

Productivity Commission Inquiry
Into Housing Affordability
Level 28
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Melbourne 2003
Victoria 3000

A Submission from a Concerned Citizen

Observed press reports of submissions already provided to this Inquiry have made no mention of any discussion of the impact that Federal Government tax concessions are having on housing affordability. As that impact is significant, I respectfully submit the following comments in the hope that they will receive your consideration.

I have noticed that tax concessions have twice provided an upward thrust to housing prices. The first of these, the resumption of the negative gearing concession, preceded a 56% rise over the two year period between June 1987 and June 1989 (these figures were supplied by the Assistant Treasurer's office). The second housing prices upthrust has stemmed from the reduction in capital gains tax.

These two concessions, coupled with exhortations by the Treasurer for home owners to borrow against their rising home values in order to invest in the housing market, have attracted a vast amount of money into that already overheated market. The ensuing high level of investment and the resultant upward spiral in housing prices have drawn alarmed comment from the governor of the Reserve Bank.

The Government has claimed that it is necessary to continue the negative gearing concession because it was previously observed that, when this concession was withdrawn, rental accommodation availability decreased. The Government has also claimed that the reduction of capital gains on property investments merely brings that investment sphere into line with other business investment provisions.

Both of those claims ignore the basic fact that prices rise when there is an inadequate supply of a desired product and / or when there are unusual incentives drawing investment into that market. It is obvious that the Government has provided the incentives for channelling investment funds into housing. However, what it did not do was ensure that those funds were utilised to relieve the housing shortage and thus ease pressure on prices.

This deficiency in Government actions is revealed by figures published by the Bureau of Statistics and reported in the Sydney Morning Herald (19 Oct. '03, page 54) which stated, "In August lending has risen sharply. Total housing investment finance rose 5.5% in seasonally adjusted terms to \$6.8bn. Within that total, loans to buy established dwellings amounted to \$6.1 bn."

From the above it is seen that investment purchases of existing dwellings absorbed about 90% of the investment funds, this leaving only 10% as investment in new dwellings. Government subsidies in the form of negative gearing and reduced capital gains tax can thus be recognised as inefficient and should be recognised as having distorted the housing market. This market in recent years has taken on the character of an investment environment intended for the taking of tax-advantaged windfall gains. It is thus no surprise that the housing price inflation spiral continues unabated.

Poor governance by the Federal Government is seen as significantly contributing to a major loss of productivity in the housing industry. The allowance of the above-identified tax concessions (in effect, the forgoing of legitimate taxes in order to magnify 'windfall' gains to favoured entities) has contributed relatively little to the supply of housing. Without much needed relief of housing shortages that such tax provisions should sensibly have provided, housing prices have surged. There has resulted little benefit, and significant danger, to the national economy.

It is also valid to say that inflated housing prices must be recognised as resulting in less product (ie. dwelling) per purchase dollar. Again, productivity has declined !

The above-identified losses of productivity have had significant impacts on housing affordability. The funding of economically inefficient activities (in a national sense) associated with the housing industry has grown disproportionately when compared with funding of other sectors of the national economy.

Most importantly in the context of this Inquiry, the wages of the workforce have not kept pace with the rate of inflation in housing prices. This has a quite direct bearing on housing affordability. In June 2002 the press reported information received from the Bureau of Statistics and the Real Estate Institute which showed that, to purchase a home at that time it took more than twice as many pay packets at average weekly earnings as it had for a similar purchase in 1962. (This disparity has grown markedly since that report.)

I hope that this submission is of assistance to you in the conduct of the Inquiry into housing affordability.

Yours sincerely

Mr. J. Gee