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AN ARISTOTELEAN INTERPRETATION OF HOUSING AFFORDABILITY

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ABSTRACT

Housing has become progressively less affordable over the last half century in Australia. Attempts at making housing more affordable have been ineffective in reversing the trend. This paper argues that housing unaffordability is actually an artefact of philosophical assumptions built into contemporary economics that have become so commonly accepted as to become invisible. The metaphysics of Aristotle is representative of philosophical approaches that lead to different economic outcomes where housing would be durably affordable.

Using Aristotle's understanding of the common good, society, private property and natural price, it is argued that private profit-taking in unimproved land is improper. Likewise, excessive charges for human products, such as building improvements is immoral. Combined, this would suggest that if house pricing were based on Aristotelian principles, the building industry could still flourish as a vibrant private enterprise, but housing would remain affordable. Comparisons to other cultures suggest the implicit presence of Aristotelean principles in societies where housing is durably affordable.

Overall, the paper argues that a different philosophical perspective will be needed to durably address the problem of Australian housing affordability. It resists the temptation to argue a specific policy solution since the paper's objective is primarily methodological. Consequently, its purpose is to provide a platform for further investigation.

Keywords:

Housing affordability, realist philosophy, Aristotle, common good

Introduction

The 2022 Australian election was fought between two major parties that each included as part of their platforms policies aimed at addressing the problem of poor housing affordability. This paper reviews the history of the problem in terms of household economics, trends in housing finance, and the history of public policy directed towards its solution. It finds that the problem is historically relatively recent, but that all the policy initiatives directed towards its solution have been uniformly ineffective, and in many cases counterproductive.

It then considers the problem in terms of deeper philosophical matters. The limitations of modern philosophy, and the cultural values it fosters are contrasted to the realism of Aristotle. In particular, the notion of the common good is considered, to expose the way that the problem is particular to our underlying cultural values and point in history. The purpose of the paper overall is not to propose a particular policy solution, but rather to argue for a more adequate intellectual framework, capable of considering realistic and durable solutions, better suited to the realities of human society and implicit within the many cultures within which the problem of housing affordability would be an impossibility.

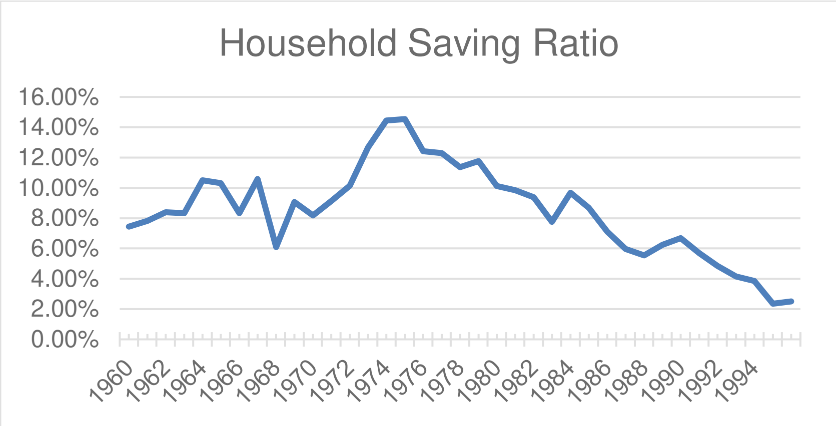
Development of the Housing Affordability Problem

Elizabeth Warren (2004) identified a dysfunctional trend in household budgets that had made bankruptcy more common than divorce in the United States of America (USA). Her analysis revealed unexpected trends in the costs of living. All but three common household costs had decreased in real terms in the preceding four decades. Major items such as food, clothing, transport, electronics and household furnishing all fell significantly, contrary to popular perception.

The three costs to rise were health care, childcare and housing. Of these, housing costs were the most prominent, and was the dominant reason that the increase in household income that followed from the transition to dual income households had been more than negated, leading to the domestic bankruptcy crisis.

In Australia a similar trend had become apparent. Garrick Small and Peter Waxman (2002) had found a similar mechanism at work that saw housing initially become more affordable during the 1970s for dual income households, but that advantage was progressively absorbed into strong trends in price growth that negated the advantage of households moving to dual incomes. Subsequent investigation extended this work to explain more recent forces at work on house prices (Small, 2006, 2008, 2009). The initial household affluence was evident in the household saving ratio that vacillated between 6%-11% through the 1960s, but peaked at over 14% in the mid 1970s as double incomes were becoming common. However, inflation also took hold from the early 1970s which eventually negated the advantage (see figure 1)

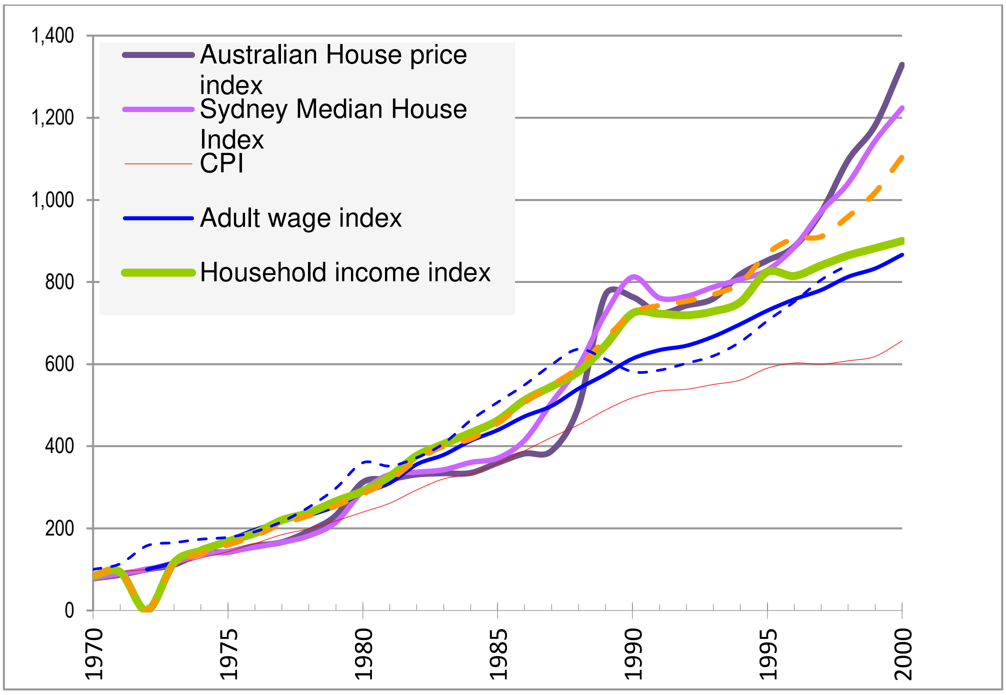
Figure 1: Household Saving Ratios 1960-1996



Source: RBA

This transition was largely completed by the early 1990s by which time dual income families were devoting a comparable proportion of their income to housing costs compared to what the previous generation had done in the late 1960s (see figure 2).

Figure 2: House prices, Earnings and Inflation (1970-2000)

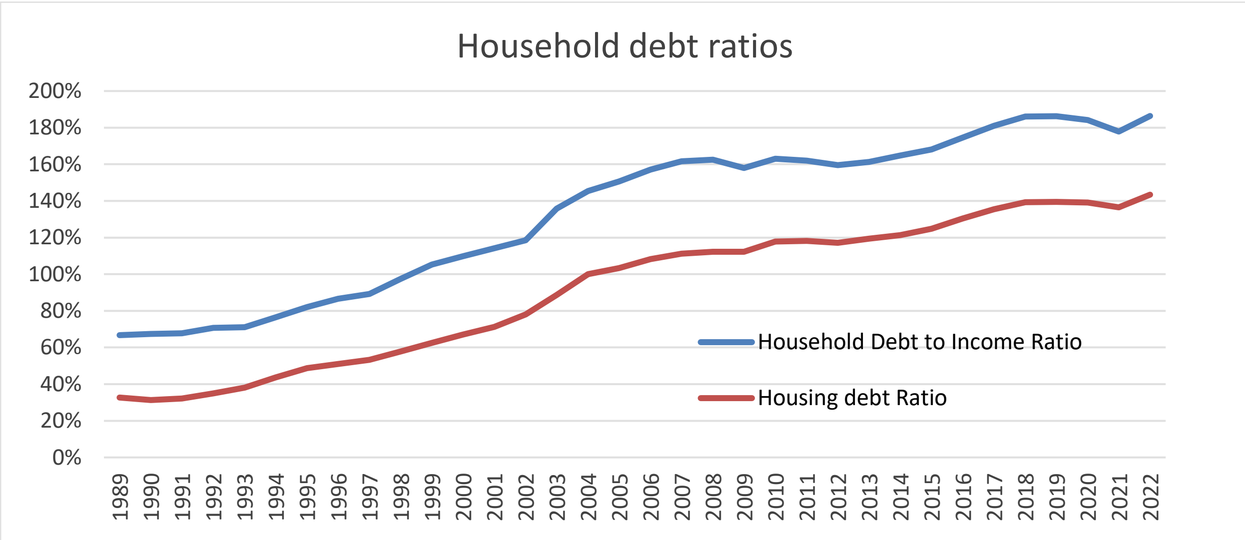


Source: ABS and Abelson & Chung ((Abelson, Joyeux, Milunovich, & Chung, 2005)) as presented in (Small & Waxman, 2002)

Figure 2 illustrates how, despite adult earnings moving ahead of inflation, house prices far exceed both from the late 1980s. This means that the dominant long-term trend has been for house prices to have become relatively more expensive. Furthermore, the trend in prices did not stop as labour force participation stabilised and despite losing parity with household incomes, house prices continued to grow out of step with general price rises. The Reserve Bank of Australia (RBA) noted that this second wave of strong house price growth was connected with increasing household debt ratios, most of which was being applied to real estate (RBA, 2003). Figure 3 illustrates the way the falling saving ratios were complemented by a pattern of increasing household indebtedness. Most of the increase in household debt has been associated with housing debt.

Household debt, which had previously been stable, not exceeding 70% of household income before 1992, began a pattern of growth that only appears to have stabilised in the last five years. In 2003 the RBA warned that household debt ratios above 130% threatened to collapse the economy, which may have been a contributing factor in the Global Financial Crisis in the mid-2000s. However, the Australian economy is now labouring under a level of household indebtedness of around 180% or almost three times the long-term average to 1990.

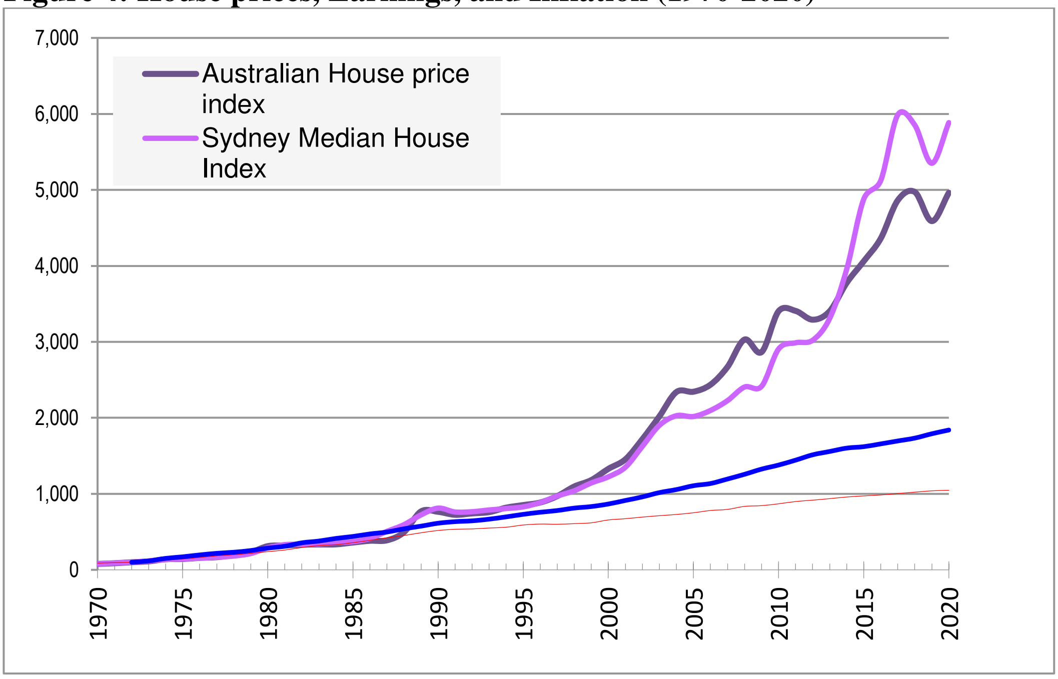
Figure 3: Household Debt Ratios



Source: RBA Statistics

Since house price growth was fuelled by a growing appetite for indebtedness, and not increased household incomes, housing affordability necessarily developed a downward trend, eventually giving rise to recognition of what was emerging as the now well-known housing affordability problem. This is evident in the continued trend for Australian house prices to leave further behind any parity to earnings, where the gap can only be explained by the increasing debt ratios. This is evident in figure 4

Figure 4: House prices, Earnings, and Inflation (1970-2020)



Source: ABS and (Small, 2009)

It may be noticed that in the past, stabilisation of house price growth was associated with general economic contraction, such as in the recession of 1990 and the Global Financial Crisis around 2005. With the apparent stabilisation of household debt ratios in the 180% region in the four years from 2017, house prices also stabilised, though the uptick in the last two years on the back of lower interest rates and post-covid euphoria has had an impact. Overall, however, these mild corrections to house prices have not unravelled the underlying trends towards greater systematic indebtedness and falling housing affordability.

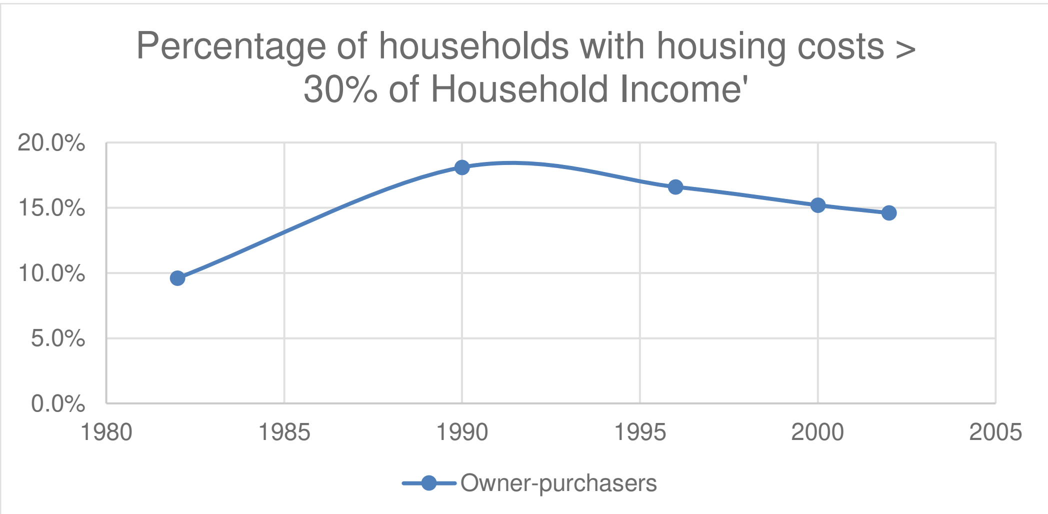
Both factors constitute stresses on households. Curiously, popular attention is focused on housing affordability stress, and not on debt stress, though the two are intimately connected. There may be several reasons for this selective attention, including the fundamental causal fact that it is the decision to buy property as higher prices that necessitates (causes) higher debt ratios, but also other influences, such as the very visible nature of real estate prices in contrast to the more occult nature of individual debt levels are also at play. People may be proud to relate how the value of their houses have risen, but less inclined to publish their quasi-insolvency as the means to afford it. Warren noted this psychological bias evident in the way Americans were comfortable to disclose their divorce, but highly embarrassed to display their bankruptcy.

In addition, housing is a necessary part of people's lives. This makes housing stress an inescapable consideration for those who manage households, with the borrowing decisions merely part of the strategy for dealing with it. The threshold of housing stress in Australia has been generally accepted as:

> **housing stress:** Measure of housing affordability, where the proportion of household income spent on basic housing costs (rent or mortgage) is calculated. Low-income households spending 30% or more of their income on housing are considered to be in housing stress. (AIHW, 2021)

Gavin Wood and Rachel Ong (2009) noted that the proportion of owner purchasers who were under housing stress had increased from 9.6% to 14.6% in the twenty years from 1982 (see figure 5)

Figure 5: Housing stress 1982-2002



Source: Wood & Ong (2009)

Policy response to address falling housing affordability

There is a long history of support programmes aimed at facilitating occupier ownership of housing. At beginning of the period in question, say the 1960s, first home buyers received a simple Federal Government incentive payment that effectively boosted their deposit. Some form of first home buyers grant (FBGH) has been available for most of the subsequent period with the current national scheme dating from 2000 (Pawson, Martin, Lawson, Whelan, & Aminpour, 2022). The FHBG introduced in 2000 was said to be compensation for the introduction of the Goods and Services Tax (GST), and the resulting inflationary impact on house prices (Productivity Commission 2004, in Pawson et al., 2022)).

In later response to the Financial Crisis, the FHBG was used as a means of economic stimulus, with the First Home Owner Boost temporarily doubling the grant for first home buyers of existing dwellings, and tripling it for the first home buyers of new properties (Milligan and Pinnegar 2010, in Pawson et al. 2022). As the affordability problem became more evident and discussed, additional channels of assistance were developed these include demand and supply side homebuyer assistance, as presented in Table 1: Forms of first homebuyer assistance: a typology.

Table 1: Forms of first homebuyer assistance: a typology

Demand/supply	Assistance type	Example schemes/programs
Demand-side	Financial regulation	• Rules governing mortgage lending
	Expenditure programs	• First home buyer grant schemes
	Tax concessions	• Stamp duty concessions • Tax privilege savings schemes
	Institutional innovations and financial	• Loan assistance schemes Mortgage guarantees • Equity investment and similar products
Supply-side	Use of publicly owned assets	• Public housing sale to tenants Land rent schemes
	Government-funded housing development	• State-resourced development of shared ownership homes by nongovernment entities
	Land or property occupancy regulation	• Inclusion of 'affordably priced' homes in developments required via land-use planning powers • Restrictions on occupancy of privately owned homes • Use of publicly owned assets: land development

(Pawson, Martin, Lawson, Whelan & Aminpour 2022, p.3)

Australian Government funding for the FHBG and the Boost ceased in 2010 Pawson et al. (2022). Since then, states and territories have continued to operate FHBG related programmes on their own terms and at their own expense. At the time of writing, September 2022, the Australian, state and territory governments published the following financial help and concessions for homes and housing, Table 2: Current financial help and concessions for homes and housing.

Table 2: Current financial help and concessions for homes and housing

Region	Government/authority	Scheme/program
Australia	Australian Government	• First Home Guarantee • Family Home Guarantee
State/territory	Queensland	• Queensland First Home Owners' Grant • Regional home building boost grant • Queensland housing finance loan • Mortgage Relief Loan • Transfer duty concessions and exemptions
	New South Wales	• First Home Owner's Grant (New Homes) • First Home Buyer Assistance Scheme • Home building compensation cover
	Victoria	• First Home Owner Grant • First-home buyer duty exemption or concession • First-home buyer duty reduction • Principal place of residence duty concession
	Western Australia	• First home buyers grant • REBA/HBAA home buyers assistance • Stamp duty concessions
	South Australia	• First Home Owner Grant
	Tasmania	• First Home Owner Grant • First home buyers of established homes duty concession
	Northern Territory	• First home owner grant (FHOG) • Home renovation grant • HomeBuild Access
	Australian Capital Territory	• Home Buyer Concession Scheme

(Australian, state and territory websites)

In addition to financial help and concessions for homes, social and community housing initiatives should be considered as part of the response to the affordability problem since it provides housing to those in the community who would otherwise be unable to pay enough to put a roof over their heads. These have also been through a series of changes in delivery over the period being considered. The Australian government's, National Rental Affordability Scheme (NRAS) was one such measure which commenced in 2008. The Scheme seeks to address the shortage of affordable rental housing by offering annual financial incentives for up to ten years, to rent dwellings for eligible NRAS tenants at 80 per cent or less of the market value rent (DSS, 2022a). As of June 2022, there were 27,012 active NRAS allocations across Australia (DSS, 2022b).

Samuel Swanzy-Impraim, Janet Ge and Vince Mangioni (2021) found rent control regimes were not popular amongst landlords and investors. Low profitability, non-progressive rent control policies, unclear target group for rented projects, poor landlord-tenant relations, inadequate property management and unreliable property market information were perceived as the primary barriers to institutional investment in rental housing.

Recently, in the last Federal election, both major parties included policies aimed at addressing the housing affordability problem. The succeeding Labor party promised a suite of a suite of policies designed to improve housing affordability and ownership, as described in Table 3: Labor policies to improve housing affordability and ownership.

Table 3: Labor policies to improve housing affordability and ownership

Policy	Description
Regional First Home Buyer Support Scheme	Provides 10,000 first home buyers a government guarantee of up to 15 per cent for eligible first home buyers, so locals with a 5 per cent deposit can avoid paying mortgage insurance.
Restoring Funding for Homelands and Improving Remote Housing	Commit $100 million to start work immediately on urgent housing and essential infrastructure on Northern Territory homelands. Provide $200 million from the Housing Australia Future Fund for repair, maintenance and improvement of remote housing in Western Australia, South Australia, Queensland and the Northern Territory.
Housing Australia Future Fund	The Housing Australia Future Fund (HAFF) is to build 30,000 new social and affordable housing properties. The investment returns from the HAFF are to be directed to pay for social and affordable housing projects.
National Housing Supply and Affordability Council	establish a National Housing Supply and Affordability Council, to ensure the Commonwealth plays a leadership role in increasing housing supply and improving housing affordability. The Council will be advised by experts from a diverse range of relevant fields including finance, economics, urban development, residential construction, urban planning and social housing sectors.
Help to Buy program	Provides 10,000 eligible home buyers a minimum deposit of 2 per cent, with an equity contribution from the Federal Government of up to a maximum of 40 per cent of the purchase price of a new home and up to a maximum of 30 per

	cent of the purchase price for an existing home

(Labor Party, nd)

It is yet to be seen if the current government's proposals achieve what is needed.

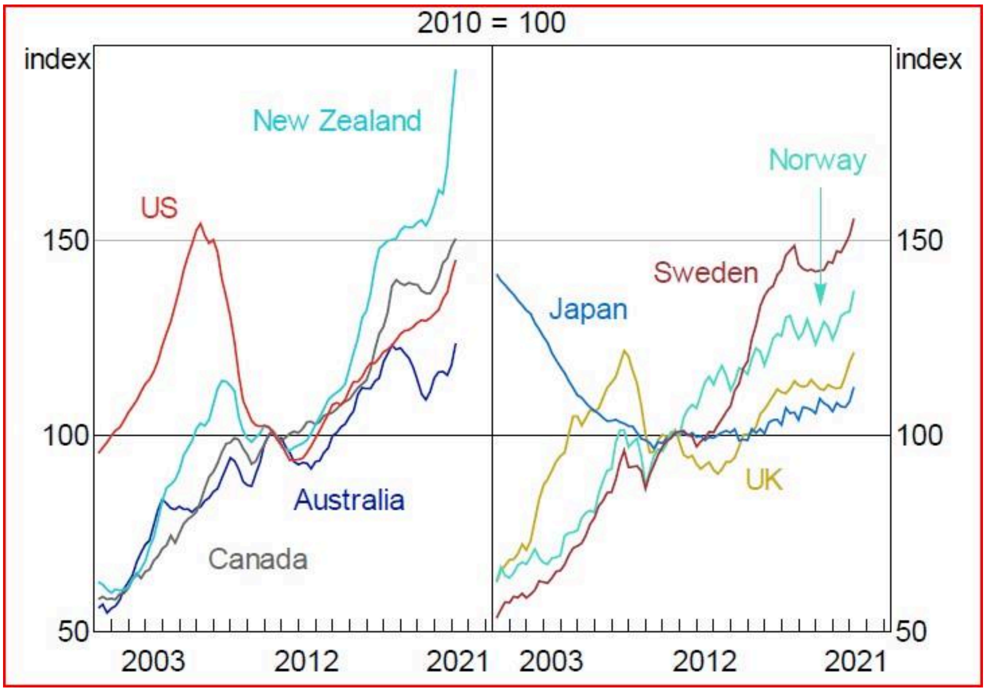
Contribution of housing finance to the affordability problem

There is extensive research on house price demonstrating macroeconomic variables that have been highly conducive to house price growth over time. These variables include income growth, unemployment rates, inflation (as Consumer Price Index, CPI, movement), and interest rates, which have been found to be key determinants of house prices. In the Australian context, Bourassa and Hendershott (1995) reported a positive association between Australian capital city real house prices and the real wage and the growth in population. Further, Tu (2000) found that Australian housing market are affected by the real weekly income, nominal mortgage rates, unemployment rates and housing construction activities. Abelson et al. (2005) report that Australian house prices are driven by the disposable income, Consumer Price Index, unemployment rates, mortgage rates, equity prices and housing stock, more specifically, positive relationships are found between house prices and Consumer Price Index and the disposable income while unemployment rate, mortgage rate, equity prices and housing stock are negatively associated with house prices.

Stubbs (2005) suggested the main factor in driving the housing prices in Australia was that property investors tended to be concerned primarily the interest rate. Luo et al. (2007) modelled the causality between Victorian housing price and macroeconomic sentiments, and the results show that the housing price is caused by mortgage rates, weekly income and unemployment rates. Karantonis and Ge (2007) investigated Sydney housing market, and their results show that housing prices in Sydney are driven by real household income, dwelling completions, speculative investment and real interest rates.

While these studies support the view that increasing housing market activity was prompted by the strong underlying performance of the economy, others also suggest a significant credit bubble could be an important factor contributing to increases in house prices. Especially in the aftermath of the GFC, the interrelationship between house price and mortgage credit has been one of the compelling issues to warrant researchers' attention. Financial deregulation and liberalisation of international funding markets over the past decades increased the availability of credit for housing, tapping into securitisation markets, and loans have become easier to access. Gustafsson et al. (2016) report evidence in Sweden where the real house prices doubled as a result of rises in home loans. McCarthy and McQuinn (2017) argued that "in accordance with the standard life-cycle hypothesis, younger households, in particular, appear to have availed of more liberal conditions by assuming increased amounts of mortgage credit over the period 2000–2007" (p.171). They connected this to massive growth in economy, easing credit standards, and access to the international whole markets (p.172). The Reserve Bank of Australia (RBA, 2021) has also located the pattern in Australia compared to a selection of countries demonstrating how the Australian experience parallels that of other developed countries.

Figure 5: International Real House Price Indexes



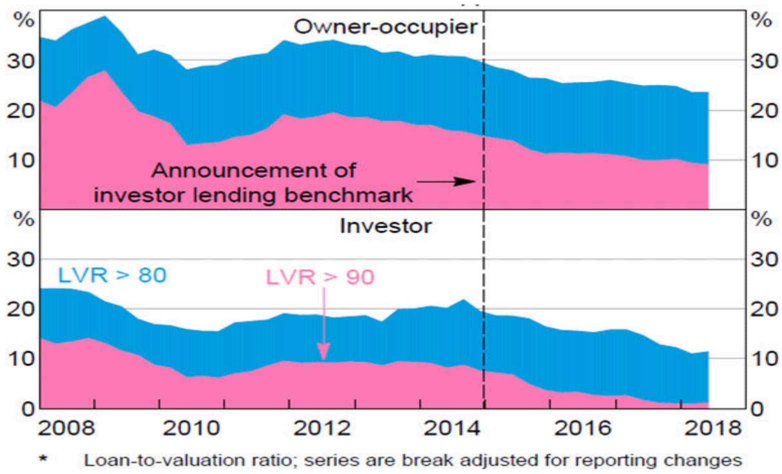
Source: RBA (2021)

In Australia, the RBA's identification of the rising levels of household indebtedness is significant. The attitudes of both borrowers and banks have changed markedly over the period from 1930 to the present. Following the Great Depression of 1929 and following, the Australian government applied strict control of the banking sector to limit the degree of lending and control interest rates (Homeloan Experts, 2022). During the 1960s LVRs were in the range 60-70% with debt servicing ability based only on the income of the principal income earner in a household.

These limits contained the debt funding to housing and therefore the finance driven demand pressure to inflate prices. Augmenting leverage ratios was difficult and tended to rely on second mortgages that were expensive and perceived as risky for all parties.

As double incomes became more common, banks responded by recognising household income for debt servicing computations, thereby multiplying potential access to debt. Later, LVR ratios were raised, especially if supported by mortgage insurance. Figure 5 shows the new housing loans were approved even for very high LVR ratios (greater than 90%) for both owner-occupier loans and investor loans, until APRA's 2014 announcement strengthening its supervision on high-risk lending. High LVR loan approvals were then gradually declining (RBA & APRA, 2018).

Figure 6: High LVR loan approvals (share of new housing loan approvals)



Sources: RBA (2018), Assessing the Effects of Housing Lending Policy Measures | Financial Stability Review – October 2018 | RBA

In some cases during the period when price growth had become expected, some lenders were prepared to offer various "slow start loans" where debt servicing payments were initially lowered to the point mortgage payments did not cover all the interest cost, leading to some of it capitalising into the principle on the expectation that the borrower's capacity to service the loan would increase in the years following purchase so that they could afford the eventual pattern of higher debt service costs.

Currently, the major providers of housing finance in Australia are known as the Authorised deposit-taking institutions (ADIs), comprising commercial banks, building societies and credit unions. The balance sheets of ADIs were transformed between the mid-1990s and the mid-2000s with a rapid growth in housing lending. Increases in households' incomes and wealth have increased repayment capacity for what they have borrowed, and the demand for property investment has risen sharply. Overall, the last twenty years has generally witnessed a lengthy period of low inflation, low interest rates and low unemployment which appears to have boosted the households' confidence in taking more debt, which further accelerated the demand for home loans.

On the supply side of housing finance, the intense competition in the housing lending industry has led to the creation of new financial products, at lower costs, and new home loans were introduced with less restricted lending requirements (RBA & APRA, 2007). Figure 6 shows the total domestic lending by ADIs was made up of a quarter of housing lending in 1990, and by 2007 the housing lending increased to almost half of the total domestic lending. While the mortgage default rates remain low by international standards, non-performing housing loans as a percentage of on-balance sheet assets have started trending up over time as Figure 7 shows (APRA, 2008).

Figure 7: ADIs lending by sector
(Percent of total domestic lending)

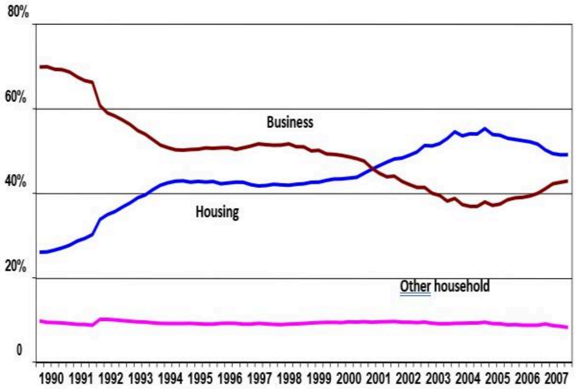
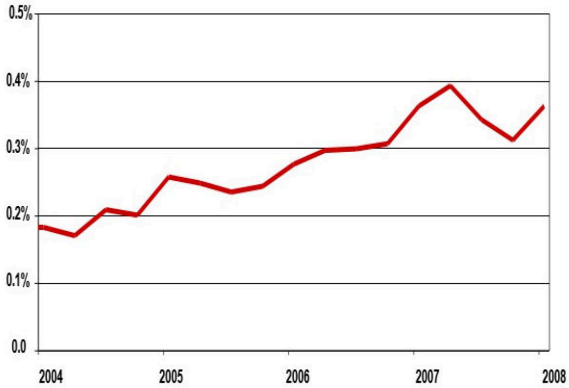


Figure 8: ADIs non-performing housing loans
(Percent of on-balance sheet assets)



Sources: APRA (2008), Submission to the House of Representatives Standing Committee on Economics.

To meet the community's demand for more home mortgages, housing lending practices have changed within the industry. The former Chairman of APRA John Laker addressed some of these changes. Prior to deregulation, households were required to demonstrate a track record of saving with a bank before a housing loan can be granted. However, the ADIs have moved away from traditional housing lending practices to rely on higher risk products such as the securitisation of housing loans; greater use of third parties to originate home loans, such as mortgage brokers; easing of credit standards; relaxation of debt serviceability criteria; and adoption of alternative property valuation methods (Laker, 2007).

Among them, higher LVR (Loan-to-valuation ratio) loans have made home ownership easy for many Australians, especially first-home buyers. The ADIs have used extensively lenders mortgage insurance (LMIs), a special category of insurance companies, to pass the risk of sub-prime loans. In the case of LVR loans, when ADIs increase loan-to-valuation ratios, this implies a higher proportion of loans to households with little or no deposit, while such a risk is almost all passed to mortgage insurers. ADIs have also introduced interest only loans in which no repayments of principal are required for the first ten to fifteen years. Interest only loans are riskier for the lenders, as the principal is not gradually paid down since only interest costs are paid in the initial stage. Similarly, self-employed households can access to so called low-*doc* loans, which accept self-verification of income sources, rather than the regular documentation such as payslips in the loan application process.

In the past, the lending industry adopted a rule of thumb for debt servicing capacity that specified that repayments should not exceed 30 percent of gross income. Nowadays ADIs make less use of the 30 percent threshold. Instead, a net income surplus approach is favoured by many home loan providers. The net income surplus is a measure of what householders have left over after paying tax, living expenses, and debts other than housing loans, such as credit card. The departure from the traditional rule to the new approach has allowed households to borrow more money. However, many home loan providers have used the new approach imprudently by overstating a household's borrowing capacity due to overestimating some of the income sources and underestimating living expenses.

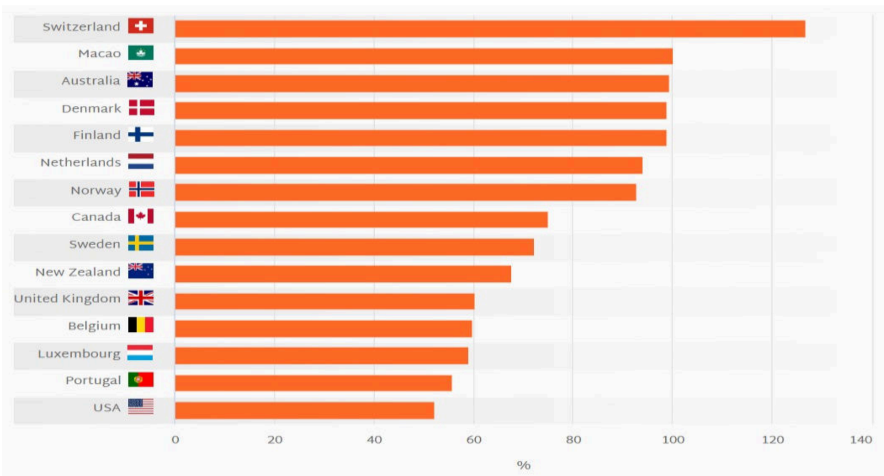
Traditionally, the property valuation methods were more rigorous with a full external and internal inspection of the property. While a joint survey by RBA and APRA shows one third of the lenders only used an external inspection for a sample of 100 lenders in December 2004, suggesting the valuations of property were conducted widely off site by using either sale contract or some sort of electronic documents (RBA & APRA, 2007). One type of new entrant to the housing lending industry was mortgage brokers, who act as intermediaries between lenders and borrowers, and help households compare the various home loan products and choose the best value one. It has made the borrowers' life easier in access home loans at competitive costs. While the larger Australian banks have by large retained their housing loans on balance sheet, many regional banks and building societies have made extensive use of the mortgage-backed securitisation for funding. The mortgage-backed securitisation involves bundling individual home loans and selling them in financial markets, and they are classified as non-bank lenders who do not take deposits and hence are not regulated by APRA.

The Bank of International Settlements Committee (2006) highlighted a few common movements including higher LVR loans, reduction of lending standards, and a wider use of securitisation of housing loans. In many countries housing debt per capita and property prices had reached all-time highs, in particular, sub-prime mortgages had increased significantly through the process of securitisation of low quality loans into quasi-robust mortgage backed securities. The collapse of that approach became the Global Financial Crisis (GFC).

In the midst of that crisis, the Reserve Bank of Australia (2007, p.17) noted that the generally low credit standards had been in place since the mid-1990s resulting in a risk-taking stance by the ADIs (RBA, 2007). This trend was not limited to Australia, as similar patterns had been observed in many other countries.

The consequence of all these movements has been that housing has become unaffordable in many countries including Australia. Dependence on debt continued beyond the corrections of the GFC and remains as an attitude that continues to motivate the property market towards dysfunctionally high housing costs.

Figure 9: Mortgage loans as percentage of GDP



Source: Helgi Library (2022), Mortgage Loans (As % of GDP)

Based on the data from OECD, Kehoe (2021) in the Financial Review observed that in the past two decades, house prices in Australia rose 120% in real terms. Moreover, the mortgage debt as a share of the economy was more than 90%, the second highest behind Switzerland according to the Helgi Library.

Conceptualisation of Housing as a Component of the Common Good

Our basic free market, or liberalist, paradigm has adopted an assumption that if all members of a community are left unrestrained to pursue their own best interests, then the society as a whole will achieve its material goals. This foundational premise to free market economics originates from the *Father of Modern Economics*, Adam Smith (1759) who proposed his "invisible hand" assertion. This curious, but now almost universally accepted, metaphor has never ceased to be problematic, despite its attractiveness (Small, 2000).

It is very significant that our free-market economics relies so heavily on a metaphor that has both moral and metaphysical resonances. At the very least, it connects the narrow confines of economics into wider conceptions of the human condition. Adam Smith was making a claim about what would realise the best for society, materially considered. This notion of "*the best for society*" has a long history in human thought where it is more succinctly known as the notion of the "Common Good"
A major misconception found within contemporary times relates to the idea and application of the notion of the Common Good. At several points in history, especially the last few centuries, we have seen the destructive tendency to reduce the Common Good down to the material order, which is foundational to Liberalism (Maritain, 1998). Certainly, within the political order the ideas of Socialism, Communism and Individualism have at their common root the same error of identifying the Common Good as a material good, whether public or private.

The good is defined as what is desirable. Things are desirable because they are believed to have the capacity, either directly or indirectly, to contribute in some way to human happiness. For Aristotle (1976), happiness is the ultimate object of human life. He makes the distinction between the useful, pleasant and fitting good as well as the social distinction between the private, public and common good (Boland, 2022).

Private goods are goods exclusively owned by individuals to sustain life (e.g. food) or to help with the individual's livelihood (e.g. trade). Public goods on the other hand are goods owned by the community in general, e.g. parks which provide for the enjoyment of the community and are owned by the community. These two goods, both private and public, contribute to the material needs of the individual within society (Boland, 2022).

The Common Good however is a good that cannot be owned either by society itself or any members of society. It is shared by everyone, but not owned by anyone, whether by society itself or any individual. Since it is commonly possessed and enjoyed by all members of society, it is obtained through association. That is, through association, the goods available to the individual are greater than what would be available to the individual acting in isolation. As such, the common good, in a sense, is a higher good than either private or public goods because it makes possible a greater level of happiness than private or public goods could achieve alone.

For Aristotle, the Common Good is defined by finding the unity within the diversity. It is this unity that is found within the diversity that is what people are ultimately aiming for in society and is therefore the final end, or purpose, of society. It is usually realised when social relations result in individuals obtaining material goods privately, but in such a way as to produce a cohesive happiness for all members. It infers an order amongst those individuals commensurate with human nature.

Human nature includes several dimensions, of which the following four are important for understanding housing affordability: 1) Humans are material creatures who need food, clothing and shelter for their material support. 2) Humans are social creatures whose happiness in part relates to their social integration with other persons. 3) Humans possess intellect. Intellect gives humans the capacity to discover knowledge at the formal level, and this includes both knowledge of the relations between material things, which is the content of the natural sciences, and relations between creatures possessing intellect and will, which is the content of the moral sciences. 4) Humans possess free will. This is the capacity to choose *good as understood*. The goods that may be chosen include both material and moral goods. Amongst these goods, the most fitting are those goods that contribute to the common good. The decision to choose the common good, especially when that choice requires some personal self-restraint must be an informed free choice. The habit of making such choices is the mark of the civilised human person and requires freedom if it is to genuinely reflect the quality of the person.

This means that amongst the various possibilities for agglomerations of people, only those that are for the purpose of the common good can be genuinely called societies. That is, the essential character of society is the commitment of its members to the common good. In classical philosophy, this commitment describes its underlying purpose, or objective, which is sometimes referred to as the "final end," or more informally "*the reason why*".

Hence, the Common Good is the goal/end/purpose of society. Every individual works for the Common Good either directly (as in governments whose purpose is to uphold the Common Good within society i.e. justice), or as individuals or voluntary societies that indirectly work for the common good.

The active pursuit of the final end of the common good, results in what can be seen in the practical operation of society in terms of the habits of its members. Those habits are apparent as the social relations that can be observed between its members. If the common good is to be genuinely served, those habits must be largely the result of the free decisions of the members, in conformity with their dignity as human persons equipped with intellect and will. Those visible social relations are only "accidental," meaning that they are arbitrarily adopted, despite all being intended to effect the common good, and often having considerable similarities across different societies.

The twelfth century thinker St Thomas Aquinas tells us that property is the right to use and dispense with, always for the common good (Aquinas, 1981; McLaverty-Robinson, 2015). Here it is necessary to note that St Thomas is referring to property in external things, such as land. This must be distinguished from property in those things intimately connected with the person, such as a person's hands, or thoughts, or life. A person's body or life is naturally and necessarily proper to the person because without them the person cannot be himself. We can say that a human body and life are properties of the human person, because without them the person cannot be a human person.

The recognition that external property is grounded on the common good infers the necessity of freedom in its exercise. It parallels with the definition of freedom by St Anselm as "choice elective of means, the due order of the end being maintained" (Boland, 2022). That is, property and freedom go hand in hand, for everyone has a right to some property to be able to freely use and dispense with. The denial within communism of an individual's right to ownership of property effectively destroys society, for it leaves the individual with no material goods to be able to freely communicate to others with. Without the freedom to be able to choose the realisation of the common good, the person is denied the exercise of free will, and is thus deprived of a natural and fundamental element of humanity. A communist state might be able to achieve some level of corporate material success, but it would necessarily be a slave state and not a true society, since society exists as a collective of individuals who know and choose the common good.

Conversely, within the individualist (sometimes referred to as the capitalist) social framework, the opposite dynamic just as effectively destroys genuine society. This is evident in the form of private property adopted within individualism. This has been insightfully described as "*absolute private property*" (Small & Sheehan, 2005). Absolute private property is that convention for private property that omits any obligation that it is to be exercised in some way for the common good.

Aristotle is amongst the early thinkers who recognised that property in external things must be a fusion of private property rights with social obligations requiring its owner to freely choose to use it in some way to contribute to the common good (Aristotle, 1981). This twin nature of private property, as recognised by Aristotle, has come to be known as his *dual theory of property*.

In addition to the four dimensions of human nature, we can isolate a fifth, which is largely related to the material nature of the human person. Humans need access to space on earth in order to live. Space is largely experienced as the right to occupy parts of the earth's surface, which is another way of saying property rights. Humans need property rights for housing and for work. Since this access to space is necessary to support the natural right of humans to their lives, society can only be justly organised if all its members have some reasonable access to the space they need to live and work. This is the fundamental basis for recognising affordable housing as a right due to all members of society.

The two political poles of modern liberalist society, communism and capitalism, both fail to achieve the common good in respect to affordable housing. Communism fails because it strips its citizens of the opportunity to use their free will to effect the common good, and in so doing dehumanises them. Capitalism fails because it leaves its citizens ignorant of the necessary social obligations attached to private property that require its owners to use it to effect the common good. Communism retains the capacity to realise the common good materially but not in a manner consistent with human dignity, whereas capitalism provides the freedoms to produce a genuinely human society, but in such a way that those exercising those freedoms understand no obligation nor merit associated with using their property for the common good. Curiously, both approaches share a common underlying anthropology that implicitly omits the innate human capacity to freely choose the good of the other in relationship. The solution to the problem is therefore to find methods of educating and motivating free persons to act to realise the common good. Small (2003) has demonstrated the way that the alternative moral and metaphysical assumptions found in other cultures, both in history and extant in contemporary non-western societies have the capacity to overcome this problem. Curiously, housing affordability does not exist as a problem in these cultures, thereby suggesting a way out of our current affordability crisis.

The crisis that is found within housing affordability is just an effect of a deeper crisis that has permeated throughout society. That is the rejection of the Common Good as a good that is commonly desired by all, yet is not exclusively owned by either an individual or the community. Peace and justice would be two examples of the common good. Property is the individual's right to use and dispense with, in order to realise the common good through associations with others.

Affordable housing can be interpreted as a failure of our society's capacity to realise the common good with respect to housing. This is significant because it can be used as a test of the effectiveness of the liberal assumptions that ground our economic thought.

Escaping the Gordian Knot of Affordability Decline

Gavin Wood et al (2017) (Wood, Cigdem-Bayram, & Ong, 2017) concluded that the only future for keeping home ownership within the reach of average Australians was increased government subsidies and concessions. Given the history of the problem it can be shown that the only certainty with Wood's recommendations is that they will fail.

For example, two approaches to government subsidy can be considered as mental experiments: On the demand, or buyer's side, government subsidies could take the form of, direct payments to buyers or reductions to statutory costs, say first home buyers. On the supply side, planning restrictions, government charges can be relaxed.

Regarding government subsidies to buyers, these all strengthen economic demand, however the practical result can be foreseen in the auction room. Given that the current prices in any actual market are supported by the free choices of current buyers and are limited by the funds available to them, government subsidies merely increase the funds available to buyers, thereby relaxing that limit. So long as two motivated bidders are present in an auction room for any given property on offer, the additional funds available to both as a result of any government subsidy will translate into higher bids and the advantage due to the subsidy will be rapidly absorbed as higher prices. This leaves the affordability challenge unchanged, except that it introduces an ongoing dependence on the subsidies. This is exactly what has happened historically in practice.

On the supply side, government assistance can take the form of relaxing planning regulations allowing either higher densities or additional land to be zoned for residential use. Two issues compromise the potential effectiveness of these measures. Firstly, developers do not begin their feasibility calculations with costs, but with revenues, and end with land values. This means that any reduction in the cost of supply will ultimately translate into higher gains to those controlling the raw land. Secondly, if the reductions in land supply cost do reach the end owner-occupier in the first instance, these benefits will only be temporary, since on resale these benefits will translate into capital gains for the outgoing owners. This can also be seen in the trajectory of historical initiatives.

In addition, government subsidies or relaxations in planning standards will either further contribute to stress on the government purse, a purse that is already over-dependent on debt, or they will reduce the ultimate utility of the final result.

Finally, there is also a curious wealth transfer taking place that has an intergenerational dimension. People entering the housing market tend to be young. People selling housing tend to be older Australians either capitalising their housing wealth, increasingly for the purpose of funding aspects of their retirement, investors leaving the housing market, or developers suppling new stock.

Clearly, if inordinate appreciation of housing assets is a form of intergenerational wealth transfer, the current problem of unaffordable housing can be interpreted as a social problem that involves a form of exploiting the coming generations. This is an area where economists are likely to take a different view to other disciplines, such as sociologists, historians, or moral philosophers since these latter disciplines are more concerned for the fate of actual people as a society.

By contrast, indigenous people find it objectionable adopt practices that do not care for future generations as one cares for one's own, hence the existence of an affordability problem is fundamentally abhorrent to them (Kingi, 2004). They consider it an obligation to ensure that future generations have the same opportunities that the present generation has (Day, 1995; Small & Sheehan, 2005). Implicitly, indigenous people adopt a common good approach within this structure of beliefs which it appears timely for modern cultures to reconsider.

Private property itself has been a contested right over the last half millennia of its unrestrained existence. Up until about the sixteenth century in Europe private property was understood to be subject to considerable social obligations. The feudal system balanced land rights with land obligations for all engaged in it. This best expressed by St Thomas Aquinas (Aquinas, 1981) II-II Q66) who built on Aristotle's dual theory of property, recommending that property in external things (i.e. things that are not the result of human effort) should be owned privately, but its use must be common. The common use relates to property remaining in the service of the common good, despite its private ownership.

Historically, this dictum was embodied in the pre-modern feudal land system where land was held in a system that could be interpreted as similar to today's state leasehold as found at least in theory in parts of Australia, such as the Australian Capital Territory, or the pastoral leasehold estates of Queensland and other states (Day, 1995).

The persistence of leasehold title has itself had a curious history. The English feudal system was undermined by the relaxation of rental obligations to the crown, a process that became particularly prominent during the reign of Henry VIII. As rents to the crown were removed, tenants effectively enjoyed profit rents that capitalised into private land values and what is now widely accepted as "freehold" title was begun. Within the feudal system, the national structure of rents was constrained by a lively sense that reasonable rents were a concrete aspect of the realisation of the common good. The result was a coordinated, modest impost on land that rendered its private value close to the value of improvements (Sheehan & Small, 2004).

When private owners took over as individual landlords, rents began to be set on a local individual level between land rich owners and tenants who needed access to land for their livelihood. The obvious imbalance of negotiating led to increases in rents that eroded the living standards of tenants. In addition, land could be privately bought and sold. The sale price of land quickly acquired the general character it has today of being the capitalised value of the future rents. James Thorold Rogers (1884) (Rogers, 1884) noted that the transition was associated with the fall in living standards of working people in England. This trend left working class people on minimal standards of living that were only reversed when the political threat of communism arose in the nineteenth century and technological advances combined to permit working class people more wealth and the modest opportunity of home ownership.

Australia's trajectory has been different. The immense amounts of land available and the political forces at work in the nineteenth century tended to make home ownership more accessible for working Australians and led to the *Australian dream* of individual working families coming to expect to be able to own their own homes (Brennan, 1971). Similar aspirations can be found in other younger but advanced countries such as the USA and Singapore, where the expression "the Singapore Dream" carries the same desire as found in Australia.

This history places in context the current malign trend in Australian housing affordability. The phenomenon took hold at about the same time economic liberalism was rising to ascendency, though there are other social and technological factors that accompanied it. The affordability crisis can be interpreted confluence of two forces: the transition of Australians away from seeing themselves as a tiny population in an immense country, and the same cultural/economic treatment of land that had caused the immiseration of the English working class between the sixteenth and nineteenth centuries. Australia still retains some political commitment to the Australian dream, and this has been the dynamic behind the various state initiatives to support home purchase, especially for first home buyers. However, the failure of these initiatives to do more than provide very short-term relief that usually ends up capitalised into property market growth is itself evidence that deeper forces are at work. The policy of providing state support for home ownership reduces to the government providing funds to individual buyers for the laudable purpose of enabling them to achieve the Australian dream, which end up in the pockets of vendors as capital gains. While capital gains appear to benefit the community, they only benefit that part of the community represented by land owners, while the rest of the community, who end up facing punitive mortgage repayments or rents face falling standards of living to support their housing needs.

This is not a system that realises the common good. The common good begins with a conception of the right ordering of society, and the slide towards wealth polarisation is evidence of a poorly ordered society. Karl Zimmerman (1947) warned the western world that its trajectory was unsustainable as a civilisation. While he did not use the language of the common good, his historical observations provided ample evidence that when the common good ceases to be a central premise for society, it eventually crumbles as a civilisation. Using examples from ancient Greece and Rome he demonstrated that self-interest socially and economically eventually leads to societal collapse where the majority of the population ends in slavery under extreme wealth polarisation. In this light the housing affordability problem can be interpreted as a facet of what could be a similar trend.

E. Michael Jones (Jones, 2014) in his history of capitalism noted that in the aftermath of the French Revolution, the new government reclaimed the land and issued its currency backed by its land assets. In this way the country's currency was backed by hard assets that were also income producing. In such a property system the occupants of the land could own the improvements while renting the land. The solution offered several advantages including:

1) It produced a national currency linked to the real assets of the country.
2) By buying the land using the new currency, land remained available for the citizen occupants while relieving them of the burden of having to pay for it up front.
3) The public revenue came from land rents and not taxes, thereby providing an incentive for industry since incomes did not need to be taxed.
4) The rental value of the state owned land could be expected to grow with expansion of the national economy, thereby rewarding sound government stewardship.
5) Productive effort and not land speculation became the focus for private enterprise.
6) Government policy could maintain land rents at levels that realised the common good and not the interests of a diminishing number of larger land owners.

Later David Ricardo (1817) proposed his "Law of rent" that subsequent writers, especially Henry George (George, 1992) have extended which tended to harmonise with the French initiative. Unfortunately, Jones found that the French system floundered due to their dilution of their new currency by printing more money than they had land backing for and the system was scrapped. The printing of money is a well known temptation for government that is simultaneously a threat that should be easy to control by good governance. That is, the failure of the French innovation did not fail due to faulty economics, but faulty politics. That alone should give some encouragement for some renewed interest in its application.

Faulty politics has been seen in other places where innovative approaches to land management have been attempted. Frank Brennan (1971) found that a similar affliction had subverted the Australian Capital Territory land system by the late 1960s where the rents Canberra people were paying for their leasehold land was less than the local government rates paid by freeholders in other Australian capital cities. Obviously the ACT was not collecting market rents on its land and properties changed hands for quasi freehold prices as a result.

Conclusion

The economic paradigm currently being applied in property economics cannot solve the housing affordability problem. Cultures that place a high value on the common good do not experience housing affordability challenges. Historians, sociologists and other disciplines appear to often have a clearer understanding of the problem and its solution than property economists, and it appears timely that these wider perspectives are explored for their insights into solutions.

This paper has aimed to provide a broad overview of the problem and direct attention to a methodological (paradigm) shift that is considered necessary if a durable solution is to be found. In particular, attention to the nature of society, the importance of the common good, and a realist understanding of the key economic components will all be necessary if housing in Australia is ever to become durably affordable in the future. In this way, its purpose is not to argue a particular solution, but to open a channel towards more fruitful exploration of what is as much a social problem as an economic one.

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