

19 November 2003

Productivity Commission
LB2 Collins Street East
Melbourne, Vic, 3000

Dears Sirs/Madams

Re: Inquiry on First Home Ownership Affordability

1. The Federal Government needs to show that it is not putting politics ahead of the economy and that it is willing to acknowledge the wider dangers associated with the rise in housing prices and associated debts.

- Dr Ken Henry, the Secretary of the federal Treasury, told reporters on September 16, 2003 "...the housing bubble - I use that word advisedly and not for quotation outside this room". Why the secret?
- Michael Howard, now leader of the Conservative Party in Britain, stated that consumer debt figures "are a stark reminder of the dangerous imbalances now present in the British economy. Record personal borrowing does not augur well for the future" ("Sterling soars to a five year high", The Guardian, October 30, 2003).

Yet John Howard, leader of our own conservative party and our Prime Minister, appears not to hold such a view in relation to Australia (where it would appear the risks associated with household debts may be higher).

- Both the Federal Government and the Federal Opposition seem to be loath to consider changes to negative gearing, despite some compelling arguments in favour of such a change (including from the RBA). There are about 1 million negative gearers (voters).

2. The Productivity Commission should clearly show that it understands that there are vested interests associated with housing and the Commission should take this into account when preparing its reports.

- "Shock headlines and disapproving press commentary is all about the media gurus talking their own books. They're all worried about their property portfolios" (The Australian ('Safe as Cubby Houses', The Australian, 7/11/03).
- The CBA and Gandel Retail Trust took out full page advertisements in late 2002 warning investors about Mirvac's (the rival bidder) exposure to the residential property market. A "UBS Warburg report prompted banner headlines on the front page of newspapers, saying 'Housing Market Ready to Burst', which have now

featured in further advertisements in newspapers” (ABC Radio PM 26/9/02). When the Managing Director of Mirvac was asked whether the timing of the UBS Warburg report and the advertisements was coincidental, he replied to PM “Hardly”. Despite the assertions made in the CBA/Gandel advertisements, CBA’s economist seems to have been relatively comfortable about housing prices.

- Submissions to the Inquiry by industry associations tend to focus on areas which affect their own interests, which is natural.
- It would appear to be quite natural for the business sector (including financiers) to welcome fast growth in household credit – as it can boost revenues and profits (at least in the short to medium term).
- Finance sector economists have been able to dominate the economic debate in recent years. In May 2001, the Governor of the Reserve Bank said (to the Government’s standing committee on economic, finance and public administration) that vocal economists who work for financial institutions concentrate on the very short term rather than the long term (Letters to the Editor, AFR, 22/6/01).

Yours sincerely

Nigel Fitzpatrick