (Not In My BackYard) opposition to high-rise in the targeted neighbourhoods themselves. By raising barriers to *building out*, such policies have, as a natural consequence, increased conflict over land use in existing suburbs and inner-city areas. According to some, increased density cannot do more than reduce the amenity of such areas, to which local residents react adversely.¹⁴ Such adverse reactions stem from perceived changes (illusory or otherwise) in the area from how it was when the existing residents originally chose to live there.

Planning controls, when captured by the incumbent property-owners, often take on a highly conservative anti-development character. As a result of an ageing of the population, many of the suburbs controlled in this way now have very much lower population concentrations than in the halcyon days that the anti-development pressure groups seek to re-create.

The alternative planning restraint approach seeks densification, claiming that this is the only way to achieve the ‘café latte’ society that so many of the cultural elites favour, and to economise on infrastructure costs. Provision of infrastructure is, however, made cheaper by high-rise only to a limited extent.

Various studies showed that it might be marginally cheaper to build up to a certain point, but beyond that the cost increased considerably. Usually floor six, and certainly floor ten, was when the ‘threshold’ was reached and costs climbed rapidly.¹⁵

In other respects, economies in infrastructure disappear once the shift in urban geographic needs evident in the modern city comes into play. Those needs—highly dispersed origin and destination work travel pairs, the need for personal transport for carriage of goods and the shifting nature of the city as a leisure resource—render the previous paradigms obsolete.

3 Antecedents for controls in Australia

The British origins of Australian planning

Australia has followed variants of the British approach to urban planning.

In the UK, modern metropolitan planning began in the nineteenth century. The extent of urban planning has steadily increased. Compared with contemporary levels of urban planning:

Nineteenth century town planning was more down-to-earth in its concerns with public health, sanitation and with meeting the functional requirements of industry and transport.¹⁶

The *Artisans' and Labourers' Dwelling Improvement Act 1875* gave local authorities compulsory acquisition powers. The *Public Health Act 1875* set minimum design standards.¹⁷ The *Housing of the Working Class Act 1890* legislated for early council housing. (In 1909, only 10 per cent of people in the UK owned their own house.)

To summarise, in these Acts the three functions of local authorities were to clear existing areas, to build themselves, and to control the development of others.¹⁸

The roles of public health, housing management, building control and town planning became separate functions and professions.¹⁹

The *Housing and Town Planning Act* 1909 enabled the creation of much more extensive council housing and also gave local councils the power to devise development 'schemes' (as town plans were then called). The provision of council housing was expanded under the 1919 *Housing and Town Planning Act* to provide for Great War veterans. This was expanded further under the 1924 *Housing Act*. The 1919 Act also required councils to produce 'schemes' (town plans) for settlements over 20,000 in population, showing land-use zoning, particularly the location of new housing estates. Implementation and enforcement were, however, constrained by the lack of trained, skilled personnel.²⁰

In what has become a persistent pattern around the world, the public housing that was the original focus of much of the development of urban planning has tended to be poorly designed and maintained. The adoption of mechanical lifts, allowing residential buildings to rise above their previous practical limit of about six storeys, was not consistent in its effects.

The social results when applied to cheap council housing where the lifts do not work and people have to walk up the stairs is another matter altogether from the situation in a carefully maintained block of expensive private flats (apartments).²¹

A difference that has persisted.

Ironically, many blocks of council flats built as an alternative to nineteenth-century slums have now become slums themselves. Paradoxically those that have been taken over by private developers and upgraded have been greatly improved, but then, of course, are no longer part of the social housing sector.²²

While the information and incentive failures of public ownership have become increasingly obvious, that similar problems might afflict regulation is less widely acknowledged. (But, then, for the planning profession to accept the latter point would undermine much of its status and career prospects.)

The inter-war period saw a great expansion of private housing construction, leading to much denunciation of 'urban blight' (the spread of suburbs over formerly agricultural land—what later became known as 'sprawl'). The *Town and Country Planning Act* 1932:

... in an attempt to control the flood [of private house building], required local authorities to produce zoning maps designating restricted areas for housing development, and requiring developers to get a rudimentary form of planning permission.

But deference to the rights of private property lingered:

... many developers virtually ignored the legislation, as the penalties were minimal and difficult to enforce. Also the local authorities were required to pay compensation if permission was refused, which naturally discouraged them from doing so. If there was no plan available when developers wanted to build they were granted what was known as 'interim development control' permission. In practical terms all this meant that the planners often drew up the local land use zoning plan after the developers had built—hardly positive town planning!²³

Developers tended to build along major roads in 'ribbon' development, which made provision of schools and other services more difficult. The response was the *Restriction of Ribbon Development Act 1935*, which attempted to encourage 'clumping' by requiring developers to build in more compact developments.²⁴ The *Special Areas Act 1934* introduced a minimal level of State intervention and regional planning which attempted to move work to areas (South Wales, Cumberland, Glasgow) where there were many unemployed. The policy was not conspicuously successful.

It was considered bad economics, as some areas in the north were taking on the form of ghost towns as everyone moved out, leaving empty houses, disused factories and neglected roads and public facilities, i.e. wasting existing facilities. These problems have continued to haunt the government to the present day. In spite of decades of intervention ... the situation has not balanced out.²⁵

While the inter-war and earlier Acts established the precedents, it was only after the Second World War that urban planning seriously took off. Given the effects of bombing, the Second World War's legitimisation of massive central planning and the desire to create 'homes fit for heroes', planning came to be seen as the solution to a range of problems as part of a greatly expanded welfare state—as a natural evolution in a mixed economy.

In 1944, the Greater London Development Plan was produced, London having already acquired a designated green belt under the *Green Belt (London and Home Counties) Act 1938*.²⁶ The legislative centrepiece of post-war urban planning was the *Town and Country Planning Act 1947*. It required *all* development to receive planning approval and *all* local authorities to produce land-use planning maps backed up by strong planning controls and a betterment tax (originally set at 100 per cent, later diluted to near non-existence). The *New Towns Act 1946*, which sought to channel development to designated growth centres (an approach later abandoned), and the *National Parks and Access to the Countryside Act 1949* were further elements in the post-war

planning system.²⁷ The shortage of qualified planners was ameliorated by using experts from a range of disciplines and backgrounds (typically surveying, civil engineering, architecture and public health).

The 1947 system represented a half-way house between nationalisation and a free market. It effectively nationalised the development value rather than nationalising the land itself.²⁸

The question of betterment taxes (attempts to socialise the windfall gains from regulation-created land scarcity) and compensation waved back and forth under Labour and Conservative Governments. Requiring developers to pay infrastructure costs is part of this same debate.

Planners failed to predict various changes (notably the rise of the motor car and of the owner-occupier). The visions of the planners also proved to be persistently narrower than the range of purposes urban dwellers actually had. Public housing, a focus of the planning system, was an area of limited achievement:

... several commentators argue that Britain ended up with more homeless, not fewer, as the result of the net effect of clearance policies ... In some areas, there was so much slum clearance, and inadequate new housing development (because the local authorities ran out of money), that the end result was a net loss of housing stock!²⁹ ... often the sense of community in working-class areas was demolished along with the housing.³⁰

Dissatisfaction was generated in other ways, particularly in the aftermath of wartime bombing:

... planners were given extensive powers of compulsory purchase, land assembly and decision-making—often against the wishes of the remaining residents, who sometimes considered they suffered more at the hands of the planners than that of the Germans.³¹

Basing planning on land-use zoning was deemed inadequate to deal with rapid change. The *Town and Country Planning Acts* (1968 and 1971) replaced zoning with Structure Plans designed to set goals and turned planning into an interactive process. Alas:

Ironically, the new system proved even more long-winded and inflexible than the previous one and many local authorities had great difficulty producing the Local and Structure Plans, let alone carrying out continuous monitoring.³²

Public dissatisfaction with the planners' efforts led to the *Civic Amenities Act* 1967, which placed an emphasis on conservation and heritage. Attempts to move industry to where people were unemployed continued with the *Distri-*

bution of Industry Act 1958 and the *Local Employment Acts* (1960, 1963 and 1970) and culminated in the last grand regional employment Act, the *Industry Act* 1972. Attempts to control further the development of London led to the *Control of Offices and Industrial Development Act* 1965 and the *Industrial Development Act* 1966. The *Special Development Act* 1967 created another layer of designated development areas. The *Community Land Act* 1975 was another attempt to tax the profits of developers for public purposes. Problems of the inner cities also reached public consciousness and led to further legislative activity—the *Housing Acts* (1969 and 1974), the *Inner Urban Areas Act* 1978, and the *Local Government and Housing Act* 1989.³³

Though there was some wind-back under the Thatcher Government, the basic structures of the system remained in place.³⁴ But even text books questioned whether the upward trend of planning control and purposes had been socially positive:

The planners had done a great deal but had solved very few problems. In fact they had created many new ones.³⁵

The question of what could be expected from planning remained a very open one:

... after the Brixton riots of the early 1980s Lord Scarman implied in his report (1982) that the planners were to blame. If this was so, then the planner has a major role in social problem-solving, offering ‘salvation by bricks’. Indeed, many of the nineteenth-century visionaries believed that transplanting people into model communities with plenty of grass, trees and sunshine would change them as people.³⁶

The Thatcher period also saw the creation of a major asset bubble in house values whose outcome left many home-owners (having over-borrowed) with negative equity in their homes. Asset bubbles typically occur when investors believe they have a one-way bet on asset values. Land rationing creates precisely such an effect. (Recent house price exuberance in the US—restricted to particular housing markets³⁷—and in Sydney also seems to provide examples of the potential for asset bubbles under land rationing.)

Australian adoption of British planning approaches

Metropolitan planning in Australia also grew slowly. Early on, however, land rationing became a prime element in such planning. The *Western Australian Town Planning and Development Act* 1928 was the first such legislation in Australia to give local government the power to control the use of private land.

... by 1945 all states except South Australia had legislation which gave local government the authority to prepare and administer statutory land use plans, subject only to the overriding powers of the responsible state minister.³⁸

As in Britain, authorities did not begin systematically to interfere with what property owners could do with their property until after the Second World War. Only in Brisbane, with the amalgamation of 22 municipalities into the greater Brisbane Council in 1925, was metropolitan planning delegated to a territorially expansive local council covering an area of 375 square miles.³⁹

Sydney

The first legislation allowing for a major metropolitan plan in Australia was the NSW *Local Government (Town and Country Planning) Amendment Act* 1945. It extended beyond similar legislation in WA (1928), Tasmania (1944) and Victoria (1944) by incorporating provision for a broad plan for the County of Cumberland, the Sydney metropolitan region, with a County Council elected and financed by the constituent local councils. A plan was submitted in 1948 and promulgated in 1951.

The plan was limited to 'regulating and controlling the use of land' and envisaged a population growth from 1.7 to 2.4 million over 25 years. It incorporated a green belt—that is, a limit on the spread of urban growth—which reserved land for open space and future highways. It also zoned areas for industrial expansion and 'living areas' from which substantive industrial and commercial activity was largely excluded.

Landowners, local councils, State authorities (the Housing Commission, Main Roads, Railways) either resented, defied or resisted the plan. Furthermore, the actual rate of population growth was almost double that which the plan envisaged.⁴⁰ The more encompassing a plan is, the more factors it has to cover, the more things that can be miscalculated.

The State Minister abolished much of the green belt (without prior consultation with the County Council) in December 1959, the strongest argument for which was rising house prices. The Council did secure agreement that rural land would only become available for urban use after detailed planning incorporating provision for schools, parks, through routes, etc., and that landowners would accept the costs of water and sewerage reticulation. This went with an increasing trend for local councils to require landowners to complete roads and stormwater drainage works in new subdivisions. What had been unprecedented arrangements have since become standard throughout metropolitan Australia and indicated how extensive the power

of 'regulating and controlling the use of land' could be.

The County Council itself was abolished in 1963 and planning responsibility taken over by the new State Planning Authority. In 1968, it released the Sydney Region Outline Plan which did not gain statutory status.

A clear pressure in the development of planning was that provision of services would precede, rather than lag behind, home building. The desire for 'orderliness' clashed somewhat with the notion of local democracy, since local councils proved less than consistent in the use of their land control powers. Sydney was a forerunner in Australian metropolitan planning, the other cities tending to be more cautious in the use of land control measures.⁴¹ That Sydney house prices became notoriously high was hardly a coincidence.

The *Land and Environment Court Act* 1979 created the Land and Environment Court as the body for judicial appeal over planning and development matters.⁴² The *Environmental Planning and Assessment Act* 1979 represented a shift towards more policy-based urban governance, providing a legal and appeal structure for local planning. Sydney continued to expand through land releases in areas not serviced by rail or other public transport. Sydney surged ahead of Melbourne as a financial and international centre (by 1983, 73 per cent of merchant bank head offices were located in Sydney).⁴³

The 1988 *Metropolitan Strategy* was, like the 1968 Plan, not gazetted. It endorsed urban consolidation—a concentrated, not a dispersed, city—aiming to increase the use of multi-unit dwellings and increase the number of lots in new suburban subdivisions from 8 to 10 per hectare. This trend was reinforced by the 1995 *Cities for the 21st Century*, which wanted further increases in residential density—what one commentator called 'fairly heroic' increases—encouragement of sub-regional centres such as Parramatta and Chatswood, and increased residential, tourism and other use of the Harbour foreshores.⁴⁴

The 2000 Olympics occasioned significant specific construction and refurbishment. *A Framework for Managing Growth* (1997) supported the compact city approach, while establishing four subregions (Sydney, Newcastle, Wollongong, Central Coast), thereby incorporating the corridor/node approach of earlier plans. *Shaping Our Cities* (1998) endorsed the concept of environmental sustainability while also wishing to encourage economic growth.⁴⁵

In December 2005, the NSW Government released *City of Cities: A Plan for Sydney's Future*. It envisaged Sydney as a collection of cities: two harbour cities (centred on the Sydney CBD and North Sydney) and three river cities (centred on Parramatta, Penrith and Liverpool). The metropolitan strategy projected a population increase to 2031 of 1.1 million, involving 640,000 new homes of which the bulk (420,000) would be built in existing suburbs,

the rest on the urban fringe. The strategy projected regular review processes. It specified general aims with set benchmarks.

The projected planning process would be based on ten sub-regional groupings of local governments. They would test numbers for additional dwellings and jobs in their area, and engage in stakeholder and community consultation. The resulting numbers would be subject to review by the State Government and, having been determined, would feed into the State budgetary process and activity plans. The plan asserts that 'sufficient' zoned land would be made available for housing and commercial activity.

Melbourne

The *Town and Country Planning Act* 1944 created a Town and Country Planning Board to advise the Minister for Local Government and empowered municipal councils to prepare planning schemes. The Board and the local councils asked for a metropolitan plan, which was initiated in 1949. The Victorian Government delegated preparation of the plan to the existing Melbourne and Metropolitan Board of Works (53 members elected by local councils) and made it the responsible body in 1955. The plan was notably less prescriptive than Sydney's Cumberland plan, with no intention of restricting the outward growth of suburbs. It envisaged population growth from 1.4 to 2.5 million and the possibility of further controlled expansion. From 1956 to 1975 (when the Country Roads Board became the sole highway authority) it was also responsible for 'inner highways'. The Victorian State government was also rather less committed to the planning process than NSW.

The *Town and Country Planning (Amendment) Act* 1968 enlarged the Board of Works' planning responsibilities to 5,000 square kilometres (but not the Mornington Peninsula), created a State Planning Council of heads of major public works authorities, and set up the structures for pre-determined State planning policy and regional plans. The *Minister for Planning Act* 1973 separated ministerial responsibilities for planning and local government. In the early 1970s, the concept of preferred development corridors was also developed—that is, that urban spread be restricted and channelled. The use of land rationing as a basis of policy has steadily increased since. (See Appendix 1)⁴⁶

The late 1970s were notable for the Housing Commission land deals scandal, where an inquiry (the Gowens Inquiry) found that land was purchased at inflated prices (possibly due to collusion between a Commission purchasing officer and local real estate agents) leaving insufficient funds to develop the sites which remained undeveloped for years. Some of the land had not

been properly surveyed and was subject to flooding or zone restrictions.⁴⁷ The 1980 Metropolitan Strategy Plan sought to consolidate growth in inner Melbourne—‘the hole in the middle of a swelling doughnut’ in the words of the Chairman of the Melbourne and Metropolitan Board of Works—and aimed to reduce investment in infrastructure on the urban fringe.⁴⁸

The Kennett Government dramatically restructured local government, reducing the number of Metropolitan councils from 56 to 31. Planning for the inner city was set out in the 1994 *Creating Prosperity: Victoria's Capital City Policy* and for the wider metropolitan area by the 1995 *Living Suburbs: A Policy for Metropolitan Melbourne and the Twenty-First Century* which claimed that 20 years of urban land supply was available at the fringe.⁴⁹

The Bracks Government engaged in a major consultation exercise which produced *Melbourne 2030: Planning for Sustainable Growth* (2002) which was very similar to the previous *Living Suburbs*, apart from being keener on ‘green wedges’.⁵⁰ These are to be protected ‘through tougher planning controls over use and development, the introduction of the urban growth boundary, changes to planning provisions and changes to legislation’.⁵¹

Perth

An advisory plan for the metropolitan region was released in 1955 by the office of the Commissioner for Town Planning. The *Metropolitan Region Town Planning Scheme Act 1959* set up a Metropolitan Region Planning Authority under the *Metropolitan Region Town Planning Scheme Act 1959*. A statutory plan was adopted in 1963 with coverage over 5,400 square kilometres for a staged expansion of the city from a population of 0.5 to 1.4 million.

The authority was deliberately designed to avoid problems encountered by the Cumberland County Council in Sydney and the Board of Works in Melbourne, particularly through direct representation of major public agencies and local government. While better co-ordination of public authorities was achieved, interaction with the private sector was less harmonious, with significant land speculation. Interim development controls were first imposed in 1956, including the stopping of ‘premature’ subdivision of land. The creation of one-way bets in land ownership led to considerable inflation of land and house prices. Agreements with developers came to incorporate controlled prices.

Large tracts of land were privately purchased in anticipation of population being in excess of projections, with anticipated zoning changes. In 1971, the planning authority released the *Corridor Plan for Perth*, prescribing four corridors of urban growth from a central urban core.⁵² The creation of a Department of Conservation and Environment led to the division of the State into

river system areas. Perth was part of System 6 covering the South-West of the State and the number of areas reserved for conservation reasons increased. The 1987 *Planning for the Future of the Perth Metropolitan Region* sought increased urban consolidation, but the 1990 *Metropolplan* reverted to the previous corridor concept. Railway lines were re-opened (Perth–Fremantle), three existing suburban lines electrified, and the new Northern Suburbs Transit System was developed along with an expansion of freeways.⁵³

The 1990s saw the completion of many road projects originally envisaged by the 1963 *Metropolitan Region Scheme*. More recent planning has again focused on increased public transport. Unlike the trend elsewhere, Perth has also seen an increase in the number of local governments.⁵⁴

Brisbane

The Greater Brisbane Council began to exercise some control over land use in 1935, but a statutory planning authority was not established until 1965. The *City of Brisbane (Town Plan) Act* 1959 resulted in the gazetting of a statutory plan (without road proposals) in 1965. Legislation was passed enabling the Council to negotiate contributions to the costs of water supply and sewerage services, plus contributions in cash or kind for open space, roads and other public improvements.

A later plan was gazetted in 1971. It did not set out long-term intentions for urban expansion, and land use changes, including from rural to urban, were negotiated rather than prescribed. In that year, an amendment to the *City of Brisbane (Town Plan) Act* (opposed by Lord Mayor Clem Jones whose highly service-oriented notion of planning is quoted at the beginning of this monograph) required the preparation of a revised plan by February 1975, including a statement of goals and intentions. A plan was issued but not endorsed by the Council.

The *State and Regional Planning, Public Works and Environmental Control Act* 1971 gave the State Co-ordinator General very wide powers over the plans and development of all public authorities, including local governments. The use of City Council planning powers to collect contributions to public works was the salient feature of Brisbane planning up to the mid-1970s.⁵⁵

Brisbane and surrounding areas—the South-East Queensland Region—grew rapidly, but metropolitan planning remained largely of a zoning form until the election of a Labor government in 1989. The initial *The Brisbane Plan: A City Strategy* (1990) was only released as a discussion document, but a South-Eastern Region Planning Project was undertaken.⁵⁶

The 1998 Regional Framework for Growth proposes to manage growth while preserving the separate identity of Brisbane, the Gold Coast, the Sun-

shine Coast and Toowoomba in a planning timeframe extending to 2011, by which time 3 million people are expected to be living in the region. Brisbane City Council's 1998 *Brisbane 2011: The Livable City for the Future* calls for transit-oriented development within a framework concerned for environmental sustainability.⁵⁷

Adelaide

Adelaide was the last of the mainland capitals to adopt a metropolitan plan. Since 1955, however, subdivisions in the metropolitan area have only been permitted if they could be economically provided with sewerage by the relevant State authority (in this period, the Department of Engineering and Water Supply). Adelaide was the only metropolitan capital not to experience a significant backlog of sewerage connection.

Until the early 1970s, it was the only metropolitan capital to avoid significant inflation in land prices. When signs of a land price boom appeared in 1972, the State government responded with the *Land Prices Control Act* 1973.

The South Australian State government was also by far the most active State government in housing and other forms of urban development. The provision of cheap and fully-serviced land, plus some rental premises for industrial plants, was part of a concerted effort to attract manufacturing to the State. The South Australian Housing Trust provided housing, not merely for the needy, but for middle-income families as well, building about one-third of new houses in South Australia in the post-war period. In the early post-war period, this involved sacrifices in more normal areas of public development, such as schools and hospitals.

A State Planning Authority was created and a Metropolitan Development Plan adopted in 1967 under the *Planning And Development Act* 1966–67, following a select committee originally appointed in 1955 and which reported in 1962. A metropolitan planning area of 1,840 square kilometres was established, with urban expansion concentrated in six districts providing for growth to 1991 and an urban population of almost 1.4 million.⁵⁸

The focus of planning remained on housing, though broadened to a 'systems planning' approach that incorporated infrastructure development. The comparatively slow growth of Adelaide after the 1960s meant that there was less pressure to revise planning. The *2020 Vision* document, released after a 1990–92 review, emphasised urban consolidation and directed peripheral growth to the north of the city, away from the McLaren Vale wine region. Planning has focused on urban consolidation and protecting water catchment areas. A steady process of amalgamating local councils has also oc-

curred, from 30 to 19 in the metropolitan area. Adelaide was also the putative location (on environmentally-degraded land) of the MultiFunctionPolis concept (a Japanese-based futuristic city), the plans for which finally collapsed in 2000.⁵⁹

Hobart

From 1944, local councils were empowered to prepare and implement land use plans under the general supervision of a Commissioner for Town and Country Planning. A Southern Metropolitan Region Planning Authority with representatives from the City of Hobart and the four other metropolitan municipalities was set up in 1958. A State Planning Co-ordinator's office was set up in 1974. At that stage, about 20 per cent of the State's new dwellings were built by the Department of Housing for rental or sale.⁶⁰

4 Australian land policy overview

By the late 1960s and early 1970s, the price of land for housing was rising markedly more rapidly than other prices. Planning authorities blamed developers for ‘holding land vacant’ until the price rose, developers blamed the shortage of land with planning permission.⁶¹ Since the former behaviour was rational commercial behaviour under conditions of land rationing, in a sense they were both correct.

Provision of services by local councils and public authorities had generally lagged behind suburban expansion in the 1950s and 1960s. This led to increasing provision of the requirement that developers pay for such services, especially as lack of sewerage, in particular, became less publicly acceptable.

This, in turn, pushed the cost of infrastructure increasingly ‘up front’ to housing market entrants⁶² and foreclosed the previously existing option of accepting a lag in service provision in order to enter the housing market. Such policies reduce the level of housing development to that compatible with the concurrent provision of infrastructure.

Prior expenditure on servicing land also increased the cost of holding developed sites vacant, as these changed from merely being—as they had from the 1920s to the early post-war period—a survey lot with water and electricity, sometimes accessed by unsealed (or even unmade) road, to being highly capital intensive.

A further area of claimed cost increase to government was the provision of services requiring acquisition of land (such as schools, parks and other public

facilities).⁶³ In many respects these higher costs may be due to the planners themselves having a preference for services of a standard that those being required to pay for them might regard as excessive. Doubtless they also reflect the experience of governments facing political pressure to expand transport and recreational facilities once development has been established.

As a result, many small land developers left the industry and the larger firms that remained adopted various strategies to minimise their holdings of developed sites.⁶⁴ It also increased the range of public authorities involved in planning permission.⁶⁵ The more complex the process, the greater the approval risk, which will either be reflected in the prices or in the level of investment.

There is a clear long-term pattern of increasing the requirements on what developers could offer. This must affect housing market entrants disproportionately—either the cost is passed on entirely or the rate of return is reduced. Reducing the rate of return will reduce investment. Hence, costs imposed on housing developers are, one way or another, always borne by those first entering the housing market.

Land price booms occurred in Perth in the mid-1960s and Adelaide in the early 1970s. On both occasions, the recommended responses revolved around improved land rationing, as the principle of land use control itself was not criticised.⁶⁶

Inherent in the principle of land rationing was a marked divergence between the price of urban land and adjacent rural land. As one commentator noted:

The whole system of land use control distributes wealth to sitting private owners in an apparently arbitrary manner.

Betterment taxes, land tax surcharges and (in the case of Canberra) use of Crown leasehold have all been recommended or applied as attempts to deal with the problem.⁶⁷ After all, if one argued that separation of control of the use of land (planning) from the financial results of such decisions (ownership) generated inherent contradictions, one solution was to make the public planner the owner.⁶⁸ (Alternatively, one could make the private owner the land-use controller.)

Planning has gradually been intensified as each new measure brings distortions of values that land owners and those seeking new houses will seek to circumvent. The outcome throughout Australia—and not just in the major cities—has been a steady restriction through planning controls on the property owner's freedom to enjoy and profit from his or her land.

Each major urban area is now buffered by a green curtain, circumventing which is a designated urban growth boundary. Within that boundary, de-

velopment—house building, construction of shops, construction of leisure centres—is forbidden without permission.

Outside of the boundary, a blanket denial of development is in place. In Victoria, for example, no dwelling may be built unless it is on at least 40 hectares of land or 8 hectares if it is located in a ‘rural living zone’.

Farmer representatives are reportedly against urban expansion. They maintain that it pushes up land values (and therefore rates) and brings about restrictions on farming activity. There is merit in having regard to these matters—it should, for example, be incumbent on anyone electing to build near farms that have objectionable features to accept those features and relinquish any grounds for seeking to have them curtailed. Similarly, it appears unfair to charge farmers increased rates unless they obtain correspondingly increased value.

We should, however, be wary of accepting farmer views that amount to vetoes on the uses of land other than their own. It is easily possible to create a surfeit of democracy whereby the individual is oppressed by a majority. Land is individually owned and not the responsibility of something called ‘the community’. It is not appropriate that organisations should be able to lobby successfully for others not to use their property as they see fit—farmers in general cannot be given a mandate to determine what other farmers do with their land (they do, of course, have the right to insist on non-interference with the peaceful use of their own property).

Metropolitan development in Victoria is controlled under *Melbourne 2030*. Not only is housing development constrained, but retail activity is being increasingly concentrated in a limited number of existing large centres. This is reinforced by existing planning laws which require new retail developments to prove that they will not have a deleterious impact on existing retail centres in their region—in other words, that they will not compete with existing centres. The planning laws also require that new centres provide the same level and character of public amenity and access as existing facilities, irrespective of their clients’ desires and nature.

As such, planning laws have greatly reduced the scope for expansion of retail infrastructure and vested monopoly rights to incumbent shopping centre owners. The laws have also reduced the scope for new forms of shopping, such as factory outlets and bulky goods centres. These types of retail outlet place a higher premium on car transport than existing centres and planners. It is, after all, hard to bring a dishwasher, a lathe or 20 boxes of shoes home on the tram. They also aim to provide a low-cost, single-purpose experience rather than the high-cost, all-things-to-everyone environment forced on shopping centres.

These new facilities have appeared in Australian cities largely because of

loopholes in the planning system's universality. This is exemplified in Melbourne by the example of the recent redevelopment of Essendon airport. In the late 1990s, the Federal Government decided to sell Essendon, along with most other airports around the country. While Essendon was to remain a functioning airport, it provided scope to divert a substantial amount of land in a rapidly growing area to other purposes. Being a Commonwealth entity, the airport was exempt from State and local government planning laws, and specifically from the tentacles of *Melbourne 2030*. In pursuit of a higher price and good policy, the Government sold the property with the exemption largely intact.

Not surprisingly, the purchaser of Essendon airport paid a premium for the property and announced its intention to redevelop the site as a large retail centre, starting with a 120-store, Direct Factory Outlet centre. Again, not surprisingly, the owners and financiers of existing shopping centres were furious and pursued legal actions to stop the development. The development undermined the monopoly powers they had obtained and the profit that flowed from them. The State Government and its planners also resisted the decision, as it undermined their ability to extract their own share of the excess prices stemming from the protection of existing centres, as well as their control over people's actions and lifestyle.

Similar developments in other States have arisen where Commonwealth land at airports has been excised from State-based planning controls. As in Melbourne, State planning restraints have been circumvented around Sydney and Brisbane airports where non-State-approved shopping centres have been built.

Michael Baker from the UrbisJHD consultancy has assembled data on shops per head of population. His findings reveal Australia to be underprovided with shops compared with the most liberal jurisdiction, the US. It is, however, rather better provided for than in some other countries where planning restraints are even greater, for example, in Hong Kong, where space itself is the constraint.⁶⁹

One outcome of the restraint on shopping space in Australia is higher prices—Baker finds occupancy costs in US regional shopping malls average 13 per cent of sales, as opposed to 16–17 per cent in Australia. Another outcome of the planning restrictions is a higher turnover in Australian supermarkets, a performance that brings with it a corollary of diminished consumer choice and convenience.

Restraint of competition in shopping services is a clear case of government's seeking to impose its own views and preferences on those of the consumer. Ostensibly, aside from wanting to protect existing facilities from competition, the planners were seeking to ensure relatively favourable treatment

Table 1:
Shopping Center and Total Retail Space Per Capita, Selected Countries

	Shopping Center	Total Retail
United States (2003)	20.2	39.2
New Zealand (2000)	4.3	25.8
Australia (2003)	6.4	20.4
United Kingdom (2000)	3.2	14.0
Hong Kong (2003)	N/A	12.9
South Korea (2002)	N/A	12.9
Singapore (2003)	4.3	10.8
Canada (2003)	12.8	N/A
Japan (2002)	3.2	10.8

Source: UrbisJHD, FPD Savills, ICSC, FW Dodge, Michael Baker

for those using public transport. Their concerns were that those without a car would be discriminated against. Regulations, with associated costs, were promulgated to require better access for public transport than shopping centre owners would otherwise see as profitable to arrange. In effect, all users are required to contribute a fee (by means of higher charges for the goods and services supplied in the centre) to ensure greater provision of public transport for the benefit of those without cars. Alternatively put, because not everyone has access to a car, the regulations seek to ensure that nobody may use a center which does not give non-car owners the same advantages as car owners.

Such measures are never likely to be efficient and fail a major test of public policy by being totally non-transparent. It is impossible to gauge the costs and the degree to which different consumers are paying them. This is, in all likelihood, intentional. Government agencies and the pressure groups to which they are responding would prefer the costs to be hidden rather than have them opened to public scrutiny. Few seem fazed that this is alien to the principles of democratic responsible government. Taxation, not hidden regulatory costs, is the appropriate vehicle to pay for distributing resources from those who are deemed able to support others to those deemed worthy of such support.

The hidden form of taxation caused by regulatory measures like those identified and proudly paraded in Planning Schemes makes it difficult for the community to evaluate, or even to recognise, it as a charge on their

purchases. Contravening competition in this way means higher prices, with the planning authorities redirecting some of these excessive prices back to services favouring groups that the planners deem worthy of such subsidies. Because some developers have paid their political dues and gained a priority planning permission as a result of offering outlays that government bodies want, this means that they are keen to capitalise on the restraint from competition they have bought. At the very least they are keen to impose similar costs on their competitors.

None of these regulatory favours come free of costs and, as recent high-profile corruption charges in northern Melbourne, Geelong, and the Gold Coast have demonstrated, the current planning approach creates pools of resources that corrupt democratic processes.

Not only do government institutions ration land on the basis of their perception of need, but they (and the electorate) acquiesce in that need being under-fulfilled, and accept the price consequences of shortage. Moreover, with respect to shopping centers or theatre complexes, the government criteria for agreeing to new providers include prerequisites that the existing providers will not be adversely impacted by the competition.

In the wider areas of government, not only would such strictures be rare, they would be recognised as harmful to the interests of consumers and would, indeed, be illegal under Part IIIA of the *Trade Practices Act*. Governments, at least ostensibly, have accepted the benefits of competition and have outlawed measures that allow monopolies in supply and other restraints of trade. In the case of commercial infrastructure within cities, governments not only tolerate monopolies but also aid and abet them⁷⁰ yet they insouciantly test their planning restraints against the same anti-competition laws and somehow find them to be conforming.

Shops and other commercial infrastructure exist to supply services to willing consumers. They do not have a reason for existence *per se* and to offer them protection undermines the efficiency of the retailers who supply services to consumers.

5 The evolution of planning: servicing needs to creating visions

A feature of the history of planning in Britain, apart from its spiralling up from relatively small beginnings, was a succession of fashionable visions that promoted new and progressively more intense measures of control. Each increase in dissatisfaction with the results of past plans was generally met by the substitution of new plans and expanded planning. But if planners were not subject to notable public satisfaction with what *had* happened, some could take satisfaction in what hadn't.

One elderly planner remarked that his greatest lifetime achievement could be judged by what had *not* been built as a result of his efforts. In particular he had prevented two conurbations joining up in a continuous sprawl.⁷¹

In the words of Robert Bruegmann:

Yes, and every time people get these things that were once the privilege only of the rich there's a vast resentment factor. So if you look at the people who are really angry about sprawl, a lot of these are people in the central city, they're used to being the ones to tell everybody else how to live. It's also people at the very edge and what they don't want is someone in the field next to them building exactly the same kind of houses that they have. So it's very understandable why a lot of the people who are angry about sprawl are angry about sprawl.⁷²

Planning at its most utilitarian simply makes sure that services such as electricity, roads, water, sewerage and so forth go to where people are choosing to be. But that is a very user friendly, service-oriented, conception of planning. Grand visions are much more inspiring. But such visions are based on deeply dubious presumptions:

- that ordinary people, left to their own devices, will systematically make wrong decisions;
- that the purposes of urban life are fully known to planners;
- that the future is clear to planners;
- that both will be faithfully reflected in planning decisions; and
- that centralised coercion processes information, and expresses social knowledge, better than dispersed consent.

Built into such a grand conception of the role of the urban planner is a curious combination of disrespect for other people's choices, and the processes which express them, with hubristic confidence in their own. The experience of urban planning does not give much support for this stark dichotomy.

Lobbying as the generator of increased housing costs

Post-war Australia saw a boom in home ownership, which rose rapidly from just over 50 per cent of households being owner-occupiers to 70 per cent in the mid-1960s. Home-building was increasingly efficient, employment high and capital available at cheap rates.⁷³ And planning (particularly in the form of land rationing) was relatively underdeveloped.

Public housing was not well targeted—the 1973 Henderson Enquiry found that most of those in public housing were not poor and most of the poor were not in public housing. Land clearances were unpopular and the high-rise flats that were constructed on them not liked by families who lived in them.⁷⁴ Of course, as urban land becomes more expensive, if public housing investment is held constant, the capacity to build new housing will fall.

However, home ownership rates and the production of new rental housing began to decline in the late 1960s, with housing prices and rents outstripping inflation,⁷⁵ and the size of new houses increasing markedly,⁷⁶ as land-rationing-based planning gathered pace. By 1975, the cost of servicing a new suburban block in Melbourne was about \$9,000—40 per cent or more of the building costs of an average house and about a year's income to the average occupier.⁷⁷

Thus a cruel paradox developed. Since the effective housing performance of the 1950s, national productivity per head had increased by as much as a third. To a lesser degree building productivity had also improved; real

building costs were low by international standards and still trended downward. But a richer and more productive population found that it could now supply home ownership to a falling proportion of young households with children—although in real terms the houses were cheaper to build, and more households were willing and able to pay for them, both annually and overall, than ever before. And as more people became captive tenants, public and private investment in new rental housing declined.⁷⁸

The Save Our Suburbs phenomenon

Mobility is both a blessing and a curse of modern urban living. First railways, and then cars, greatly expanded the area a metropolis could cover, enormously widening the proportion of society who could afford to own a home-with-a-garden. The huge long-term drop in the population density of cities, at least in the developed world, is a direct result of that increased mobility.

But if people became more mobile, so did commerce and industry. Indeed, it has been argued that the rise of zoning laws is a direct result of that mobility, as people sought to preserve the amenity of their local areas.⁷⁹ People do not merely 'buy a house'. They buy a house in a particular area with a particular character. They are naturally likely to resent, and resist, changes that reduce that amenity without any compensation (indeed, in extreme cases, may directly reduce their property values).

The land rationing which is justified by the demonisation of 'sprawl' has the inevitable consequence, given rising population and falling household sizes, of requiring increased population density in cities where such land rationing occurs. Existing home-owning residents benefit from the rising property values that come from such land rationing, but often resent the loss of amenity from the increased crowding. They are likely to resent especially the high-rise accommodation and development which results from increasingly expensive metropolitan land being channelled into as high-value uses as possible, particularly in the inner city. Yet it is precisely the existence of such alternative uses that helps sustain the upward pressure on the value of their own properties.

The desire to continue to accrue the benefits to existing owners of metropolitan land rationing, without suffering the natural consequences of loss of amenity from increased crowding, naturally leads to increased pressure being placed on planning systems, which are expected to resolve the inevitable consequences of these incompatible pressures.

Hence the self-contradictions which show up in 'resident politics', as exemplified by organisations such as Save Our Suburbs (Victoria).⁸⁰ Save Our

Suburbs (SOS Vic) states as a basic policy principle the protection of the property rights of residents.

E1 The property rights of existing residents must be respected⁸¹

But it is quite clear, that it means *existing and continuing* residents. It is not in favour of the property rights of those who decide to sell-and-leave (which invites unwanted uses) or would like to enter the home-owning market as cheaply as possible. In particular, it wants strong restrictions on the property rights of 'developers'. The emphasis on a strong, pervasive and extensive planning system is clearly based on the notion that other people's choices are the problem, while reflecting the priority of their own choices. SOS endorses land rationing:

A6 SOS believes that the urban expansion of Melbourne should be contained by means of direct government intervention to prevent the development of peripheral agricultural and other land

CI SOS recognises and supports the need to limit the geographical spread of Melbourne

D3 The urban expansion of Melbourne should be contained, so far as necessary, by direct restrictions or controls upon the development of peripheral land

(In other words, we have our old suburbs, but you are not allowed your new ones.) SOS accepts that some increased density is therefore inevitable:

A3 SOS believes there is a case for an increase in residential density in some areas

But wants it to be as 'nice' (read controlled) as possible:

A4 SOS believes that medium and high density development should take place in properly chosen locations and in a coordinated fashion, rather than upon an unplanned and sporadic basis.

A5 SOS believes that greater densities can and should be achieved without adversely affecting existing residents, with better quality results than at present.

The negative consequences of land rationing are blamed on 'the market':

... the market should not be allowed to follow its own direction based as it is purely on short-term financial gain, which is potentially diametrically opposite to the needs of orderly forward planning The lack of controlled planning—read market driven development—has got Melbourne into the

position it is in today.⁸²

SOS endorses (B1) the Charter for Planning:

4.5 Containment of urban spread

Planning must seek to control the spread of urban development onto rural land, and more especially to land of high economic, natural or cultural value (p.4)

Because of its endorsement of land rationing and its multiplication of the criteria to be met (efficiency, social equity, economical sustainability, quality of life, amenity, conservation of nature, conservation of cultural significance, quality of design, common interest, property equity, consistency, public input and accountability, transparency, freedom from political interference, compensation for demonstrable loss, amenity ...),⁸³ this is clearly a charter for very highly intrusive planning.

SOS wants quick, orderly, certain planning with local democratic control. (Clearly there is some tension between the latter and the consequent likelihood of the former.)

The fundamental cornerstone of any planning regime in a democracy is transparency, public control and oversight.⁸⁴

In a footnote to the SOS policy summary, there is a nice statement of precisely how layered and complex the planning system is:

(Note 1) This includes legislation, state policies, published guidelines, municipal strategic statements, planning scheme ordinances, overlays, neighbourhood character studies, the advertising of applications, the control of demolition, processing of applications at municipal level, hearings of the Victorian Civil and Administrative Tribunal, and interventions by the Minister.

SOS complains about problems in the planning process:

long timeframes, inconsistent decisions and difficulty in amending planning schemes...⁸⁵

and notes that the folk actually charged with doing and implementing the planning often don't do such a good job:

... in our experience, it is often local objectors rather than council planners who reveal inconsistencies, errors and omissions in DA proposals and plans...⁸⁶

neither of which is surprising given the weight of demands with which the planning system is expected to deal. SOS clearly feels that local, majoritarian

planning is the solution:

E2 Where a majority of owners in a specified precinct desire height limits or other planning controls, these controls should be established and enforced by the planning system.

With strong controls over demolition (Section H) and design (Section M). Developers are to pay all infrastructure costs:

A7 SOS believes that all forms of development should bear the direct and indirect costs involved, so far as these can be calculated, unless a subsidy is required in the public interest and for explicit reasons.

Which gets to the heart of the problem. SOS wants to stop (negative) third-party effects on how property owners use their property. But its endorsement of land rationing immediately imposes a huge third-party effect on renters and those seeking to enter the home-with-garden market (and a pervasive tax on development) which dwarfs the amenity losses it worries about and which themselves are overwhelmingly predictable consequences of that very land rationing.

Rather gloomily in this respect, in the course of a very influential piece in the *New York Times*, Edward Glaeser⁸⁷ speculates that, above a certain price level, housing price escalation takes on a life of its own as residents seek to boost prices by calling for building restrictions. This is not inconsistent with the different attitudes to housing in Germany and England, whereby in the former's relatively unrestricted environments, the issue of house prices rarely appears in the newspapers and never on the front pages.

Glaeser also examines whether judges have become much more sympathetic to blocking development for environmental reasons. However, having faced some adverse judgements, SOS wants the role of the Victorian Civil and Administrative Tribunal (VCAT) severely restricted.⁸⁸ Yet the more a regulatory regime is expected to do, the more judicial oversight will be dragged in, as the more grounds there will be to appeal because of clashes between different criteria. SOS constantly sees as 'solvable', with the 'right' approach, problems which are largely inherent in a system based on land rationing, given rising population, falling household sizes and residents' natural wish to resist the loss of amenity from the increased crowding that the same land rationing makes inevitable. Regulation is not costless. Multiplying desirable criteria is not costless. Multiplying information processing demands is not costless. The more that centralised planning is expected to do, the less well it will inevitably function.

The politics of protecting the amenity and rising property values of existing residents simply expresses the inevitability of increasing conflict over

property use which land rationing imposes. Once State Governments endorse land rationing, intensified residential protest and activism is what they must expect.

Jim Fedako puts this issue in trenchant terms. He says that, regrettably, with planning, 'property owners—community members—can use government to roll over the rights of developers and fellow property owners'. He points out that

The free market has a tool that allows a property owner to align the future use of his property with his vision, the restrictive covenant. A property owner could, for example, create a legacy by selling his land contingent on the development carrying his family name. Should the property owner be too restrictive, the value of his property will fall. He will be exchanging a psychic good, a family legacy, for cash.

Anything beyond this he regards as communal theft.⁸⁹ Certainly, such residential activities are seeking to trade down property rights in order to trade up increased scarcity value and amenity.

6 Planning and land prices

The land rationing outcome of planning

Each Australian policy approach—leasehold in Canberra, extensive Land Commission activity in Adelaide, a territorially expansive local government authority in Brisbane—has proved, sooner or later, to fall prey to exactly the same pressures, as these pressures are inherent in planning based on land rationing. No planning approach which threatens the property values of home-owners is likely to gain, or retain, political approval. Local governments are particularly vulnerable to rate-payer revolts⁹⁰ and provincial and national governments are also highly likely to be solicitous of home-owners' concerns about what is, for so many voters, their prime asset. Land rationing protects the property values of existing home-owners; it thus provides a powerful political protection to planning.

But land rationing—combined with increasing population⁹¹—means increased density and land prices, generating conflict over existing amenity, increasing rents, and pricing new entrants out of the housing market. Planning based on land rationing thus generates and exacerbates the increased conflict for which it purports to be the solution. As long as planning is seen as beneficial, each problem generated then justifies more planning.

Land rationing also undermines the effect of competitive jurisdictions. Land rationing raises local government rate revenue across all resident land-

owners (which is particularly attractive, as it raises revenues from people to whom a basic network of services had already been provided by discriminating against folk for whom further services would have to be provided). Land rationing thus systematically undermines fiscal incentives for local governments to provide for those seeking to enter the home-owning market—particularly if State Governments effectively act as ‘land cartel enforcers’.

Land rationing is certainly not beneficial for low-income groups or for spreading wealth in society more broadly. It is most unlikely that restrictions on people’s use of their property, and costs loaded on to the provision of housing, can be arranged to offer greater opportunities and provision for the most marginal members of society and create a more equal society. This is particularly so because more expensive housing means, over the longer term, more expensive rents.⁹²

Planning itself is a device whereby the costs of the preferences of the planners can be imposed on other people. Naturally, this has proved congenial to those who think themselves likely to be able to get the planning process to reflect their preferences. Hence the persistent notion that the solution to the problems created by land rationing is to have even more land rationing. The development of science (including social science) has encouraged the notion that people are manipulable social units and continually added to the analytical tools allegedly able to improve planning. More importantly—since such tools have regularly failed to live up to the claims about their utility—it has multiplied the concerns that planning is deemed needed for. But technological and social change has not become any more predictable. So the more planning seeks to do, the more at the mercy of technological and social change it becomes. And the wider the inherent clash with what people want, the greater the likely unintended consequences.

Each intervention provides benefits and costs. Removing the intervention threatens any beneficiaries, so the normal pattern has been to add further interventions to try to deal with the costs of previous ones, with the adjustment of previous interventions being far more likely than their removal.⁹³ The pooling of action involved in centralised decision-making obscures costs, trade-offs and consequences. The result has been a burgeoning pattern of interventions, each laid upon the previous.

There is quite a pattern of commentators surveying with dissatisfaction the results of previous planning efforts, which are deemed unsatisfactory in terms of their effects because they are insufficiently comprehensive. They therefore conclude that planners need more power and that plans need to be more intrusive. In their view, it is simply a matter of having the *correct* policy intentions and broad enough planning powers.

Planning, when motivated by the best of intentions, is the desire to do

good. But not all planning is so nobly motivated and, in any case, good is something of which there is always more to be done. Sometimes, those promoting particular courses in the name of the best interests of 'the community' are doing so knowing that other people bear the cost. Those bearing the costs will often seek to avoid them, thereby undermining the plans. And often, in pursuit of its objective, planning will show inadequate respect for people's liberties (particularly those of property owners). Such approaches are always likely to rebound on the original egalitarian intentions.

These matters aside, there is a continual presumption that planning will be done by official paragons of virtue and intellect. In practice, it is done by career-protecting bureaucrats making decisions within their comfort zones. The decision-makers have poor information feedbacks on the effects of their decisions, which themselves are overlaid by political pressures.

Median income/median house price ratios across the settler-societies of North America vary from a ratio of median house prices being 2.2 times median income in Buffalo NY to median house prices being 11.5 times median income in Los Angeles.⁹⁴ This indicates quite clearly that policy choices are central to housing outcomes. Australia has such comparatively *unaffordable* metropolitan housing because it chooses to do so. Australia has the lowest land-to-population ratio in the developed world and probably the most efficient house-building industry in the developed world. That its metropolitan housing is so expensive (whether renting or buying), that the dream of owning one's own house requires such financial efforts, are major public policy outcomes. These outcomes are the regrettable testimony to the efforts of public policy entrepreneurs.

Acknowledged planning failures

As a concept, *planning* is ambiguous. It can range from facilitating what people want to do (that is, *plan for people*) to requiring people to act according to the convenience of planners (*people for the plan*).

In many modern cities, public housing offers stark reminders of the distinction. Public housing blocks, not without reason, are seldom home to the planners and their residents, as allocatees don't get a choice in the design features. The notorious features (and frequent failures) of public housing often flow from blocked information feedbacks.

This makes them prime examples of the failure of central planning writ small. Places where public housing has been better done incorporate more effective information feedbacks (such as Singapore, where local MPs are *ex officio* members of housing block committees; or the shift to allowing residents to become owners or part-owners). The desire to own one's own home

is, above all, a desire for *control*—to be able to plant and change and paint where one lives as one wishes. Plans that work well, work *with* people's preferences. Plans that work badly, work against them.

Unfortunately, in a market economy, 'working badly' typically gets expressed through market outcomes. This is then blamed on 'capitalism', 'developers', 'speculators' or 'greed' rather than the regulatory environment that constricted the ways in which the market could operate. In turn, this then 'justifies' more such restrictions, usually on the basis of the *intentions* of such policies (almost always at least superficially praiseworthy and easily conveyed in slogans and sound-bites), rather than their predictable outcomes (which often require somewhat more complicated reasoning and evidence to tease out). Policy makers can also avoid taking responsibility for the consequences of policy regimes. The Victorian (Kennett) Government Planning Minister Maclellan provided an excellent example of this:

It is not the government driving medium density housing, but market forces and consumer demand. The people in this city want and need higher density housing.⁹⁵

If there is a prime case of successful planning operating towards the more restrictive end of 'planning', it would be Stockholm. Sweden is often held up as being the premier social democratic state. And Stockholm planning has a long history of dealing mostly intelligently with city growth—seeing it as inevitable, and something to deal with, rather than pernicious, and thus something to frustrate. Sweden had the advantage of being culturally homogeneous (thus minimising communication failures between officials and the public) and admirably democratic. Yet, even in this prime case, problems of failing to plan for people were persistent. In 1945, the overwhelming majority (90 per cent) of those who wished to live in suburbs did not want to live in apartment blocks. Yet, as a result of regulatory restrictions, apartment blocks continued to dominate suburban housing construction for decades. Construction failed to keep up with demand, with waiting lists lengthening to up to ten years (rationing by queue, rather than rationing by price). Hence jokes such as:

A young couple decided to wait until they got a flat to get married. 'Why don't you move in with your parents?' the boyfriend was asked. 'Because they are still living with my grandparents'.

By the 1970s, the mismatch between plans and public preferences resulted in a change in policy. In 1970, more than 70 per cent of all new dwellings in Sweden were for rental properties. By 1977, only 28 per cent were for rental, 72 per cent of completions were for private ownership. By the mid-1980s,

the majority of completions were single-family homes. The planners disliked the new suburbs intensely. In the words of one commentator obviously not sympathetic to the suburban model, they were

... closely packed houses in unimaginative uniform rows, reminiscent of the worst kind of American suburbia, but the demand was huge and they sold easily.⁹⁶

If Swedes escape to the benefits of detached suburban living as soon as they are permitted to, it is unlikely that Australians will willingly display any less attachment to home-and-garden-they-can-control. As, of course, they don't.

But, in a liberal democratic society, a conflict between the desire of families to control their living environment and the desires of planners to make such choices for them is, of necessity, obscured as much as possible. Linguistic tricks disguise restrictions on property owners and home-builders profiting from responding to consumer preferences. The entire rhetoric denouncing 'sprawl' and 'suburbia' is precisely about belittling people's living preferences. The invocation of environmental concerns and worship of greenery is equally about such belittling. Planning becomes a vision of Virtue in the eyes of the self-styled virtuous, with little connection to individual preferences. Accordingly, it relies on the regulatory powers of the state in order to prevail against market preferences.

Regulation and Housing Supply: Contrasting Germany and England

The outcome of planning systems on new home prices was demonstrated in recent research on housing, *Bigger Better Faster More*, by Policy Exchange in Britain. This offers firm evidence of the causes of the problem and its effects. It compares Germany, where there is a pro-housing planning approach, with Britain where, like Australia, there is a restrictive approach to the availability of land for houses.

Some comparative statistics between Germany, the UK and Australia are shown in Table 2.

Britain abandoned the satellite town approach to growth in 1951, though one new town (Milton Keynes) was built after that. Instead, a very exclusionary building permit regime was established with the 1947 *Town and Country Planning Act*. This strongly constrained the availability of land for housing. Bruegmann argues that:

The British growth management system, like all anti-sprawl policies was most favourable for what I have called the incumbents' club: those who were already well off and happy with their existing circumstances.⁹⁷

Table 2:
Population and housing statistics, Germany, UK and Australia

	Germany	UK	Australia
Population (million)	82	60	20
Urban population share (%)	88	90	85
Population growth 1979-2005 (% pa)	0.16	0.24	1.32
Decline in average household size 1980-2003 (persons)	-0.3	-0.3	-0.4
Persons per km ²	230.9	246.9	2.6
Growth of GDP/capita 1970-2003 (% pa)	1.4	2.1	2.0
Average size of new dwelling (m ²)	109.2	76	205.7
Completions per 1,000 inhabitants (2003)	3.25	3.14	6.54
Home ownership rate (%)	40.5	67	68
Vacancy rate (%)	8.2	3.4	9.2
Real house price growth 1970-2003 (% pa)	0.05	3.87	2.89

Source: Evans, A.W., and Hartwich, O.M., *Bigger Better Faster More*, Policy Exchange, 2005.

Though the planning system has left many villages' architecture relatively frozen in time, the greater density that was the aim and, to some extent, the outcome of this did not prevent traffic congestion in spite of a considerable investment in public transport.

In Germany, houses are one-third bigger than those in Britain and, over the past 30 years, prices in real terms have shown a negligible increase compared with a doubling in Britain. Germany has a slightly lower population growth and similar density to the UK, although its economy has grown less rapidly over the past decade.

Germany's negligible house price inflation is entirely due to the different approaches to allowing land to be made available for home building. In Germany, landowners have much greater rights to use their land for the purposes they favour, including developing it for housing. This is derived from Article 14 of the Basic Law and is called *Baufreiheit* (Freedom to Build). In Britain and Australia, land use is dictated by planning agencies such as Victoria's Department of Sustainability and Environment, which severely restricts the areas where housing may be built. Such laws would be unconstitutional in Germany.

German states (*Länder*) have highly bureaucratized and ornate planning systems, but the constitutional provision allowing a land owner to have con-

trol over his or her property is very powerful. And the ultimate control rests with the municipality and not the state or federal government.

Local authorities also have a strong interest in development because, in addition to their rates, their share of federal income tax and state government grants is linked directly to the local tax revenue and the number of inhabitants (as is the income of the top local government public servants). Typically, 40 per cent of a municipality's budget is derived from per capita transfers from state and federal governments. Moreover, there are constitutional checks and balances on a local authority wishing to raise its rates.⁹⁸

Germany's flexibility in housing supply means that every up-tick in prices is accompanied by an increase in new housing. House prices themselves are not matters of keen interest to people in general, and rarely feature in newspapers and never on the front page. Long-term stable home price levels are not newsworthy. Home ownership levels are also lower, as there is no urgency to buy one's own house—the benefit of a house as an inflation-beater is missing.

Developments in the USA

The Red and the Blue States

The diversity of the US and the relative influence of local planning areas compared with Australia allow a considerable diversity of outcomes. Many areas (best characterised by Texas and other Southern and Midwestern areas) have taken a supportive approach to development. By contrast, California and many of the 'rust bucket' states of the north-east have taken a far less permissive approach. Some have characterised the dichotomy as a Red State/Blue State issue.⁹⁹ The Blue states, those voting Democrat, generally favour restrictions on new housing development, while the Red states are more permissive. As Steve Sailer has pointed out, 'Bush won the 26 states with the least inflation in housing prices between 1980 and 2004'.¹⁰⁰

This also reflects the preferences of those living in, or moving to, areas where housing is less constrained by planning restraints. Those with such constraints have 'smart' growth philosophies that are geared towards protecting open space and preventing denser developments, thereby raising the property values of incumbents. Other states tend to favour the newcomers, and new houses are much cheaper. Not unrelated to this, Sailer has also found a very strong correlation between birth rates per white female and the tendency to vote Republican/live in areas where house prices are lower.

This theme has found support among other commentators. Thus, Morse¹⁰¹ argues that:

One of the contributing factors to low fertility is delayed marriage and child-birth. And one of the contributing factors to delayed marriage is the high cost of setting up an independent household.

It is difficult to assign this factor special prominence, however. In the US, a market where there is great diversity and low-cost housing even in fast growing cities, the correlation between the lower priced areas and birth rates is relatively low. This can be crudely done by assigning cities' household affordability in the Demographia data as proxies for affordability in the states in which they are located and comparing this with the number of children under the age of 18. Such an analysis provides a correlation of only -0.14. Doubtless there are more sophisticated methodologies that can be applied than the simple one used here, and there are further adjustments possible in terms of income, age profiles, religion, and so on. Even so, it is difficult to recruit falling birth rates as support for liberalising the housing market on the data available to us.

I'll Take Manhattan

A painstaking study of home prices in Manhattan by Glaeser, Gyourko and Saks¹⁰² has demonstrated the impact of regulation. Although Manhattan has no developable land, its skyline demonstrates the use of airspace, of which there is a near infinite availability and which, on the face of things, offers little cause for opposition towards more high rise buildings.

There is, however, considerable opposition to new construction and prices have risen markedly over recent years. During the 1950s, a massive surge in new units was accompanied by only a modest rise in prices while, in the 1980s and 1990s, a much less permissive planning regime brought supply deficits and real price increases of over 50 per cent.

An analysis of costs puts new apartment building costs at \$300 per square foot in Manhattan. This is considerably below the price of new apartments which actually sell at \$600 per square foot. As the authors note, the higher prices are caused by regulatory squeezes on building rights and they go on to say:

A high ratio of sales prices to construction costs does not imply that developers are making excess profits. On the margin, the benefits of the very high prices should be competed away via legal bills, lobbying fees, the carry costs of invested capital during long delays, or any of the myriad other expenses associated with navigating the city's regulatory maze. Regulatory barriers essentially function as a tax that adds to the fixed costs of building.

7 Price Developments in Australia

International and Australian price comparisons

Houses and apartment buildings are highly durable items, lasting up to a century or more. This means that areas with falling populations, due to the loss of jobs, can undergo significant changes in their population profile, as people attracted to cheap housing move in—particularly if they are not dependent on paid employment for their income.¹⁰³ This process has been occurring in various depressed rural areas in Australia. But this durability can also mean long periods of price rises well in excess of inflation, if supply of new housing stock is sufficiently restricted, as has been occurring in major capital cities, particularly Sydney.

The effects of this inertia in the case of restricted supply can be quite dramatic:

California homes, which cost on average some \$600,000 and even more in the LA and Bay area, are unaffordable to professionals and causing labour supply problems. The Sacramento campus of the University of California plans to build as many as 500 homes for faculty and staff on 25 acres it bought last year. A 30 percent discount on homes below the region's median price will help assistant professors get into the housing market, which otherwise would be nearly impossible with a starting salary that averages \$48,000.¹⁰⁴

The data on the Demographia Website¹⁰⁵ provides an excellent resource, particularly when cross-referenced with US Census¹⁰⁶ and Community Survey¹⁰⁷ data. The 72 US cities listed with their ratios of median income-to-median house prices (that is, their housing (un)affordability index—as the higher the index, the less affordable the housing) can be examined against various characteristics. These include population size, population growth, population density, percentage with advanced degrees, percentage living below the poverty line, percentage of population who are foreign born, percentage who speak a language other than English at home, percentage who are Afro-American, plus the percentage of dwellings with owner-occupiers, or percentage with under-18s present.

There is no correlation between housing (un)affordability and the percentage of population below the poverty line (-0.16), with advanced degrees (0.19), of dwellings with under-18s present (-0.14) or with population growth (or decline) since 1990 (0.17). That is to say, there is no indication that demand factors separate the highly unaffordable cities from the highly affordable cities. This is pertinent in rebutting analysis from some official sources.

Thus, the Productivity Commission considered that the impact of demand pressures on land prices may only have been:

accentuated by rigidities in the supply chain, such as government interventions which unduly limit the supply of additional land at the urban fringe or the construction of additional dwellings within cities.

Its report argued that:

Although there appears to have been a shortfall in housing supply at the urban fringe—at least in Sydney—it is the increased demand for existing dwellings in established areas that has been the primary reason for recent price rises.¹⁰⁸

Similarly the OECD's Economic Outlook No. 78 only saw a subsidiary role for supply factors in global house price trends. Its attribution of importance to that aspect was largely confined to the UK.

Clearly, the findings of such bodies will need to be revised in the light of the data being presented by Demographia, which show price responses in the US are related solely to land availability and not to such matters as demand growth *per se*.

In terms of multiples of household income levels, Australian house prices are now among the highest prices in the world.¹⁰⁹

According to the Demographia 2006 *International Housing Affordability Survey*, Sydney ranked seventh in the least affordable housing market from

Table 3:
Twenty most unaffordable housing markets

Rank	Housing Market	Median Multiple	Rank	Housing Market	Median Multiple
1	US Los Angeles	11.2	11	UK London	6.9
2	US San Diego	10.8	12	UK Bristol	6.8
3	US Honolulu	10.6	12	US Fresno	6.8
4	US Ventura County	9.6	12	US Sacramento	6.8
5	US San Francisco	9.3	15	NZ Auckland	6.6
6	US Miami	8.8	15	Australia Hobart	6.6
7	Australia Sydney	8.5	15	Canada Vancouver	6.6
8	US New York	7.9	18	Australia Adelaide	6.5
9	US Riverside	7.7	19	US Las Vegas	6.4
10	US San Jose	7.4	19	Australia Melbourne	6.4

Source: Demographia; <http://www.demographia.com/dhi-ix2005q3.pdf>

their study of 100 cities in North America, New Zealand, Australia and the United Kingdom. The study rates urban areas in terms of median housing costs and median income levels.

The most affordable cities, which include several of comparable size to Sydney, such as Pittsburgh, St Louis, Atlanta, Houston and Quebec, have median house prices that make them only one-third as expensive in relation to median income levels. The key cause of this disparity is planning constraints that have reduced the availability of land for housing, and house-tax measures often in the guise of development contributions.

Raw land on the periphery suitable for housing has an alternative use of only a few thousand dollars per hectare. Planning constraints, mandatory infrastructure contributions and housing-specific taxes result in Sydney prices at \$300,000 a block and more. Other cities fare little better. Thus, land on Melbourne's outskirts in its alternative agricultural use may be worth \$3,000 per hectare or a few hundred dollars per block. The Government planning system creates shortages of housing land by strictly controlling if and when landowners are permitted to offer their property for housing development.

As a result, prices are inflated, pushing up the value of a block of raw land to over \$50,000. On top of this is the development to make the land suitable for housing. These costs should never amount to more than \$25,000 per block, but regulations double this.

Increased prices in existing zones are caused by government-created regulatory scarcity on the periphery, an effect that is often compounded by local NIMBY action designed to prevent more intensive land use.

Table 4:
Tax treatment of owner-occupied and investment housing across countries¹¹⁰

Owner-occupied housing

	Imputed rent taxation	Interest deductibility	Capital gains tax
Australia	No	No	No
Canada	No	No	No
France	No	No	No
Germany	No	No	No ^e
Japan	No	No	Yes
Netherlands	Yes	Yes	No
New Zealand	No	No	No
Sweden	Yes ^d	Yes	Yes
United Kingdom	No	No	No
United States	No	Yes	No ^e

Investment housing

	Negative gearing	Depreciation allowances	Capital gains tax ^a	Stamp duty
Australia	No	Yes	Discount	Yes
Canada	Restricted	Yes	Discount	Yes ^b
France	Restricted	Yes	Discount	Yes
Germany	Restricted	Yes	Discount	Yes
Japan	Yes	Yes	Discount	Yes
Netherlands	No	No	Discount	Yes
New Zealand	Yes	Yes	No ^c	No
Sweden		Yes	Yes	Yes
United Kingdom		No	Yes	Yes
United States	Restricted	Yes	Yes	No

a 'Discount' means less than 100 per cent of the capital gain is taxed

b In approximately half of all provinces

c Except for depreciation claw back

d Through property tax

e After two years

The vast dispersion of prices and of price trends provides unassailable empirical evidence that price increases are not due to some general phenomenal-like shifts in interest rates. Nor is it plausible to attribute great influence to country-specific taxation measures. The Productivity Commission placed undue influence on such policy measures as the lack of capital gains tax and the ability of rental investors to write off losses from unrelated sources of income.

Whether such measures could be called 'concessions' is a moot point—in the case of write-offs, every new product or service by an existing firm is, by definition, financed from income earned from on-going sales. However, Table 4 offers little evidence that Australia was unique in its fiscal policy towards housing.

The Productivity Commission also considered whether the First Home Owners Scheme had had a stimulatory effect. This offered grants of up to \$14,000 during 2001 and remains at \$7,000.

Doubtless, demand factors have an effect on prices and, in some cases, this can be marked. But this can only remain so in the face of heavily constrained supply. Given the size of a house as a purchasing item, it is easy to misunderstand the degree of flexibility of the supply industry. This is especially so as, at any one time, accretions to the stock are likely to be under 3 per cent.

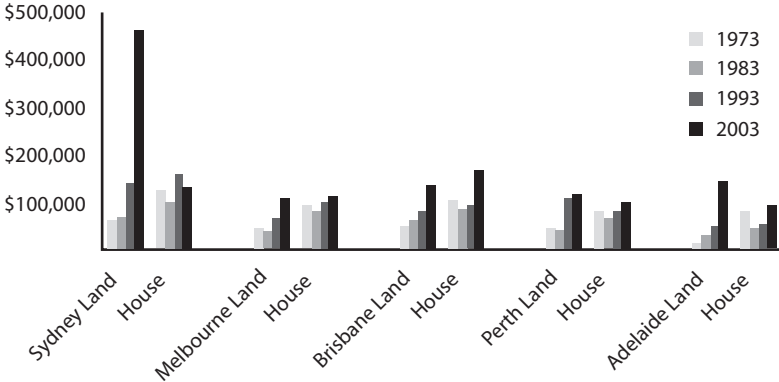
The supply of new houses is not intrinsically inflexible, however. The house itself comprises sets of components, the production of which are readily increased. Sanitary ware, planks, bricks, light fittings are all readily available and supply can be increased rapidly. And although labour shortages might bring some bottlenecks, this and associated industries have almost doubled and halved in size in very short periods. There is little in the industry that prevents it responding to demand stimuli differently from other industries.

In the case of the development of land, this takes a very short period of time—some talk of four posts and a length of piping as being all that is required and, although this is an exaggeration, new land can be brought into the supply chain very quickly and cheaply.

Evidence abounds of the responsiveness of new housing to demand without this necessitating significant price rises. The greatly varying outcome of house prices in different North American cities is particularly persuasive. Indeed, it is the most rapidly growing urban areas that have shown the greatest price stability. Within Australia, the very rapid growth of the southern Queensland Gold Coast area during the 1980s was not accompanied by significant price rises.

That demand pressures do not lead to house price escalation can be substantiated by using ABS and Demographia data. The correlation between

Figure 1:
Real house and land prices (\$2003)



population growth since 1991 and housing (un)affordability in Australia's eight capital cities is mildly negative (-0.43) while the correlation between housing (un)affordability and population density is positive (0.60). The faster growing cities tend to have more affordable housing, the more densely populated cities more unaffordable housing.

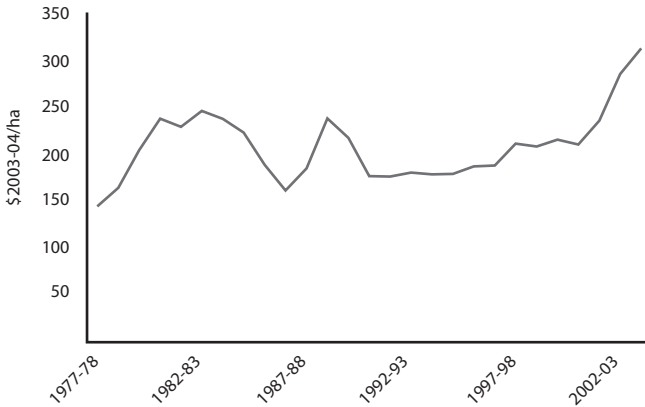
Since population growth is the prime demand factor, while density reflects supply constraints, supply factors clearly dominate house prices, at least in such a land-endowed country as Australia. The significant factor in all cases of low price escalation of houses has been the absence of serious restraints on the availability of land. There is inherent conflict between consumer choice, housing affordability and advocating greater urban density.

Trends in Australian house prices

While house-building prices have shown little upward trend in real terms (in spite of a marked improvement in quality and features), prices of land have increased in most areas of Australia.¹¹¹

Sydney has led the pack. In real (2003) dollars, land prices rose seven-fold, on average, between 1973 and 2003 from \$59,000 to \$461,000, and while house-building costs over the period fluctuated, in 2003 they were only 4 per cent above 1973 levels. Land prices have actually fallen considerably in Sydney over the past year or so but remain very high in historical terms. In fact, 2003 land prices in Sydney were four-fold or more of those

Figure 2:
Land prices, broadacre farms



Source: ABARE farm survey

of other capital cities, but were only 20 per cent higher than Melbourne, Brisbane and Perth in 1973.

Unfortunately for new home buyers, land prices have been rising rapidly across the other major cities. In Melbourne, prices actually fell in the decade to 1983 but in 2003 were two-and-a-half-fold 1973 levels. A similar picture is evident in the other mainland capitals, although in the case of Adelaide, the price increase has been much more recent than other capitals.

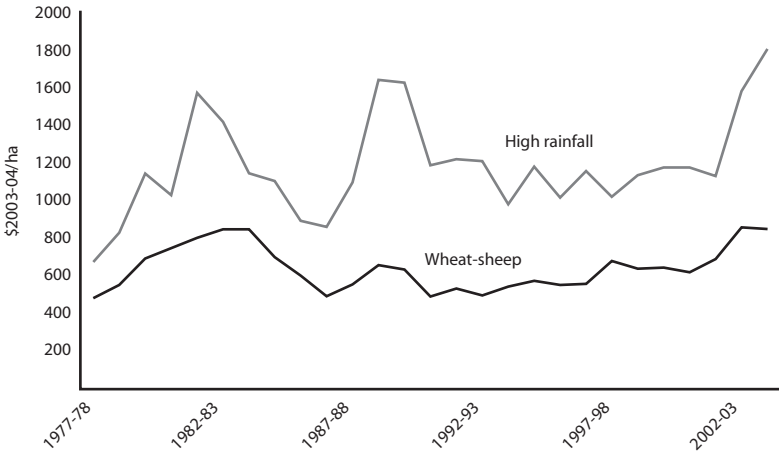
In all cases except Brisbane, house-building costs have risen in real terms by around 15 per cent (in Brisbane house-building costs have risen strongly in the past ten years and in 2003 were 60 per cent above their 1973 levels; to a major degree this has been driven by demand and quality factors).

Real long-term price levels and changes in the major capitals are shown in Figure 1. This stands in sharp contrast to the price of rural land (Figure 2), which maintained an average of about \$200 per hectare (\$2003–04) throughout the 1980s and 1990s.

Looking at high rainfall and sheep-wheat land—generally closer to capital cities than pastoral zone farms—farm land in the wheat-sheep zone has shown little movement, averaging \$630 per hectare (\$2003–04) throughout the 1980s and 1990s. High rainfall zone farm land, generally closest to the capital cities, has shown a significant increase in the last few years, but moved around an average of \$1,180 per hectare (\$2003–04) in the 1980s and 1990s. (See Figure 3.)

The data does not cover market garden land—which would be a bet-

Figure 3:
Farm prices, wheat-sheep and high rainfall zones



Source: ABARE

ter indicator of the value of land on the urban fringe—but it is still clear enough that Australia has not been suffering from some general land scarcity. A hardly surprising result.

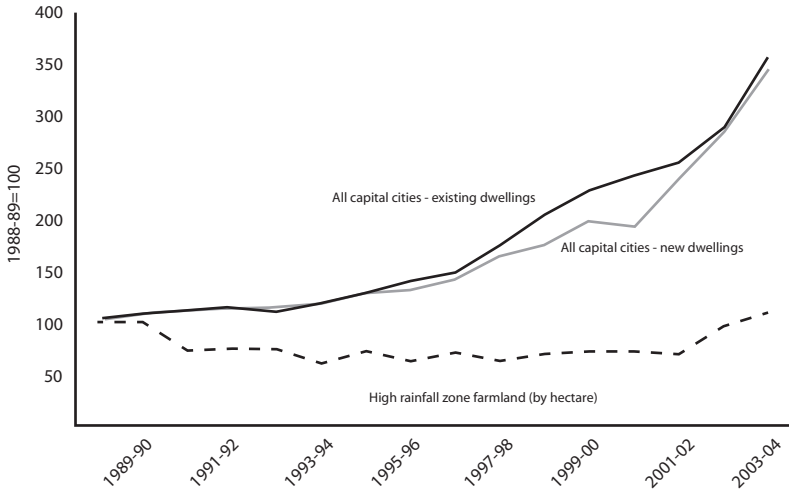
The point is made even clearer when we compare the change in the average price of high rainfall farmland with changes in the average prices of existing new dwellings in capital cities (all adjusted for inflation) since 1988–89. (See Figure 4.)

Farmers certainly haven't enjoyed booming prices for their major asset—but then they are not subject to regulatory land-rationing.

Planning for Housing

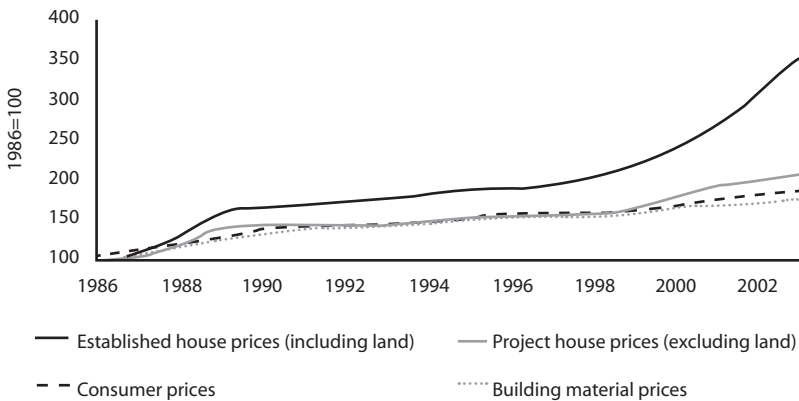
Throughout Australia, State and local authorities have placed serious restraints on new building. These restraints have been particularly severe in NSW, with the previous Premier placing a high priority on restraining population growth, but the same general trend is evident throughout Australia. As a result, although house-building costs have been kept at around the general level of prices (something of an achievement in view of the increased regulatory impositions on the industry and the fact that new house sizes have gradually increased), new homes have risen markedly in price. (See Figure 5.)

Figure 4:
Inflation-adjusted farm land and capital city dwelling prices
1988-89 to 2003-04



Source: ABARE, REIA

Figure 5:
Housing and material prices, 1985-2003



Source: ABS (*Consumer Price Index, Australia; House Price Indexes: Eight Capital Cities*)

The land component, which in 1976–77 comprised 32 per cent of a new home in Sydney, in 2005 comprised 62 per cent. Other capitals have fared little better. This has been mainly due to the squeeze on land availability that originated in misplaced desires to prevent ‘urban sprawl’.

In terms of the relative share of house and land in the housing package, building costs have been stable because they have not seen the draconian level of regulatory control that has squeezed the availability of land, especially around the capital cities. As a proportion of the house–land package, all States have seen the land component move from being a minor to, in most cases, a dominant share over the past 30 years. In Sydney, the land component went from 33 per cent to 78 per cent; in Brisbane from 30 per cent to 55 per cent; in Adelaide from 14 per cent to 61 per cent; and in Perth from 35 per cent to 54 per cent. Only in Melbourne did land remain under half the package cost, but only barely, as land rose from 33 per cent to 49 per cent of the total cost.

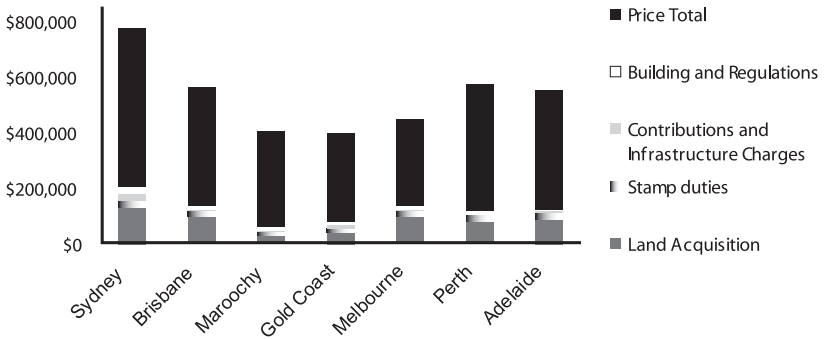
These trends are at the heart of the blow-out of Australian housing af-

Table 5:
Share of House and Land in Housing Package

	1973	1983	1993	2003
Sydney				
Land	0.33	0.40	0.47	0.73
House	0.68	0.60	0.53	0.22
Melbourne				
Land	0.33	0.31	0.40	0.49
House	0.67	0.69	0.60	0.51
Brisbane				
Land	0.30	0.42	0.46	0.55
House	0.70	0.58	0.54	0.45
Perth				
Land	0.35	0.38	0.57	0.54
House	0.65	0.62	0.43	0.46
Adelaide				
Land	0.14	0.38	0.47	0.61
House	0.86	0.63	0.53	0.39

Source: HIA

Figure 6:
Medium density stamp duty and regulatory costs, 2006



Source: UrbisJHD

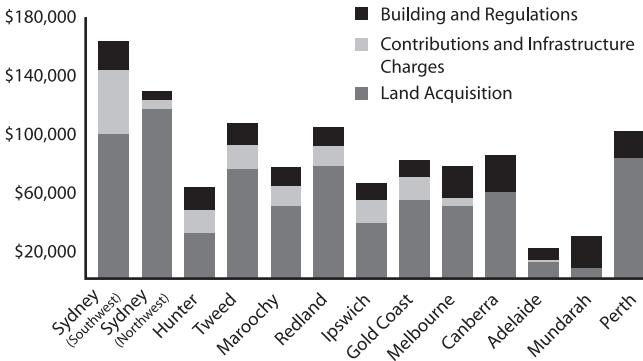
fordability.

It is difficult to assess the degree to which these prices have also been increased by development taxes. By requiring those in new suburbs to bear the costs for sewerage systems, roads, parks, schools, community facilities etc., these up-front taxes discriminate in favour of those living in the established suburbs.

As part of this regulatory price forcing, the HIA estimates that the direct regulatory 'tax' on new subdivisions in western Sydney is \$60,000. Though some of this may contribute to the value of the subdivision, much of it is for social infrastructure such as 'affordable housing contributions', local community facilities, public transport contributions and the employment of community liaison officers.

These costs are further amplified by joint actions between developers (often government-owned) and councils. Thus, in NSW, the Government-owned Landcom uses its influence to obtain development rights, earning \$150 million a year profit from sales of \$320 million. Moreover, such developers obtain the necessary rezoning of land by making commitments to local authorities for tennis courts, neighbourhood centres and other infrastructure over and above the already sizeable mandatory contributions. Consumers have no opportunities to decide for themselves whether such expenditure meets their preferences—the costs are rolled up in a price that they are obliged to pay. Sydney has long been at the fore in applying such taxes, however Melbourne is also riding the bandwagon. The Department of Sustainability and Environment has introduced a new tax on land released

Figure 7:
Broadacre land and regulatory costs, 2006



Source: Property Council of Australia

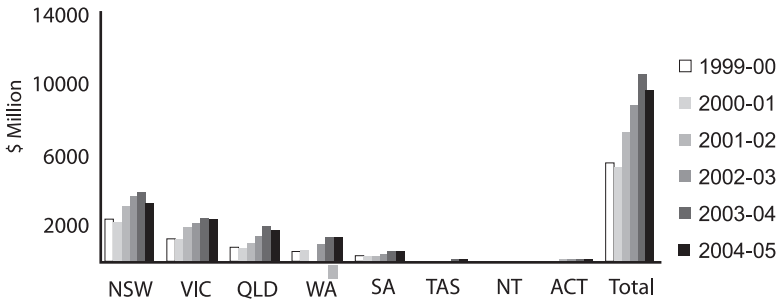
from its regulatory corset. This tax is set at \$2,700–\$3,100 per block (11 blocks per hectare) for Urban Growth Boundary land already zoned for urban development, \$4,000–\$4,400 for such land that is not yet zoned, and \$4,900–\$5,400 for land brought within the UGB in November 2005. These new taxes represent an attempt by the government to obtain a share of the scarcity value its planning regulations create. They have little relationship to the costs of the infrastructure that people would otherwise willingly pay for.

It is far from clear that the costs of the latter are less than those of the former, especially with regard to water and sewerage systems which are far more expensive to replace in crowded urban areas than in new suburbs. Moreover, the transport systems (bearing in mind that at least 80 per cent of the costs of public transport are paid for by the community in general) can never be as intensive and useful in suburban developments as in densely populated central areas.

A survey of costs undertaken by UrbisJHD for the Property Council¹¹² placed a greater emphasis than this monograph on government cost impositions in bringing about price increases. The survey identifies taxes as well as regulatory charges on development land and houses. It estimates that government imposts range from 21 per cent to 35 per cent of the total of a broadacre new dwelling, and 21 per cent to 29 per cent for medium density developments well within existing boundaries.

The survey brings together invaluable information about the practical impacts of taxes and regulations. Although it takes a wider view of tax imposts

Figure 8:
State Government revenue from taxes on conveyancing



Source: State Budgets

than some would regard as appropriate (it includes company tax as well as stamp duty, development requirements, building regulation costs and GST), it is a useful compilation of these taxes and impositions.

Figures 6, 7 and 8 illustrate the costs of government housing-specific taxes on the final cost. Figure 6, for medium density housing, illustrates the regulatory, revenue and stamp duty impositions alongside the cost of land and the selling price of medium density properties. Figure 7 examines the land and regulatory costs for broadacre lots.

It would be appropriate to add to the Property Council cost data, property-specific taxes levied by State Governments on financial instruments and on conveyancing. These are both substantial (conveyancing taxes amount to some \$10 billion or 8 per cent of total State revenues) and have demonstrated rapid growth over recent years. Between 1999–2000 and 2004–05 growth has been over 73 per cent (over 55 per cent in real terms). State governments also benefit from other taxes that are tied to the property boom (for example, taxes on insurance¹¹³). The revenue collected from conveyancing taxes is illustrated in Figure 8.

Over the past year, revenues from these taxes have declined, especially in NSW, as a downturn in house prices has become evident. However, the direct benefit that State governments receive as a result of house-price inflation increasing the value of their housing-specific taxes provides them with a disincentive to take measures to increase the availability of land.

It is not easy to disentangle what cost impositions for infrastructure and

Table 6:

If housing in Australian capital cities were as affordable as in the most affordable North American cities

	Median Household Income (\$)	Median House Price (\$)	Estimated House Price Multiple	Median House Price if Multiple was 2.7 (\$)	Ratio to Actual Median House Price
Sydney	61,000	520,000	8.5	162,413	3.2
Hobart	40,100	266,500	6.6	106,766	2.5
Adelaide	41,700	272,000	6.5	111,026	2.4
Melbourne	56,000	360,000	6.4	149,100	2.4
Perth	50,200	308,000	6.1	133,658	2.3
Brisbane	52,000	310,000	6.0	138,450	2.2
Canberra	72,600	350,000	4.8	193,298	1.8
Darwin	69,400	300,000	4.3	184,778	1.6
Average of markets			6.2		2.3

Source: Demographia.com

the like must be factored into the final price. In some cases, for example, housing-specific taxes and most building regulations, the costs go directly to the final price of housing. In others, such as GST and profits tax, they are part of the general tax regime. Other taxes, such as developer contributions are more problematical; rather than impositions made by governments to 'claw back' the benefits that accrue to individuals from the land shortage price escalation their policies generate, in the main these constitute an additional impost on the new home buyer.

These contributions doubtless create an additional cost, but we would be inclined to agree with the Productivity Commission that:

Notwithstanding the complexity of this area, some general messages emerge from the preceding discussion:

- Infrastructure charges, like other costs of bringing housing to the market, have increased over time. But they cannot explain the surge in house prices since the mid-1990s. Indeed, the share of total house prices accounted for by infrastructure costs appears to have been declining in most Australian cities.
- The claimed cost savings and improvements in affordability from reducing reliance on developer charges for infrastructure appear overstated:
 - Most categories of charges are justified and indeed are desirable

on efficiency/equity grounds. (Reduced reliance on developer contributions would bring a requirement for similar dedicated charges to be collected from home buyers.)

- Housing affordability should not be significantly affected by greater reliance on upfront charging as opposed to charging over time.
- Developer charges for those items of social or economic infrastructure that provide benefits in common across the wider community have generally been relatively small — though such infrastructure should desirably be funded out of general revenue sources.

Nonetheless, though changes in the level and form of infrastructure charges are not responsible for recent sharp declines in housing affordability, compliance with some general charging principles will help to promote more efficient and equitable outcomes.¹¹⁴

Had land prices remained stable or increased only at the rate of underlying inflation, as occurs in almost all US jurisdictions where ‘smart growth planning restraints are not in place, average new house prices would have been 40 per cent to one-third lower than are presently observed. The table below illustrates the price of houses in Australian capital cities if land prices had been allowed to remain competitive, as they have in Houston, Dallas-Fort Worth, St Louis, Atlanta, and other cities of comparable size to Sydney and Melbourne (as well as German cities such as Dortmund and Hamburg).

One effect of the Australian increase in land prices as a share of total costs has been a change in the type of housing. This has meant smaller lot sizes. It has also meant a skewing of housing supply towards apartments, an effect that might have been compounded by planning approval policies.

Overwhelmingly, people prefer to live in houses rather than apartments. This has been demonstrated in a great many surveys. One in the UK conducted by YouGov for the House Builders Federation indicated that only 8

Table 7:
New housing approvals, March 2006

	NSW	Vic	Qld	SA	WA	Tas	NT	ACT	Total
Private sector houses (no.)	1,277	2,708	2,350	677	1,856	217	78	78	9,241
Total dwelling units (no.)	2,365	3,581	3,647	1,078	2,162	277	163	137	13,410

Source: ABS, *Housing Approvals*, March 2006.

per cent of people (17 per cent of those living in inner cities) preferred to live in an apartment rather than a house.¹¹⁵

It would be most unlikely that a smaller proportion of Australians would share this preference for detached housing. In terms of housing stock, Australia is 78 per cent detached houses, 10 per cent semi-detached or terrace houses and 11 per cent apartments. Reflecting cost considerations, for new dwellings, less than 70 per cent of approvals are now for houses, with only 55 per cent in NSW.

Table 8:
Comparison of Australia and Texas

	Australia	Texas
Gross Product (\$USm)	642,700 ^a	884,136 ^b
Per capita (\$US)	32,000 ^a	39,345 ^b
Population (census)	18,972,350 ^c	20,851,820 ^d
(in 2004)	20,091,500	22,471,549
% increase per year ^d	1.2	1.7
Area (sq km)	7,686,850	696,241
(% water)	1.0	2.5
Area covered by water (sq km)	76,869	17,784
(% arable)	6.55	
Arable land (sq km)	503,489	
Population density (per sq km)	2	30.75
Foreign-born residents	4,105,444 ^c	3,393,204 ^b
(% population)	21.6	15.1
Residents born outside State	n.a.	6,336,977
(% population)	n.a.	28.2
Speak language other than English	2,853,851 ^c	7,190,896 ^b
(% population)	15.0	32.0
Population of 5 largest cities	11,403,976 ^c	14,567,191 ^b
(% population)	60.1	64.8

Source: ABS, US Census Bureau, US Bureau of Economic Analysis, CIA Factbook
(a) 2005 (b) 2004 (c) 2001 (d) 2000

What if Australia were more like Texas?

Comparing Australia with Texas makes the effects of different regulatory regimes quite clear. Australia and Texas are quite similar in lots of ways, as Table 8, a comparison of economic, geographic and demographic data shows.

Australia has a much larger land area, and thus a much lower population density. Texas has a larger and faster-growing population, a larger economy and crams even more of its population into its five largest cities than does Australia. Texas has more folk who speak a language other than English at home and more residents who were born outside its borders than does Australia.

Nevertheless, they are broadly similar societies.

Since Texas has (much) less land, a greater population, is faster growing and is more productive (both overall and per person) and has an even larger share of its population in its five major metropolitan areas, it would seem likely that housing would be much more expensive in the metropolises of the Lone Star State than in the cities of our island continent.

Yet precisely the opposite is true (See Table 9.)

Table 9:
If Australia was more like Texas in land-use policy

	Median Household Income (\$)	Median House Price (\$)	Multiple to actual house prices	Estimated House Price Multiple
Sydney	61,000	171,313	3.0	2.8
Austin	59,500	167,100		2.8
Melbourne	56,000	154,367	2.3	2.8
Dallas-Ft Worth	53,400	147,200		2.8
Brisbane	52,000	143,341	2.2	2.8
Houston	50,400	145,100		2.9
Perth	50,200	144,524	2.1	2.9
San Antonio	48,100	137,600		2.9
Adelaide	41,700	116,164	2.3	2.8
El Paso	34,300	95,550		2.8

Note: All values in national currency

Policy clearly results in highly inflated house values in Australia. Which is fine for people who already own a house, but unfortunate for those who merely hope to do so.

Consider also the income that Australians have to tie up in housing costs. According to the US Census Bureau's 2004 Community Survey, median monthly housing costs for those paying a mortgage in Texas are \$US1,166 a month (ranging from \$US876 per month in El Paso to \$US1,447 per month in Austin), for those renting the cost is \$US648 a month (ranging from \$US502 per month in El Paso to \$US762 per month in Austin).¹¹⁶ While not strictly comparable, in 2002–03 Australians paid an average of \$A1,066 in mortgage costs and \$A819 in private rents per month. Sydneysiders were paying an average of \$A1,430 per month in mortgage costs and \$A1,127 in private rents.¹¹⁷ Given that the term of mortgages can vary greatly, the much higher rental costs (in local dollar terms), particularly in Sydney, are a better indicator of the relative burden of housing costs imposed by the different policy regimes.

Texas is a much less linguistically homogenous jurisdiction than Australia, with a higher rate of population growth and migration-in of people born outside its borders. But it is clearly much more able to provide housing policies which are in the general interests of its inhabitants, rather than the preferences of a narrow group of urban planners reflecting the interests of wealthier members of society. In particular, it does not provide policies where, due to constricted supply, demand pressures from newcomers price people out of home ownership. More liberal land use policies are themselves not an inconsiderable aid to social harmony in a diverse society.

8 Policy changes required

There are some hopeful signs for reform in this area, not least of which were comments made by the Prime Minister on the issue in November 2005 at the opening of HIA's new NSW office,¹¹⁸ at which he called for an expansion of land availability.

In the case of development approvals, winners are created as a result of the zoning system. In order to plan their business futures, house builders and land developers take positions and buy land at the inflated prices that the regulations create. They then have a vital interest in ensuring that the regulations do not leave them with an asset that is reduced in value at the stroke of the same administrative pen that brought the inflated value. These forces are aided and abetted by very prosperous individuals living in areas that are relatively close to major urban areas but which have features of remoteness and exclusivity.

Land regulations, in particular zoning laws, also pose considerable dangers to the integrity of the political process. When vast profits can be made by a politically directed and essentially arbitrary reclassification, there are grave dangers of political corruption.¹¹⁹ Those dangers extend beyond individuals' cupidity and can infect the political process by providing funds for political parties to use for electoral purposes. In such cases, the community would be seeing its net real income levels reduced by a regulatory tax, with part of the proceeds diverted to the re-election of those purporting to repre-

sent their interests.

Unfortunately, the administration of planning regulations has become infested by elected busybodies and appointed experts who are determined to tell consumers what is good for them and to prevent them from doing anything else. Although these regulatory trends have not yet escalated the costs of house building itself, they are poised to do so. We have cost impositions requiring water storage, heating measures, and room layouts which are stopping entry into the industry. The restraints on supply, together with the imposts placed on developers, have clearly been the major, if not the only, factors in pushing up the prices of housing.

Some of the differences in receptiveness of councils to new development proposals may be reflected in the time it takes to process them. In addition to differences in approach, there are doubtless variations in efficiency between the various local authorities in their approval processes. The UrbisJHD study undertaken for the Property Council found that the average time taken to approve broadacre land development proposals was around 15 weeks. The time taken varied between 6 weeks (Tweed) and 30 weeks (Redland).

There are likely to be specific reasons why some approval processes are more prolonged than others, but measures taken to expedite processing by, for example, clearing over the Internet the separate steps required would mean economies and reductions in the stock of land that must be held.

All the costs involved, ranging from land use restrictions to inefficiencies in processing, are at the expense of the weakest and poorest members of society—the mainly young first-home buyer.

The restoration of low costs for the home building industry requires measures such as:

- relaxation of restraints on where homes may be built, even if this means the urban sprawl. This might entail restricting area restraints only to areas of great natural beauty such as national parks.
- considerably curtailing requirements on builders to set aside land for public use.
- restraining the demands that can be placed on developers for expenditures on infrastructure by redefining infrastructure to mean such essential features as water, sanitation, and local roads and by recognising that much of the expenditure for these services is funded out of general State and local charges.

Cities such as Melbourne have declined in density. People prefer to live in greater personal space, both internal and external, and detached somewhat from their neighbours. Urban sprawl is not the 'inevitable unhappy result of laissez-faire capitalism' but embodies individual preferences. Technological developments and income growth allowed these consumer preferences

to become manifest. Once technology allowed rapid journeys—first via rail and later by road—the cities expanded. Added to this, we have seen a great dispersal of work locations, partly due to the decline of large integrated factories, partly due to the changed nature of work: especially the growth of service industries which tend to be geographically dispersed.

It is exceedingly difficult to construe the present operations of State planning rules as being compatible with ensuring the wisest and most economically advantageous use of land for activities normally associated with urban life. Planning at its basic level is the response to the community's common infrastructure needs (roads, water provision etc.). This involves weighing up different needs for housing, jobs, leisure facilities and commerce, and projecting them forward in time; it means assessing consequential requirements for infrastructure, its costs and alternatives.

But this planning role can be abused—instead of responding to consumers' market-based needs, planners have sought to impose their own preferences or have paid undue regard to those who have only an incidental interest in the development. We should be most wary of giving rein to specialists in planning and other disciplines who make claims to be better placed than individual consumers in deciding the best use of resources. In almost all other areas of economic activity such notions have been abandoned—markets based on free exchange and property rights have brought better outcomes.

Proponents of the sort of detailed planning restrictions found in Victoria would doubtless maintain that they are merely engaging in setting broad parameters for activities and not micro-managing within those areas. Some argue that this is not the case and that the extensive interaction between applicants and regulatory authorities demonstrates this. Others, this author among them, would also argue that the planning requirements amount to a gross set of restrictions on land use, generate wasteful lobbying and restrict land availability for the purposes most valued by its owners and those seeking to make use of it.

Victoria's Department of Sustainability and the Environment (DSE) appears to be very supportive of the planning role it performs. In its *Development Contributions FACT SHEET*, DSE says:

Decisions by State or local government to designate, rezone or subdivide land for urban development creates significant increases in land values.

This illustrates a serious misunderstanding of the economics of supply-shortage creation. It is DSE's actions which give rise to the high values. But unlike actions in the commercial world that create value by applying capital or skills or new technologies, the value of developable land arises largely because the government regulates its supply. The Government, in reserving land from

development, creates its scarcity.

The value of the scarcity which the government has created becomes apparent when some of the land is released, unfrozen, from the condition mandated by planning controls. And such land can only be worth the sort of sums the Fact Sheet discusses (\$300,000 to \$400,000 per hectare) as long as an artificial scarcity remains in place. Land used for alternative purposes to urban development (i.e. agriculture) on the periphery of Melbourne is worth only a few thousand dollars per hectare. The fact that it sells for a premium, even before its release, reflects speculators' views that the authorities will eventually designate the land as usable for purposes the community actually values most.

Land prices on the urban boundary that are considerably in excess of agricultural land prices reflect the inflated scarcity value caused by regulatory restrictions on supply. Any cost-based causes of high prices are dwarfed by those attributable to regulation-induced scarcity. Were it not for this, it is barely conceivable that a block of land on the periphery of Melbourne would command a price in excess of some \$60,000 per hectare and that much of this would be caused by development costs.

Land is a basic resource. It should not be an arbitrarily or unnecessarily expensive one.

Appendix 1

Melbourne's planning history¹²⁰

- 1922 Metropolitan Town Planning Commission is established.
- 1929 Report of the Metropolitan Town Planning Commission proposes a planning scheme to prevent 'misuse' of land and protect property values, highlighting traffic congestion, the distribution of recreational open space and haphazard intermingling of land uses.
- 1954 First comprehensive planning scheme for the metropolitan area, prepared by the Melbourne and Metropolitan Board of Works (MMBW), introduces the concept of district business centres and focuses major retail activity on designated centres on the public transport system that also provide central locations for housing, transport, employment and community activity.
- 1971 The MMBW report, *Planning Policies for the Melbourne Metropolitan Region*, introduces long-term conservation and development policies through growth corridor and green wedge principles, and contains outward growth to a limited number of areas on the edge of the city.

- 1980 The MMBW's *Metropolitan Strategy* reinforces the 1954 policy on district centres, encourages development in existing areas, and concentrates housing, transport, employment and community facilities at highly accessible points.
- 1983 New district centre zones encourage office development in 14 centres and restrict it elsewhere.
- 1987 *Shaping Melbourne's Future* reinforces the thrust of the 1980 Strategy.
- 1995 *Living Suburbs* relaxes metropolitan-wide planning direction and controls, for example, on green wedge boundaries and the hierarchy of activity centres, and devolves much decision-making to the local level or on a case-by-case basis.
- 2002 *Melbourne 2030* seeks to increasingly concentrate major change in strategic redevelopment sites such as activity centres and underdeveloped land and to shift away from growth on the fringe of the city. Prevent urban expansion into surrounding rural land, to support demand for well-located apartment lifestyles around activity centres and an expanded and more attractive public transport system.

Appendix 2

Victorian Municipal Grants

Source: Victorian Grants Commission Annual Report

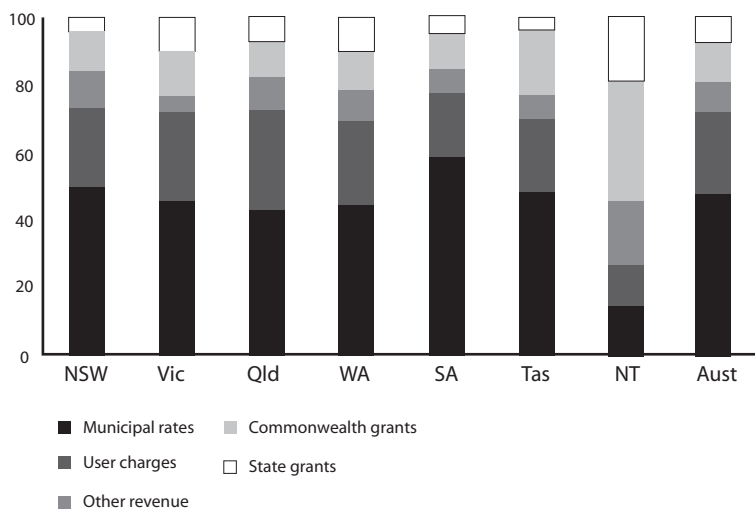
	Estimated Resident Population June 2004	General Purpose Grants 2005/2006		Local Road Lengths June 2004 (kms)	Local Roads Grants 2005/2006	
		Amount (\$)	Per Capita (\$/head)		Amount (\$)	Per Kilometre (\$/km)
Alpine S	13,168	1,816,910	138.0	781	807,963	1,034.5
Ararat RC	11,539	2,163,116	187.5	2,386	1,598,232	669.8
Ballarat C	87,148	6,498,947	74.6	1,259	1,386,781	1,101.5
Banyule C	117,323	3,668,939	31.3	557	708,271	1,271.6
Bass Coast S	28,512	2,772,015	97.2	1,044	981,400	940.0
Baw Baw S	37,935	3,868,259	102.0	1,758	1,953,412	1,111.2
Bayside C	89,232	1,491,050	16.7	353	364,531	1,032.7
Benalla RC	14,067	1,685,020	119.8	1,400	1,042,610	744.7
Boroondara C	158,290	2,644,996	16.7	572	608,290	1,063.4
Brimbank C	174,426	8,562,761	49.1	807	1,073,663	1,330.4
Buloke S	7,058	2,032,069	287.9	5,168	1,511,348	292.4
Campaspe S	37,193	4,673,308	125.7	4,093	2,912,250	711.5
Cardinia S	54,543	4,287,230	78.6	1,421	1,591,380	1,119.9
Casey C	210,389	10,513,221	50.0	1,205	1,408,843	1,169.2
Central Goldfields S	12,964	1,786,765	137.8	1,321	890,835	674.4
Colac-Otway S	21,495	2,445,683	113.8	1,668	1,771,290	1,061.9
Corangamite S	17,327	2,485,810	143.5	2,662	2,278,538	855.9
Darebin C	127,521	4,735,558	37.1	499	647,675	1,297.9
Docklands Authority	3,000	50,130	16.7	6	11,113	1,852.2
East Gippsland S	40,826	6,799,942	166.6	3,299	3,733,192	1,131.6
Frankston C	118,951	6,154,654	51.7	651	808,387	1,241.8
Gannawarra S	11,837	1,990,158	168.1	2,458	1,314,370	534.7
Glen Eira C	122,901	2,053,653	16.7	426	416,214	977.0
Glenelg S	20,220	2,730,979	135.1	2,665	2,324,628	872.3
Golden Plains S	16,319	2,101,377	128.8	1,819	1,420,056	780.7
Greater Bendigo C	94,614	8,277,621	87.5	2,902	2,109,304	726.8
Greater Dandenong C	127,230	6,359,497	50.0	594	950,311	1,599.9
Greater Geelong C	202,615	12,772,415	63.0	1,991	2,218,748	1,114.4
Greater Shepparton C	60,025	5,356,814	89.2	2,444	2,074,324	848.7

	Estimated Resident Population June 2004	General Purpose Grants 2005/2006		Local Road Lengths June 2004 (kms)	Local Roads Grants 2005/2006	
		Amount (\$)	Per Capita (\$/head)		Amount (\$)	Per Kilometre (\$/km)
Hepburn S	14,828	1,913,388	129.0	1,296	968,461	747.3
Hindmarsh S	6,407	1,702,480	265.7	3,254	1,156,743	355.5
Hobsons Bay C	83,199	2,694,097	32.4	425	493,640	1,161.5
Horsham RC	18,901	2,303,362	121.9	2,894	1,427,571	493.3
Hume C	148,195	6,182,309	41.7	916	1,219,288	1,331.1
Indigo S	15,091	1,852,433	122.8	1,839	1,150,612	625.7
Kingston C	136,684	2,451,648	17.9	609	806,608	1,324.5
Knox C	150,044	5,694,090	37.9	723	922,681	1,276.2
Latrobe C	70,315	6,291,651	89.5	1,429	1,683,297	1,178.0
Loddon S	8,407	2,685,126	319.4	4,732	2,376,545	502.2
Macedon Ranges S	40,004	3,223,051	80.6	1,467	1,403,468	956.7
Manningham C	113,920	1,903,582	16.7	588	581,541	989.0
Mansfield S	6,997	1,271,537	181.7	807	713,575	884.2
Maribyrnong C	62,054	2,292,942	37.0	271	334,840	1,235.6
Maroondah C	100,943	3,659,553	36.3	483	560,976	1,161.4
Melbourne C	58,670	980,365	16.7	188	461,345	2,454.0
Melton S	71,350	5,149,860	72.2	711	805,674	1,133.2
Mildura RC	51,263	5,721,255	111.6	5,061	2,555,511	504.9
Mitchell S	31,574	3,162,926	100.2	1,328	1,187,224	894.0
Moira S	27,464	3,720,697	135.5	3,511	2,349,147	669.1
Monash C	161,544	3,447,250	21.3	717	786,718	1,097.2
Moonee Valley C	109,165	2,444,922	22.4	422	583,159	1,381.9
Moorabool S	26,138	2,611,164	99.9	1,432	1,308,385	913.7
Moreland C	135,843	5,229,158	38.5	516	632,799	1,226.4
Mornington Peninsula S	138,773	4,296,695	31.0	1,664	1,709,688	1,027.5
Mount Alexander S	17,242	1,866,579	108.3	1,290	1,040,132	806.3
Moyne S	15,851	2,387,333	150.6	3,471	2,727,840	785.9
Murrindindi S	13,908	1,822,431	131.0	1,199	1,225,461	1,022.1
Nillumbik S	60,623	2,015,846	33.3	790	855,897	1,083.4
Northern Grampians S	12,749	2,495,276	195.7	3,412	1,816,162	532.3
Port Phillip C	82,857	1,384,525	16.7	211	284,427	1,348.0
Pyrenees S	6,532	1,811,154	277.3	2,032	1,504,102	740.2
Queenscliffe B	3,212	145,935	45.4	44	40,547	921.5
South Gippsland S	26,888	3,375,801	125.6	2,079	2,364,036	1,137.1
Southern Grampians S	16,902	2,749,953	162.7	3,166	2,205,337	696.6
Stonnington C	90,903	1,518,972	16.7	257	291,754	1,135.2
Strathbogie S	9,616	1,817,412	189.0	2,176	1,458,089	670.1
Surf Coast S	22,471	1,457,244	64.8	1,011	921,153	911.1
Swan Hill RC	21,461	2,760,836	128.6	3,143	1,234,574	392.8
Towong S	6,204	1,536,878	247.7	1,258	1,022,004	812.4
Wangaratta RC	26,641	2,842,416	106.7	2,036	1,552,692	762.6
Warrnambool C	30,708	2,184,984	71.2	287	452,390	1,576.3
Wellington S	41,450	5,115,884	123.4	3,336	3,383,760	1,014.3
West Wimmera S	4,741	1,829,335	385.9	2,730	1,687,443	618.1
Whitehorse C	144,935	3,935,169	27.2	600	606,670	1,011.1
Whittlesea C	126,297	6,122,082	48.5	756	953,448	1,261.2
Wodonga RC	34,831	2,804,570	80.5	429	603,284	1,406.3
Wyndham C	107,868	6,368,879	59.0	799	902,404	1,129.4
Yarra C	69,749	1,165,493	16.7	215	297,564	1,384.0
Yarra Ranges S	143,228	7,845,089	54.8	1,770	2,488,162	1,405.7
Yarriambiack S	8,014	1,930,680	240.9	4,797	1,432,287	298.6
Total	4,972,322	276,955,194	55.7	128,786	102,449,074	795.5

Appendix 3

Local government revenue

Table A:
Local government revenue sources, 1997-98



Note: Figures for the Northern Territory include municipalities, community councils and association councils.

Source: ABS

Table B:
Local governments' cash flow statements, country-wide

	NSW	Vic	Qld	SA	WA	Tas	NST	ACT	Aust
Taxes received	2,387	2,099	1,516	676	800	190	54	..	7,721
Receipts from sales of goods and services	2,047	931	2,178	247	526	226	115	..	6,269
Grants and subsidies received	779	558	690	213	268	99	77	..	2,685
Other receipts	1,281	256	668	21	204	57	49	..	2,536
Total	6,494	3,844	5,052	1,156	1,798	572	295	..	19,211

Source: ABS

References

1. *National Times*, 28 February 1973. While Clem Jones was Lord Mayor of Brisbane, both Australia and Queensland saw their populations grow by one-third.
2. A recent opinion poll conducted by Eureka Research for the Residential Development Council (an arm of the Property Council of Australia) found that 66.5 per cent of respondents supported, and only 17.3 per cent opposed, stripping local councils of the power to pass development approvals. Anthony Klan, 'Majority want DAs taken from councils: survey', *The Australian*, 26 March 2006.
3. Chang'an, the capital of T'ang China, had a population of about 600,000 at its zenith in the seventh and eight centuries. Baghdad, the capital of the Abbasid Caliphate, had a population of 300–500,000 at its zenith in the ninth century. In the early sixteenth century, the Aztec capital Tenochtitlan, with a population of 60–130,000, was one of the largest cities in the world.
4. Manhattan has some 27,000 inhabitants per square kilometre and the next densest US city area, Chicago, has 19,000.
5. John Reader, *Cities*, 2005, page 123.
6. Robert Bruegmann, *Sprawl: a Compact History*, University of Chicago Press, 2005.
7. http://www.spectator.co.uk/article_archive.php?id=7081&issue=2005-12-17. In contrast to this, the UK Shadow Minister for Housing, Michael Gore, was a founder of Policy Exchange, an organisation that has campaigned strongly against planning restrictions.
8. Max Nathan and Chris Urwin, 'City people: city centre living in the UK', http://www.ippr.org/ecomms/files/city_people_execsum.pdf.
9. According to Mori and other research agencies, this accounts for some 95 per cent of respondents.
10. Queensland, *Smart Travel Choices for South East Queensland: A Transport Green Paper*, Brisbane: Queensland Transport, December 2005.
11. John Cox, 'Labor stops "common people" people from moving around', *The Australian Financial Review*, 20 June 2003.

12. See J. Gans, 'Road-use charge would force more to public transport', *The Age*, 8 March 2006.
13. Australian cities are little different from most US cities in this respect. Jose Gomez-Ibanez points out that US public transport fares cover only half the operating costs and make no contribution to capital costs. See Jose Gomez-Ibanez, 'Pricing' in Jose Gomez-Ibanez, , William Tye and Clifford Winston, *Essays in Transportation Economics and Policy: A Handbook in Honour of John Meyer*, Washington, DC, Brookings Institution, 1999, chapter 4, page 111.
14. Margo Huxley, "'This Suburb is of Value to the whole of Melbourne': Save our Suburbs and the Struggle Against Inappropriate Development', Institute for Social Research Working Paper No. 6, July 2002 at http://www.apo.org.au/linkboard/results.shtml?filename_num=15650. The paper nowhere mentions, or shows any awareness of, the land rationing which lies behind the policy conflicts it examines.
15. Clara H. Greed, *Introducing Town Planning*, Longmans, 1993, page 118.
16. *Ibid.*, page 64.
17. *Ibid.*, page 83.
18. *Ibid.*, page 84.
19. *Ibid.*, page 98.
20. *Ibid.*, pages 104–106.
21. *Ibid.*, page 100.
22. *Ibid.*, page 119. Public housing is a local government responsibility in the UK. Tenants found it difficult to move without losing their place in the waiting lists, which tended to 'trap' people, regardless of local job prospects. As public housing is a State government responsibility in Australia, people have been able to transfer around a much more economically varied territory. Public housing estates became a more dominant feature of the housing market in the UK than in Australia (South Australia excepted). While displaying *similar* characteristics, public housing in Australia (apart from indigenous housing) has generally not reached the UK levels of social dysfunction and nowhere near the level of social dysfunction, so dramatically displayed in 2005, of the public housing estates in France.
23. *Ibid.*, page 107.
24. *Ibid.*, page 107.
25. *Ibid.*, page 108.
26. *Ibid.*, page 110.
27. *Ibid.*, pages 112–113.
28. *Ibid.*, pages 111–112.

29. Far from an exclusively British phenomenon. An early report of the Brotherhood of St Laurence in Melbourne found that the Fitzroy clearances and Housing Commission high rise in Brunswick St had also resulted in a net loss of housing.
30. Creed, *op. cit.*, page 115.
31. *Ibid.*, page 109.
32. *Ibid.*, page 127.
33. *Ibid.*, pages 127–132.
34. *Ibid.*, pages 134 ff.
35. *Ibid.*, page 135.
36. *Ibid.*, page 136.
37. Dean Baker, *The Housing Bubble Fact Sheet*, CEPR Issue Brief July 2005 at http://www.cepr.net/publications/housing_fact_2005_07.pdf; and Dean Baker & David Rosnick, *Will A Bursting Bubble Trouble Burnake?: Evidence for a Housing Bubble*, CEPR November 2005 at http://www.cepr.net/publications/housing_bubble_2005_11.pdf.
38. Peter Harrison, 'City Planning' in Peter Scott (ed.), *Australian Cities and Public Policy*, Georgian House, Melbourne, 1978, pages 141–173, page 142.
39. *Ibid.*, pages 142, 155. Newcastle also saw an amalgamation of local councils into a large metropolitan council.
40. *Ibid.*, pages 142 ff.
41. *Ibid.*, pages 144 ff.
42. http://www.lawlink.nsw.gov.au/lawlink/lec/ll_lect.nsf/pages/LEC_jurisdictionfull.
43. Phil McManus, *Vortex Cities to Sustainable Cities: Australia's Urban Challenge*, University of New South Wales Press, 2005, pages 43–44.
44. *Ibid.*, pages 46–47.
45. *Ibid.*, pages 55–56.
46. Harrison, *op. cit.*, pages 149 ff.
47. See [http://www.nre.vic.gov.au/CA256F310024B628/0/17675359D58FA4C1CA25713A0012D902/\\$File/Probity+and+Procuring+Valuations.pdf](http://www.nre.vic.gov.au/CA256F310024B628/0/17675359D58FA4C1CA25713A0012D902/$File/Probity+and+Procuring+Valuations.pdf). Also <http://www.aharkness.org/dbase/upl/Chapter%203%20-%20final.pdf> and <http://www.aic.gov.au/publications/tandi/ti143.pdf>.
48. McManus, *op. cit.*, page 44.
49. *Ibid.*, pages 47, 57.
50. *Ibid.*, page 57.
51. http://www.dse.vic.gov.au/melbourne2030online/content/policies_initiatives/02d_policy24.html
52. Harrison, *op. cit.*, pages 153 ff.

53. McManus, *op. cit.*, pages 44, 48.
54. *Ibid.*, pages 59–60.
55. Harrison, *op. cit.*, pages 155 ff.
56. McManus, *op. cit.*, pages 44, 47–48.
57. *Ibid.*, pages 58–59.
58. Harrison, *op. cit.*, pages 158 ff.
59. McManus, *op. cit.*, pages 45, 48–49, 60–61.
60. Harrison, *op. cit.*, pages 161–2.
61. Max Neutze, 'Urban Land' in Peter Scott (ed.), *Australian Cities and Public Policy*, Georgian House, Melbourne, 1978, pages 72–87, page 72.
62. *Ibid.*, pages 73–74.
63. *Ibid.*, page 76.
64. *Ibid.*, page 73.
65. *Ibid.*, page 74.
66. *Ibid.*, pages 74–75.
67. *Ibid.*, pages 74–75.
68. *Ibid.*, page 77.
69. M. Baker, *Shopping center industry benchmarks*, ICSC, 2004.
70. Perhaps stemming from concerns about citizens' excessive consumption of alcohol, many governments also act similarly in licensing liquor outlets. Applicants need to demonstrate a need for a new outlet and existing facilities will invariably raise objections claiming that consumers' needs are already adequately catered for.
71. Greed, *op. cit.*, page 5.
72. Interview on *Counterpoint* on Radio National, Monday 30 January 2006 at <http://www.abc.net.au/rn/talks/counterpoint/stories/s1557886.htm>.
73. Hugh Stretton, 'Housing Policy' in Peter Scott (ed.), *Australian Cities and Public Policy*, Georgian House, Melbourne, 1978, pages 105, 114.
74. *Ibid.*, page 109.
75. *Ibid.*, pages 105–122, page 114.
76. *Ibid.*, page 115. This was probably due to a drop in provision for the lower end of the new home market.
77. *Ibid.*, page 110.
78. *Ibid.*, pages 117–118.
79. William A Fischel, 'An economic history of zoning and a cure for its exclusory effects', draft of 18 December 2001 at <http://www.dartmouth.edu/~wfischel/Papers/02-03.pdf>.
80. Homepage at <http://www.saveoursuburbs.org.au/index.htm>.
81. Policies are at http://www.saveoursuburbs.org.au/files/SOS_Policies_199807.pdf.

82. SOS, 'Response to Melbourne 2030', 14 February 2003, (page 4) at <http://www.saveoursuburbs.org.au/files/SOS-M2030-RespFinal14.2.03.pdf>.
83. At <http://home.vicnet.net.au/~tcpa/>.
84. SOS, 'Response to DAF (Development Assessment Forum)', 30 June 2004, (page 4) at <http://www.saveoursuburbs.org.au/files/SOS-DAFsubmFinal30.6.04.pdf>.
85. SOS, 'Response to "Better Decisions Faster"', August 2003, (page 1) at http://www.saveoursuburbs.org.au/files/BDF-SOS_final_subm.pdf.
86. SOS, 'Response to DAF (Development Assessment Forum)', 30 June 2004, (page 2).
87. <http://www.nytimes.com/2006/03/05/magazine/glaeser.1.html?pagewanted=1&ei=5090&en=58a9dac06ddaf7af&ex=1299214800&partner=rssuserland&emc=rss>.
88. SOS, 'Response to Melbourne 2030', 14 February 2003, (page 6); SOS, 'Response to DAF (Development Assessment Forum)', 30 June 2004, (page 4); SOS, 'Response to "Better Decisions Faster"', August 2003, (pages 2 ff).
89. J. Fedako, Zoning is Theft, <http://www.mises.org/story/2077>.
90. See William A Fischel, 'An Economic History of Zoning and a Cure for Its Exclusionary Effects', draft of 18 December 2001 available at <http://www.dartmouth.edu/~wfischel/Papers/02-03.pdf>.
91. Of course, if the population wasn't expanding, land rationing would be largely redundant.
92. Since rent is a service from a durable asset—and since people can move between the rental and home-purchasing markets—in the short term, rents and house prices can move in opposite directions.
93. The way in which governments, in order to maximise benefits delivered to specific constituencies, seek to entrench their decisions against reversal by their successors (creating high levels of policy inertia) is powerfully analysed by Murray J. Horn, then Secretary of the New Zealand Treasury, in *The Political Economy of Public Administration: Institutional Choice in the Public Sector*, Cambridge University Press, 1995.
94. At <http://www.demographia.com/dhi-rank200502.htm>.
95. Quoted in Huxley, *op. cit.*, page 18.
96. John Reader, *Cities* 2005, pages 278–280.
97. Bruegmann *op. cit.*, page 178.
98. In Australia, there is considerable scope to vary disbursements between different local authorities. Thus, in Victoria, each municipality is only guaranteed one-third of the per capita level it would be entitled

to on an unvarying level of allocation and for 2004–5, according to the State's Grants commission, 'Bayside, Boroondara, Glen Eira, Melbourne, Manningham, Port Phillip, Stonnington and Yarra, together with the Docklands Authority—would have been below the \$16.71 per capita level. The minimum grant principle has resulted in the general purpose grants to these councils being increased to that level.' General purpose grants for 2005–6 range from \$16.71 per head to \$319. See Appendix 2 and [http://www.doi.vic.gov.au/doi/doielect.nsf/2a6bd98dee287482ca256915001cff0c/111fccc896503e8fca2570c3001a712b/\\$FILE/2004-05%20VGC%20Annual%20Report.pdf](http://www.doi.vic.gov.au/doi/doielect.nsf/2a6bd98dee287482ca256915001cff0c/111fccc896503e8fca2570c3001a712b/$FILE/2004-05%20VGC%20Annual%20Report.pdf).

The Commonwealth Grants Commission requires that every local authority receives at least 30 per cent of what it would receive if the grants were distributed solely according to population. In NSW, the per capita minimum in 2005–6 is \$16.68 and 20 councils received only this.

99. See, for instance, <http://www.calicocat.com/2004/08/blue-statered-state-and-high-cost-of.html>
100. http://www.isteve.com/2005_Dirt_Gap.htm. Sailer also argues that development and other controls are used by residents to discourage foreign-born newcomers. The evidence is rather that the 'incumbents club' is advantaged if a significant proportion of potential housing-market entrants—such as those from non-English speaking backgrounds—are less well-integrated into local political systems, particularly if the local political culture is relatively sympathetic to the restriction of property rights. An effect that does not apply in Texas (see below), presumably because Spanish-speakers are such a large proportion of the voter base (48 per cent of residents of the major Texan metropolises speak a language other than English at home compared with the US metropolitan average of 19 per cent) and the local political culture does not encourage restriction of property rights.
101. Jennifer Roback Morse, *Marriage in the City*, at <http://www.townhall.com/opinion/columns/JenniferRobackMorse/2006/03/20/190454.html>.
102. <http://post.economics.harvard.edu/faculty/glaeser/papers/Manhattan.pdf>.
103. Edward L. Glaeser & Joseph Gyuorko, *Urban Decline and Durable Housing*. Available at http://post.economics.harvard.edu/faculty/glaeser/papers/Durable_Housing.pdf.
104. Jennifer Coleman, 'Get a Job and a House', *Sacramento Union*, 13 January 2006.
105. <http://www.demographia.com/>

106. <http://www.census.gov/>
107. <http://www.census.gov/acs/www/>
108. *First Home Owners Inquiry Report*, March 2004, page 130 at <http://www.pc.gov.au/inquiry/housing/finalreport/housing.pdf>.
109. See <http://www.demographia.com/dhi-rank200502.htm>.
110. <http://www.pc.gov.au/inquiry/housing/finalreport/index.html>
111. <http://www.ipa.org.au/files/57-3-pricesandplanning.pdf>.
112. *Residential Development Cost Benchmarking Study* prepared for the Residential Development Council of the Property Council of Australia, March 2006.
113. Some of these taxes, the tax on mortgages for example, are in the process of being removed as part of the Commonwealth/State agreements on the GST.
114. <http://www.pc.gov.au/inquiry/housing/finalreport/index.html>, page 176.
115. http://www.hbf.co.uk/fileadmin/documents/downloads/YouGov_Final_Results_18_May_2004_01.xls Survey size: 2070.
116. At http://factfinder.census.gov/servlet/GRTSelectServlet?ds_name=ACS_2004_EST_G00_&lang=en&ts=156712951562.
117. ABS, 4130.0.55.001—*Housing Occupancy and Costs, Australia, 2002–03*, at <http://www.abs.gov.au/ausstats/abs@.nsf/Latestproducts/4130.0.55.001Media%20Release12002-03?opendocument&tabname=Summary&prodno=4130.0.55.001&issue=2002-03&num=&view=>.
118. <http://www.pm.gov.au/news/speeches/speech1681.html>
119. These same dangers are receiving attention in the UK with the publication of material about a shopping centre developer being awarded approval to build a 500 million pound centre in south London after secretly providing the Labour Party some 3 million pounds. See <http://www.telegraph.co.uk/news/main.jhtml?xml=/news/2006/03/26/nloans26.xml&csSheet=/portal/2006/03/26/ixportaltop.html>.
120. Taken from http://www.dse.vic.gov.au/melbourne2030online/content/introduction/03_basis.html#history.

