

Submission 3 to the Inquiry on First Home Ownership.
Addressing the Productivity Commission draft report; attached RTF file.
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To: the Productivity Commission, LB2 Collins Street East, Melbourne, 8003.
Email: housing@pc.gov.au

From: Loris Erik Kent Hemlof,
2003 December 19

The Productivity Commission has made a mistake in respect to the GST in to say that in respect to personal home ownership when advocating a GST as being a good tax on consumers rather than on builders. The Productivity Commissions report as it admits fails to consider the more complex long term affects of tax and subsidy measures, instead measuring the superficial advantages of GST on [other] producers inputs over consumers rather than the revenue affect on the building industry and the flow on affects of investment into new dwellings on builder and other producers purchasing power including cheapness. Although superficially producers are able to purchase new dwelling cheaper under the GST, their purchase of existing dwellings is also cheaper.

This inquiry is about personal home ownership. The housing sector is different from other sectors in that most consumption is by consumers of second hand dwellings and the choice to purchase a second hand dwelling by consumers and personal home ownership is heavily influenced by the payment of GST on new housing construction by personal buyers. The GST lead to a [temporary] 30% fall in construction, more in relation to personal home buyers, so builders lost investment and jobs. In the long term this has caused potential builders to lose buying power [income x (supply + cheapness)] and all productive citizens have lost the reward of new homes to buy. So have a market made up of more and more extortive prices for existing second hand houses and commercial monopoly rent seekers. This is a zero sums game. If all you do is increase finance and the personal building stock remains the same the net effect on affordability is zero. If you have then increased population the net affect on affordability is negative. The GST should apply to all new or second hand product consumption except housing.

For housing we should have not tax new housing construction for personal consumers or companies but subsidised developers \$5billion per year for subdivisions, and builders about \$20billion per year [the currant new housing market is only \$30billion per year, in a \$700+billion final consumption economy] for construction. Instead purchasers of second hands dwellings should be taxed irrespective of if whether producers or consumers, and a wealth tax introduced, [or land tax as the Productivity Commission advocates] This would have massively increased tax revenue [15% of dwelling sales are for new dwellings, 40% already exempt if bought by commercial investors, so 7.5% paying tax. To taxing 50% of the after tax size of the second hand market, minus 60% the portion of the 15% of new dwellings now subject to GST = an increase tax on dwellings to be on 41% a increase in revenue from housing by over 546% more with a tax rate more than 10%.], created productive investment in construction and so increase supply, and the buying power of builders [by purchasing power I mean actual capacity to purchase including affordability rather than the Productivity Commissions definition being of cash in hand]. The solutions of giving more money to demand side low income earners to buy existing

dwellings will just cause more disincentive for recipients to work to produce the houses we should build to meet demand. A restricted supply will just increase prices and reduce incomes so reduce buying power for builders. Any housing subsidy should either go to developers, builders, be for having children in a genetic material market, or be assets tested so as to have income testing abolished so as to maintain incentive.

The only person who will profit from the corruption of policy which has restricted new supply are capitalists bludgers profiteering on the homelessness, unemployment, and financial enslavement of otherwise productive Australians.

Interest rates should be differential based on the inflation rate of the asset class, with an interest rate subsidy to bring the interest revenue of lenders up to 12% for lower inflation rate asset classes, and interest rate tax to bring the interest rate revenue down to 12% for higher inflation rate classes. With deposit rates fixed at 5%. This would also have investment directed into new house construction running at 0% inflation and away from existing constructions running at 20% inflation. Second hand housing inflation is left out of the official inflation rate in use to determine housing interest rates. There is more merit in including the inflation rate of existing housing to determine interest rates because housing construction is more responsive to interest rates, than many other assets being a domestic product. Be it requiring 25 years before supply affects become apparent in the existing house market because of the long life of housing.

For skills development for best utilization of best educators, and local access there should be a levy on payroll for many specialist internet interactive video channels, and a subsidy of broadband internet network, broadcasters and students allowance in proportion to the number of questions the student correctly answers every 10 minutes to verify attention. Complemented by the normal market in apprentices and trainees.

From my personal experience a large number of black and Muslim refugees have come to live in my area, and have taken up much of the available low rent housing, while banned from working. Rents are 100% higher than 10 years ago while the quality of available units has declined. Soon I will not be able to pay for even a basic unit with my disability pensions and rent assistance and have more than \$10 per week left over for emergencies. Renting is nearly out of reach, even in cheap Adelaide, owning a home is way out of reach.

Tenants should be paid compensation of about \$5,000 by the landlord if a tenancy agreement is terminated. With arbitrated rent. This security of tenure or compensation would alleviate many of the housing stresses put on persons with low means.