Centre for Resource Management Studies

The Selfish Generation gets Greedier by the Day

We Greedy Oldies should be ashamed of ourselves.

And the old boys and girls on our councils should be the most ashamed.

These Councillors want to expand their empires, build their monuments, and save the planet. But they don't want to send the bill to their ratepayers who increasingly tend to be "greedy oldies" like themselves.

So they have hit on the idea of paying for their extravagances with what they call "developers' contributions".

Machiavelli would admire their gall.

When some council announces new levies on subdivisions and new houses, local newspapers headlines declare "Developers to pay for future costs!" And we all know those greedy developers have such deep pockets.

Of course the "fat-cat developers" don't pay these contributions. It's the struggling first home-buyers who have to cough up the money, and for many, the total price is more than they can bear.

Fortunately, North Shore City got too greedy with its "Pay-before-you-Use" levies, and on the 21st March the High Court decided enough is enough. In *Neil Construction and Others vs North Shore City Council* (CIV 2005-404-4690) Judge Potter found that Councils do not have *carte blanche* to levy new sections and houses to pay for major projects which will obviously benefit all ratepayers. Council has to contribute $82.5 million towards stations on the North Shore Bus Land and had decided to fund 94.2% by development levies (i.e. by a fine on newcomers) and only 5.8% by general rates. The Judge found this was not what Parliament had intended.

The judgment is quite case specific, but we can only hope this decision will encourage others, and especially the Commerce Select Committee on Housing Affordability, to have a close look at the impact of such inequitable levies on our younger generations.

Councils wring their hands over the totally unforeseeable needs of future generations (more than 100 years out) but regard their younger generations as cash cows to be milked until thoroughly dry.

No one objects to the principle that users should pay, or that developers should pay their full costs. But the principle of intergenerational equity surely insists that the current younger

generation should not pay in advance for projects which others will use before they do. North Shore's Bus Lane is already in use.

Intergenerational equity calls for infrastructure payments to be spread into the future so that future generations pay their fair share. Development levies let future generations off scot free, relieve existing users of their obligations, and dump everything up-front onto newcomers.

Development levies offend against any equity principle you care to name. A $24,000 levy on a $800,000 property is only 3%. The same levy on a $200,000 lot is 12%. Someone who can afford to pay $800,000 for a clifftop section is not likely to be put off by an extra $25,000. Someone who can afford only $200,000 is more likely to find the extra $25,000 the straw that breaks the camel's back. What could be a more "regressive" tax than that?

We should not be surprised to learn that such an inequitable policies have most unfortunate origins. Prior to the Civil Rights Legislation of the sixties US, local authorities had been able to use zoning to "protect" White enclaves from invasion by Blacks, Hispanics and other "unseemly" populations. When racial zoning was outlawed they had to find other tools.

Paul Ehrlich's "Population Bomb" (1968) came to their aid by promoting the great fears of world-wide famine by the eighties. In 1972 his fellow scare-mongers in "The Club of Rome" published "Limits to Growth" which launched the "great fear" of a world running out of oil and all other resources. So US councils seized on the idea of promoting policies of "Zero Growth Cities". They attempted to stop future growth and made sure any new immigrants who managed to sneak in were rich by introducing "anti-growth" levies. The Supreme Court finally struck the whole scheme down as restricting the constitutional freedom of movement between States. And the predicted disasters had not eventuated anyhow. The famines had not struck and the minerals and oil had not run out.

Then along came Smart Growth. The Zero Growth levies were rediscovered and renamed "Development Levies" – same purpose but in greener drag. And Peak Oil and Global Warming were harnessed to created the current climates of fear. Even the Democrats are now on side, enthusiastically supporting policies which in unaffordable housing which in turn promotes racial exclusion. Thomas Sowell and other Black commentators are understandably cross.

The Republican States have resisted these new alarms, and consequently tend to have affordable housing. They have resisted development levies which contribute so much to high

land prices. Blacks and other minorities are leaving the Democrat States for more affordable homes.

These cities which have affordable housing and no development levies, also manage to fund their infrastructure, using long-term low-interest loans to fund private/public partnerships. The details vary from State to State, from City to City, and from project to project, but essentially it works like this. Major developers are expected to pay their own way. So they must fund their own road network and other infrastructure their developments require.

Instead of having to pass these infrastructure costs on to customers on a “pay-before-you-use” basis the developers can access long term loans, of say 100 year terms, from the City or State Treasury, either directly or via underwriting. The interest rates are low because such loans attract a minimum risk premium. The private developer builds the infrastructure but as the loans are repaid the assets pass back to into public ownership.

Unlike the North Shore City’s rort, these public/private partnerships fairly distribute costs and benefits. The public gets the benefits of private sector efficiency in construction, and the funds go where they are meant to, and the public ends up owning the public asset. And housing is affordable because of the absence of high front end charges. The State government contributes to urban infrastructure because health city economies make for wealthy States. The cities benefit because residents who live in affordable housing markets have more surplus cash and can afford to pay their rates and invest and spend in their local economy.

The States which promote these private/public partnerships for residential infrastructure also use them for water, power and even public school construction projects. Our own legislation ostensibly permits such public/private partnerships, but in reality they are so restrictive, so biased against the private sector, and so wrapped up in procedural red-tape that they discourage all but the foolhardy.

Sadly, too many of our Councils regard newcomers as an ongoing cost and burden.

Sensible governments do not fine their new citizens with “development levies” which inflate the cost of housing. They welcome them as future wealth producers rather than dead-weight costs.

Imagine you are confronted with two people seeking your vote.

One regards new customers as a cost, and wants to fine them for entering the market and making their first purchase.

The other regards new customers as a source of future income and offers discounts and loss leaders to get them into the store.

The first one wants to look after its aging customer base and actively discourages younger generations of customers because they generate costs and demands for more goods and services.

The other knows the present young people are the only scarce resource and that markets everyone are competing for their skills and resources and of course their children.

Now, which is the Company Director, and which is a City Councillor?

And where would you put your vote?

Owen McShane