Rottenomics: The Story of New Zealand’s Leaky Buildings Disaster

How profit-gouging and government deregulation created New Zealand’s home-building catastrophe

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Rottenomics: The Story of New Zealand’s Leaky Buildings Disaster by Peter Dyer (Bateman Books, 2019)

New Zealand’s housing problems were recently described as a “human rights crisis of significant proportions” by Leilani Farha, a UN Special Rapporteur on adequate housing, following a fact-finding mission to the country.

Farha said that the social conditions she encountered—chronic homelessness, substandard accommodation, the gutting of public housing and skyrocketing rents—were violations of the “right to health, security and life.” The “root issue,” Farha declared, was the speculative housing market that had been supported by successive governments, including the current Labour-led administration.

New Zealand has some of the most expensive housing in the world relative to wages. The Real Estate Institute declared the average median house price increased by 11.8 percent in the year to January, to $615,000. Westpac bank has predicted another 10 percent increase this year. Since 2017, when Labour took office, median rents have increased by over 28 percent, from $400 a week to $515, according to TradeMe. Over 2018–2019, however, wages rose just 4.3 percent.

The deepening crisis is a product of fiscal regimes pursued by central banks internationally since 2008. Low interest rate policies have seen a flow of cheap cash that has financed rampant speculation in finance and property, while brutal austerity measures have hit the working class.

In New Zealand, the assault on the basic social right to safe and decent housing was prepared by three decades of pro-market deregulation, begun by the 1984–90 Lange-Douglas Labour government. Sweeping attacks on jobs, incomes and social services have continued under administrations of all stripes.

A 2019 book, entitled *Rottenomics: The Story of New Zealand’s Leaky Buildings Disaster*, by independent journalist Peter Dyer, provides a timely and valuable insight into one major aspect of how this assault unfolded.

“Rottenomics” references the term “Rogernomics,” which describes the “pro-market” liberalisation program launched by Labour Finance Minister Roger Douglas in the 1980s. The abolition of “red tape,” that is, the destruction of basic rules and regulation and the introduction of “self-regulation,” along with the privatisation of public services, rendered thousands of homes and buildings rotten and uninhabitable.

“Bottom line estimates,” according to Dyer, imputed from two partial government reports, indicate between 1985 and 2014, 174,000 homes were built that were “doomed to rot,” with a total eventual cost of $NZ47 billion. This figure excludes public buildings including schools, libraries, hospitals, etc.

Dyer characterises the “leaky homes” scandal as “the largest man-made disaster in New Zealand’s history.” He lays the blame firmly at the feet of both Labour and National Party-led governments that have overseen a system that continues to ensure that inadequate, unsafe homes are still being built.

The value of Dyer’s book lies in its thorough exposure of various factors that combined to render what was an entirely preventable disaster inevitable. The regulatory framework that had kept New Zealand buildings relatively rot and leak-free over the post-war period was systematically demolished in the deregulatory mania.

Dyer begins with a description of how *Pinus radiata*, also know as radiata pine and Monterey pine, a soft wood that is highly profitable because it grows quickly, replaced depleted native hardwoods in house construction. The first round of deregulation in the mid-1980s allowed for radiata pine, untreated with fungicides or insecticides, to be widely used as a building material, leading to rot and leakages.

Industry heavyweights, such as Carter Holt Harvey (CHH), lobbied intensely for the adoption of untreated timber. Treatment was regarded as an “unnecessary cost.” Driving CHH, Dyer notes, were new agreements which opened up free trade in goods between NZ and Australia, greatly increasing opportunities for profits. CHH soon became one of NZ's "largest, richest and most powerful corporations," quadrupling its assets, from $577 million in 1985 to $2.73 billion just four years later.

The key piece of legislation, the Building Act 1991, had bipartisan support after being prepared by the outgoing Labour government then brought forward by National. Building certification was thrown open to market competition and private certifiers were legally enabled to compete with local government inspectors. Business became "self-regulating," while regulators were turned into freelance business operators.

It took little more than two years for reports of leaky homes to appear, as the use of untested and unaccredited products and processes became standard. According to Dyer, designers and builders took "serious risks," including the widespread use of fake stucco and monolithic claddings, cheap silicon sealants and houses built without watertight eaves or flashings.

The repeal of the Building Performance Guarantee Act eliminated limited government guarantees over certain new homes. Under the Local Government Amendment Act, a swathe of public supervisory positions, such as town clerks, clerks of works and city engineers, were cut. A newly-created Building Industry Authority oversight body was given insufficient powers and inadequate funds to do its job properly.

The de-professionalising of the industry was carried through by wide-ranging assaults on the public sector, including the closure of the Ministry of Works, Ministry of Electricity and the privatisation of railways, all of which had trained specialist tradespeople and apprentices. The destruction of these century-old institutions underpinned a "catastrophic, enduring loss of industrial skills."

Long-established systems of trades training were replaced with short-term, fees-charging courses at polytechnics. Unsupervised self-employed subcontractors, often the victims of mass workplace closures, flooded the labour force, all bidding for jobs on the lowest price. One architect declared: "The entry cost to the industry is a hammer, a kit of power tools, a ute [flatbed vehicle] and a dog… No registration scheme for builders exists… all in the interests of keeping costs down and development profits up."

The 1993 Companies Act enabled property developers to evade financial liability by declaring bankruptcy in one company and then continuing business-as-usual by opening another. In one case, 19 limited companies with numbered versions of the same name, operated by the same developer, were registered with the Companies Office between 1994 and 2002.

Millions in costs had to be picked up by homeowners and local councils. A vastly inadequate Financial Assistance Package with a 10-year liability limit, instituted by a National Party government in 2011, had by 2015 assisted just 700 households with property remediation.

Dyer details the human consequences of those forced to live with mould, mildew and cold. One woman, Sarah, was sick for three years and diagnosed with aspergillosis, an infection caused by mould. Her life "fell to pieces" after she was forced to sell her property at a loss. Persistent illness affected Sarah's ability to work and she was made redundant. Between lost income, medical and legal expenses and inspectors' fees, Sarah calculated her losses at about $NZ500,000.

The book does have significant political weaknesses, arising from the author's reformist political perspective. In particular, it fails to address the root causes of the post-1984 de-regulation program. While excoriating the policies and parties of the political establishment, Dyer attributes the "destruction of the New Zealand economy" to the "vision" of a small group of "neo-liberal ideologues," centred principally in the Treasury.

Dyer implies that the solution lies in a return to better regulation and planning. He lauds the post-war tripartite arrangements in which "three equal and independent partners—government, industry and unions," co-operated to manage industrial relations and society as a whole. He looks back fondly on the apprenticeship training system, which was dependent on the cheap labour of indentured apprentices.

The post-war settlement based on national protectionism and social regulation was blown apart in the 1980s by vast changes to the world economy. The unprecedented development of globalisation of production rendered the social reformist measures advocated now by Dyer and others became completely unviable. There can be no return to planning and social protections under the profit system in which industries compete on a global scale, primarily by driving down costs at the expense of the health and wellbeing of ordinary people.

The deregulation of New Zealand's building industry is not unique. Dyer's book does not refer to the use of aluminium composite panels (ACPs) of the type responsible for the 2017 Grenfell Tower fire in London, in which 72 people died. The same potentially combustible cladding is widely used in the UK, Australia and other countries.

In New Zealand, Auckland City Hospital, TVNZ's headquarters, the PwC Tower and more than 5,000 city apartments were subsequently found to be clad in ACPs with flammable polyethylene cores. A Wellington City Council investigation found 103 of the capital's buildings had ACPs.

Today, the industry remains mired in crisis, and incapable of meeting the pressing need for safe, healthy affordable housing. Labour last year ditched its Kiwibuild scheme, which promised to build 100,000 "affordable" new homes in 10 years. Only 79 new homes had been built, most of them priced at $500,000 or more—well beyond the reach of ordinary families.