

Inquiry on First Home Ownership
Productivity Commission

LB2, Collins Street East

Melbourne

Victoria 8003
Re: **Submission(s)**

my
MACQUARIE

UNIVERSITY SYDNEY
26 August 2003

Dear Commissioners

You are probably aware of the reports and papers referred to below, but it is possible that you may not be aware of them.

In 1989, the Commonwealth Government together with the state governments of NSW, Victoria and South Australia commissioned the largest study of housing prices and costs (actually three studies) that has been undertaken in Australia. The writer was the Project Director.

There are parallels with the present because the governments commissioned the studies out of concern with boom in house prices and the affordability of housing 18 months after the 1987 stock exchange crash.

The three studies were published in 1991 by the Australian Building Research Grants Scheme under the titles:

Housing Costs Study #1, Costs of New Housing Developments Housing Costs Study #2, Evaluation of Fringe Development and Urban Consolidation Housing Costs Study #3, Determinants of the Prices of Established Housing

Chapter 14 of Volume 3 discusses "Policies to Contain House Prices". I enclose a copy of this chapter. I believe that this brings out a number of important issues about policies for containing house prices.

Second, I enclose a copy of the paper entitled 'House Prices, Costs and Policies: An Overview', which was published in *Economic Papers* in 1994 (Vol 13, No. 1, 76-96). This provides a summary of the main findings in the three volumes of the Commonwealth-States study, which you may find convenient.

Third, I enclose a more recent article entitled 'The Real Incidence of Imposts on Residential Land Development and Building', published in *Economic Papers* in 1999 (Vol 18, No.3, 8590), which discusses the incidence of taxes on land and house prices.

Fourth, I enclose a copy of recent correspondence in the Australian Financial Review, including three of my letters, which also discuss the incidence of taxes on land and house prices. As you will see, in my view, in most cases, and for most practical purposes including policy making, taxes reduce undeveloped land prices rather than increase house prices.

Yours sincerely

Professor Peter Abelson