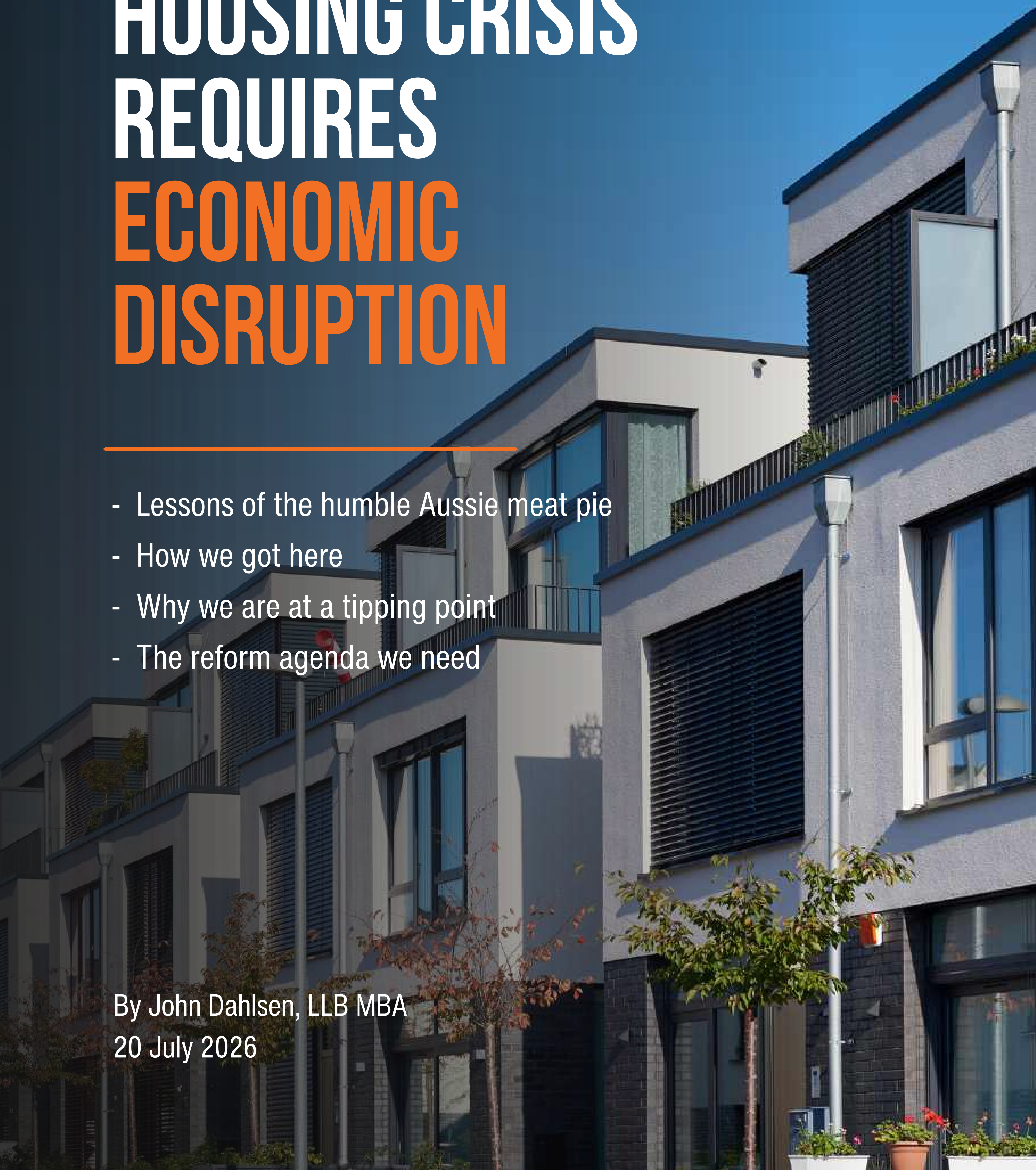
SUMMARY EDITION

AUSTRALIA'S HOUSING CRISIS REQUIRES ECONOMIC DISRUPTION



- Lessons of the humble Aussie meat pie
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Housing Crisis Requires Economic Disruption: The Lessons of the Humble Aussie Pie

Summary Edition

Based on the full paper: The Lessons of the Humble Aussie Pie (Second Edition)

John Dahlsen, LLB, MBA | 21 July 2026

The Core Argument

Australia's housing crisis is, at its heart, a supply-side problem. The cost of building has risen so far and so fast that the basic economics of construction no longer work. Builders will not build and developers will not develop when there is no margin left. A development only proceeds when the expected revenue exceeds the full stack of costs: land, construction, holding costs, finance costs and a margin large enough to compensate for risk. When construction and finance costs rise faster than achievable sale prices, projects are no longer economic, and rational builders and developers will not proceed. The crisis will not be solved by demand-side interventions or incremental policy adjustments. It requires disruptive, structural reform across tax, regulation, industrial relations, the financial system and the planning framework.

This paper uses the story of Patties Foods, the company behind Australia's iconic Four'N Twenty meat pie, as an extended case study for a broader argument about productivity-led growth. The Patties story demonstrates that when businesses are given the conditions to drive efficiency, the benefits flow to everyone: more jobs, better products, lower prices, and a larger tax base for government. The same logic that turned a small-town bakery into a global food manufacturer applies to the housing sector and to the economy as a whole.

The Patties Story

The Rijs family emigrated from the Netherlands and in 1966 bought a modest cake shop called Patties in the small coastal town of Lakes Entrance in Victoria's Gippsland. They had no university education. They were expert bakers in Europe but had no knowledge of the meat pie. They were not economists or engineers. They were newcomers, starting from scratch in a quiet regional town with little more than a willingness to work as a family and an instinct for business.

The family expanded to Bairnsdale, acquiring the Sunicrust Bakery in 1976 and building a new factory in 1985. By 1986 they were distributing to Melbourne, and the operation grew rapidly from there. Over the following decades they built Patties Foods into one of the largest frozen savoury food manufacturers in the world. In 2003, Patties acquired the iconic Four'N Twenty brand from Simplot, bringing together the family's manufacturing capability with one of Australia's most recognised pie brands. Today, somewhere between 30,000 to 50,000 Four'N Twenty pies are sold at the AFL Grand Final alone, an event that draws over 100,000 fans to the MCG each year. Few sporting events anywhere in the world rival that volume of pie consumption.

The Rijs family understood the basic engine of productivity: either you make more pies at the same cost, or the same number of pies at a lower cost. They refined their pastry, improved their meat sourcing, and optimised their manufacturing processes until they could produce more and more pies at a lower and lower unit cost. In economic terms, they satisfied the fundamental criteria: more output for less input. That is what productive growth looks like in practice, and it is a lesson that scales from a single bakery to a national economy. When a business can produce more at less cost, everyone benefits: the business thrives, workers are employed, consumers get a better product at a better price, and the government collects more tax from a larger base of economic activity.

The Patties story is also a powerful example of what immigrants can do for this country when they are given the opportunity and the conditions to succeed. It is a story of enterprise, hard work and practical ingenuity that carries lessons far beyond the bakery.

Why Australia Is Struggling

The conditions that allowed businesses like Patties to flourish are being steadily eroded. The government is layering on costs at every turn. Taxes are increasing. Wages are rising without corresponding productivity gains. The cost of capital is rising. Energy prices continue to climb. Compliance requirements are expanding, with new obligations being added to existing ones and no cost-benefit analysis undertaken. Each additional cost squeezes the margins that businesses depend on to survive and grow.

The Productivity Commission's own data tells the story. Australia's labour productivity growth has averaged below 1% per annum over the past decade, well below the long-run average and among the weakest in the OECD. Real unit labour costs have risen as wage increases have outpaced productivity gains. The government does not appear to grasp that a smaller percentage of a growing economic base generates more tax revenue than a larger percentage of a shrinking one. Countries that have deliberately reduced tax rates, including Ireland, Singapore and the Baltic states, have typically seen their total tax revenue increase as economic activity expands. The evidence, while influenced by other factors such as EU membership in Ireland's case, strongly supports the directional point: tax rates and tax revenue are not the same thing.

The current federal cabinet has virtually no members with meaningful business experience. Only the Minister for International Trade, Don Farrell, has private sector exposure, limited to tending a small vineyard in South Australia's Clare Valley. The rest are drawn overwhelmingly from unions, ministerial staffing, teaching and the public sector. These are not dishonourable careers, but they provide virtually no exposure to the pressures and realities of running a business. It is the difference between understanding business as a concept and understanding it as a daily reality where every cost matters, margins are thin, and survival depends on producing more for less.

The Hawke-Keating Contrast

It was not always this way. Under Hawke and Keating, Labor understood the relationship between business and workers and maintained close relationships with senior businesspeople. The Accord was built on a simple but powerful idea: that increased pay should be funded by increased productivity. Business and the union movement were brought together, not set against each other. The Accord was not without pain: real wages were suppressed for extended periods and the productivity gains were unevenly distributed. It succeeded precisely because both sides made difficult concessions, not because it was harmonious. The framework opened the economy, lowered tariffs, floated the dollar and set the foundation for decades of prosperity. Howard and Costello continued this approach.

The distinction drawn from Adam Smith's work between self-interest and selfishness is relevant. Selfishness is for me only, while self-interest has mutual benefits. The Accord understood this. For the current government, productivity appears to be a closed book. The focus has shifted almost entirely to the welfare of workers, with concessions granted without adequate consideration of the pressure they place on business. The private sector is shrinking relative to the public sector, and each time activity shifts from private to public, growth weakens, because it is the private sector that generates the activity, revenue and tax that an economy grows on.

The Cost of Lost Competitiveness

Australia has historically funded much of its growth through overseas capital, with foreign investment stock representing around 181% of GDP. That dependence on foreign capital means international competitiveness is a matter of economic survival, not just national pride. Capital flows to where it can earn the best risk-adjusted return. When foreign capital is choosing between Australia, Canada, Singapore, the UK and the United States, the comparison is not just tax rates but the overall investment climate, including regulatory certainty, labour market flexibility, approval timeframes and the ease of repatriating returns. Australia is deteriorating on most of these metrics. Less foreign direct investment means fewer jobs, less technology transfer and lower tax revenues, creating a negative feedback loop that the government's domestic spending plans are not designed to address.

Construction Costs and Industrial Relations

The building and construction sector is at the epicentre of the crisis. The government's industrial relations overhaul significantly enhanced union powers and mandated that government contracts can only be awarded to effectively unionised companies. The CFMEU has been estimated by industry groups to add up to 30% to building costs, though this figure is contested. Regardless of the precise number, the cost is substantial enough to fundamentally change the economics of construction. Australia now has one of the highest construction costs in the world and is regarded by international contractors as one of the most difficult markets to operate in.

These costs flow through the entire sector. Everything is inflating simultaneously: worker availability, wages, subcontractor rates, materials. The consequence is that builders will not build and developers will not develop, because there is simply no profit in it. The numbers do not work. The deeper tragedy is that the conduct of the CFMEU damages the many good unions and unionists who are reasonable in their demands and genuinely concerned with balancing the interests of their members, their employers and the national interest. The government's refusal to confront the CFMEU is a betrayal of the moderate union tradition that made the Accord possible.

In effect, the government's own policies have become a primary driver of inflation in the construction sector and, by extension, of the housing crisis itself. The tens of billions of dollars being spent on housing programs will have little effect on housing starts. Those funds would be far more effectively spent on removing the tax and cost burden on builders and developers so that building becomes economic again.

The Banking System and the Housing Imbalance

APRA's capital adequacy rules have created a structural distortion in the banking system. Residential mortgages are treated as less risky than construction lending, so banks hold less capital against them. Competing on return on equity, the four major banks drive mortgage lending hard while rationing development finance. The financial system simultaneously inflates housing demand through abundant, competitive mortgage credit while constraining supply through tight, conservative construction lending. As the former NAB CEO Don Argus has argued, the banks have effectively become building societies.

The macroeconomic environment compounds the problem. The RBA's interest rate settings affect both sides of the equation: higher rates increase mortgage costs and dampen demand, but they also increase the cost of construction finance and erode developer feasibility on the supply side. APRA has also driven the growth of the private credit market by pushing banks toward mortgages at the expense of the rest of their loan book, creating a void into which higher-risk private lenders have moved.

The Investment Climate

Recent capital gains tax changes impose a minimum 30% tax on any asset sale and constrain individual investors' ability to offset losses across asset classes. Meanwhile, large institutional funds, many controlled by unions through industry superannuation, retain the structural advantage of pooling returns across a diversified portfolio and paying tax on the net outcome. This creates a two-tier system that penalises individual investors and entrepreneurial families while protecting institutional structures aligned with the union movement. When the tax system punishes success but does not compensate for failure, the rational response is to reduce exposure, hold cash, pay down debt or invest conservatively rather than backing new ventures or growth companies. The signal to every aspiring entrepreneur is deeply discouraging.

The Human Cost

Australia's standard of living is falling. GDP per capita is declining. Business failure is escalating. Young Australians face a compounding disadvantage: rising rents, limited housing affordability, HECS/HELP debt and limited career advancement in a stagnant economy. They are locked out of housing, burdened by public debt and carrying the fiscal weight of an ageing population. The building sector is approaching stagflation, with revenues falling while costs rise. Incremental adjustments will not be enough. What is needed is bold, structural reform to planning, industrial relations, tax policy, banking and the regulatory burden on construction. This is not just an economic problem. It is a social crisis that threatens the cohesion and optimism that have traditionally defined the Australian character.

What Should Happen Now: A Reform Agenda

None of the current policies will solve the problem. What is needed is a comprehensive, disruptive reform package addressing the full range of structural barriers simultaneously. The core reforms fall under six headings.

A. Tax reform to restore building economics. A five-year GST exemption on Australian-made building materials and services used in residential construction. Payroll tax relief for housing construction workers funded through Commonwealth-state cost sharing. Reform of developer contributions and infrastructure charges, which have risen substantially and are a direct addition to the cost of new housing. Removal of punitive state-level taxes on subdivision profits such as Victoria's Windfall Gains Tax, where the rate reaches 62.5% on value uplifts exceeding $500,000.

B. Regulatory streamlining. Independent cost-benefit reviews of every regulatory agency that touches housing. A National Construction Code review focused on the cumulative cost impact of energy efficiency, accessibility and bushfire provisions on residential construction. Urgent planning and zoning reform to increase housing density along transport corridors, reduce minimum lot sizes where appropriate, streamline development approval processes and impose statutory time limits on planning decisions. The Productivity Commission, the RBA and housing economists consistently identify planning restrictions as among the most significant barriers to housing supply. Accelerated release of surplus government land for residential development, including audit of Commonwealth defence and infrastructure holdings.

C. Industrial relations reform. Legislative amendment to require the Fair Work Commission to consider the economic viability and productivity of the building sector when making determinations, and to require that wage increases be linked to demonstrated productivity gains. Measures to curtail the CFMEU's influence over building costs and government contracting. Restoration of a federal construction authority with expanded powers. Freedom for contractors tendering on housing projects to engage whichever subcontractors they choose without union-imposed restrictions.

D. Financial system reform. A review of APRA's capital adequacy risk weightings to reduce the bias toward mortgage lending at the expense of construction finance. The review should consider whether risk weights on construction lending can be reduced to encourage banks to take on more construction risk in the national interest, while ensuring bank reserves remain adequate. Tax and regulatory changes to encourage institutional investment in build-to-rent housing, addressing the unfavourable GST and land tax treatment that currently discourages this model relative to build-to-sell development.

E. Workforce. Priority skilled migration for building trades, with expedited visa processing and streamlined skills recognition for qualified applicants.

F. Governance and implementation. A housing reform agreement through National Cabinet modelled on the National Competition Policy payments of the 1990s, with Commonwealth funding tied to states meeting specific reform milestones. Dedicated ministers for productivity and regulation at federal and state level. A consolidated information portal for the housing development sector. A government white paper on the issues facing the building and construction sector, coordinated with Productivity Commission work and expanded to include tax.

The adoption of modern methods of construction, including modular and prefabricated building, should be actively encouraged. The Patties story is, at its heart, about applying manufacturing efficiency to production. The same logic applies to housing: offsite construction can deliver homes faster, at lower cost and with less waste, yet Australia lags comparable countries in its adoption.

Government investment in social and public housing should also be expanded as a complement to market-driven supply. For Australians who will not be served by the private market even with improved conditions, direct government provision remains essential. This is not inconsistent with the market reforms above; government should focus its resources on those the market cannot serve, while removing the barriers that prevent the market from serving everyone else.

Conclusion

The lessons of the humble meat pie are simple but profound. Efficiency drives growth. Lower input costs enable greater output. A larger economic base generates more for everyone, including the government and the workers it seeks to protect. These are not theoretical propositions. They are demonstrated facts, proven on the factory floor by people who understood business not from textbooks but from doing it.

The housing crisis will not be solved by tinkering. It requires the same thinking that turned a small-town bakery into a global enterprise: a relentless focus on producing more for less, a willingness to innovate and the courage to make disruptive changes when the status quo is clearly failing. The solution is to make building economic again. Because construction is so large a part of the economy, restoring developer feasibility would lift both housing output and profitable growth across the board.

There is a broader reason to start with housing. The reforms proposed here should be treated as a trial for the wider economy. If the taxes forgone, principally GST and payroll tax, are more than offset by the additional income tax from workers and corporate tax from businesses that increased construction generates, the model can be extended to other sectors facing similar structural constraints. Housing reform is not just about housing. It is a test case for whether Australia can restore the conditions for productive, enterprise-led growth.

Australia has done it before. The Hawke-Keating reforms proved that a Labor government, working honestly with business and unions together, could transform the economy and deliver prosperity for all Australians. Howard and Costello followed the same path. The question is whether this generation of leaders has the willingness, capability and courage to do it again.

This is a summary of the full paper, which includes detailed appendices on Australia's mining foundation, the entrepreneurs who built Australia, and a comprehensive reform agenda with 21 specific policy proposals. The full paper is available from the author.

This paper draws on insights from business leaders with direct experience in Australian manufacturing, construction, and economic policy.