

## BUSINESS SPECTATOR

# PLAYING WITH FIRE ON POLICY OVER HOUSING



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AUSTRALIA has three affordability crises that have resulted from bad, or non-existent, government policy: energy, housing and communication.

Modern human needs don't come much more basic and necessary, so you might think ensuring they might be available and affordable for all would be at the top of political to-do lists. Sadly, no. Getting elected is first, second, third and daylight fourth.

The fact the NBN became the basis of a narrow political conflict has resulted in a communications policy mess that will lead to expensive broadband internet. The fact energy policy got swallowed in narrow political conflicts over emissions trading and fracking has resulted in expensive electricity and gas, and the fact housing policy got sidetracked by a narrow political conflict over negative gearing has contributed to a housing affordability crisis.

Commentators like yours truly are busier than Baghdad bricklayers; the daily challenge is to decide which one to solve, or bemoan. Today it's housing.

That's partly because a South Australian property

developer rang this week to complain that Adelaide's median house price to income multiple is 6.6 on the Demographia annual Richter scale, and for its sister city, Austin, Texas, it's just 4.1.

Sydney's multiple is 12.2, world's second top, but Adelaide? The market isn't even booming there and houses are unaffordable.

I googled "Austin housing"; it turns out they're worried about affordability too, and trying to do something about it. There's a Texas State Affordable Housing Corporation, a non-profit firm set by the state legislature, something called "HousingWorks Austin" dedicated to researching housing affordability and coming up with solutions, and Housing Authority of Austin, which operates affordable public housing schemes.

The SA developer also said taxes comprised about 40 per cent of the price of a home in Australia, what with stamp duty, GST and developer taxes.

Scott Morrison says he is planning to focus the federal budget on housing affordability but given the size of the deficit, his solution is unlikely to include cutting taxes.

In any case, the taxes baked into buying or building a house are offset to some

extent by the tax concessions available once you own one: for investment, that is. I'm talking about negative gearing and the capital gains tax discount.

Doing something about unaffordable housing by cutting those tax concessions would have the benefit of reducing the budget deficit, but since Labor has targeted negative gearing in its sales pitch, the Government won't do that. But maybe the CGT discount is in the Treasurer's sights, since the ALP hasn't talked about that.

More likely the tax system will continue to work in two ways to disadvantage those brave souls who are still foolish enough to buy a house to live in: 40 per cent of the price of a new home is taxes and they have to compete against investors who get a tax break.

And now, in Victoria, those foolish enough to move out of their first home into a bigger one in order to have kids will be competing against first homebuyers who aren't paying stamp duty and who will add that amount to their auction limits, thereby winning the auctions at a less affordable price.

Morrison and the Government more widely have been talking about the need for more supply but since that is

purely a state matter, presumably there won't be much in the budget for that, either.

Perhaps he will take a leaf out of the book of Austin's Affordable Housing Corporation and issue tax-free "affordable housing bonds" to finance public housing. But I doubt that; a bit too socialist.

Another thing the budget is unlikely to contain is anything to reduce immigration, and therefore the demand for housing.

An apparently permanent 50 per cent increase in Australia's average immigration intake after 2006 is one reason for unaffordable housing, especially with the introduction of the \$5 million visa purchase scheme a few years ago.

John Howard made it clear that his tough line on refugees arriving by boat, starting with the Tampa incident, and which remains a rare sliver of bipartisan policy today, was aimed at ensuring Australians would accept a big increase in immigration, which is exactly what happened, and continues to.

Upping immigration, along with 457 visas, was part of Howard's industrial policy, to reduce the unions' bargaining power and prepare for WorkChoices, also in 2006, but the side effect has been no recession in 25 years.

Recessions are officially declared when total real gross domestic product, that is, national output minus inflation, shrinks for two quarters in a row. Real GDP has declined only in single quarters since 1991.

But in terms of real GDP per capita, Australia has had two recessions since then, in 2000 and 2008, and in terms of real national disposable income, there have been four deep recessions. Population growth is the main reason there have been no recessions since 1991 (the other reason being housing construction took over when the mining boom ended).

But the streak of economic expansion, and the diminishing of union power, have been accompanied by two invoices, so far unpaid: infrastructure and housing have been insufficient to cope with the extra people, and wages growth has collapsed (an unintended/intended consequence of the extra competition for jobs).

Australian governments have been pleased to bask in the glow of economic success, although the low wages growth is getting a bit awkward, but they haven't done anything much about catering for the extra people.

NAB chairman and former Treasury secretary Ken

Henry said recently there needed to be a new city built, population two million, every five years, to cope with population growth, but while developers would be only too happy to oblige, state planners and politicians seem horrified at the idea.

China builds new cities for practice; Australia crams everyone into the old ones.

Meanwhile, bank CEOs lined up this week to declare in a parliamentary committee that the housing market was not in a bubble. Fair enough; I agree (I think, probably, almost certainly).

But household debt is at a record high and house price to income multiples are among the highest in the world, so while it might not be a bubble, housing in Melbourne and Sydney (and Adelaide?) is a problem. Both of those have been enabled by population growth and record low interest rates as well as a rush to use negative gearing to save for retirement.

As a result, the Reserve Bank is in a pickle: when inflation starts to rise, as it will, it dare not raise interest rates. When that happens, monetary policy will be like playing with a box of matches on the airport tarmac.

**\*This column first appeared in The Australian\***

