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From: John Craig

Sent: 15 January 2004 8:31 PM

Subject: Feedback on PC's 'First Home Ownership' discussion draft

I should like to offer a comment on this report - but found that the Feedback form was inaccessible. Thus it would be appreciated if this email could be passed on to the appropriate person.

For attention

Authors of 'First Home Ownership'

c/- Productivity Commission

Whilst I have not studied the discussion draft, I have scanned the topics which appear to have been considered in developing it (in the table of contents) and noted what appears to be a critical oversight. The discussion draft does not appear to have considered the effect of problems in global financial and monetary systems which result in a high level of availability of credit for property purchases which has created a self-reinforcing bubble.

This excessive availability of credit in turn needs to be considered in the light of the sustained action by US monetary authorities (and others) to boost US and global economic growth by easy money policy in the face of (a) a demand deficit which is built into the structure of major East Asian financial and monetary systems and (b) constraints on inflation even with escalating money supply due to cheap Asian imports (see Structural Incompatibility puts Global Growth at Risk).

The issues raised in the latter document are not easy - and have apparently not been explored by others. They involve an attempt to understand cultural features of the East Asian economic models and how this translates into a preference (and virtual necessity) for an imbalance between economic production and consumption. A very explicit account of how this works in the particular case of Japan is however referenced from a US source.

This massive demand deficit appears to account for asset bubbles in the 1990s, and for most of the current account deficit which countries such as Australia (and US) have experienced - which has resulted in large capital inflows that Australian banks have directed mainly into property investment thus making housing unaffordable for new home buyers.

I would be interested in any reactions to my comments.

Regards

John Craig

Centre for Policy and Development Systems

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