

SUBMISSION TO PRODUCTIVITY COMMISSION'S INQUIRY INTO FIRST HOME OWNERSHIP, MARCH 2004

First Home Ownership (FHO) is affected by general issues of home ownership and the property market. These general issues are the subject of this submission, which leaves aside the other more specific issues relating to FHO.

Accordingly, my key point is that reasonable stability in housing prices in the Australian economy should be part of the focus of Australia's Monetary Policy (MP) as implemented by the central/Reserve Bank of Aust (RBA).

Unfortunately, housing prices in Australia's major cities have doubled over the past few years, an inexcusable rate of inflation.

This constitutes a grave failure of MP and of the RBA to acknowledge an appropriate MP objective and to succeed in achieving reasonable housing price stability.

The RBA's stance may be summarized in the following excerpts:

1: The RBA has "conducted monetary policy by using an inflation-targeting regime for about a decade now" (Governor's testimony to Parliament 8.12.03, RBA Bulletin Dec 03,pg13) In this role, "inflation" relates to asset prices of consumer goods and services other than of housing. But factors other than MP have been more determinants in restraining "inflation" as defined, such as the state of employment and exchange rates.

2 "The (belated) application of monetary policy (to housing and home ownership) would be likely to do more harm than good" (Ted Evans, retired Treasury Secretary and RBA Board member), quoted in Economic Papers, Mar 04, pg 40). Stability in housing prices is not an explicit RBA objective).

There is a general casting around to blame other jurisdictions for inflationary housing prices, such as negative gearing, capital gains tax law, State land tax, stamp duties etc.

Excessive housing price inflation is disastrous:

- 1 It has reduced home ownership affordability to its lowest level on record;
- 2 it seriously discourages family formation and family stability;
- 3 It favours speculation and profitability of property development at the expense of the work ethic and household saving;
- 4 It combines with the raising of tertiary education costs and student debt, to excessively burden younger generations and to discourage higher education;
- 5 It disturbs the rental market and in particular decimates public housing ("No Public Housing in 10 years", RMIT study, SMH 12.3.04).

The RBA's Bulletin Nov 03 pg 49-54 on "Assets Prices and Monetary Policy" illustrates a diversity of views amongst selected economists, though a consensus is claimed that Policy should not "ignore" housing prices, whatever that may mean.

Monthly games with financial markets on interest rates movements is scarcely the major role to be expected of a central bank and indeed a monetary instrument other than interest rates alone, may be necessary to achieve reasonable management of housing prices.

The central bank had such additional instruments until these were discarded in the 1970s and 80s at the urging of the private banks, to the disadvantage of the general Australian community.

It is incumbent on the RBA Board to (a) elevate housing price stability to the status of a monetary objective; (b) to nominate the means whereby this task can be exercised, if necessary, identifying additional instruments or procedures

The services ought be terminated, of RBA Board members whose performance cannot meet this challenge.

Maintaining an effective FHO program is greatly influenced by the RBA's willingness and capacity to prevent disastrous inflation and deflation of housing prices. There is a need to overhaul the RBA's functioning and to consider the support needed from and given to other aspects of national economic management.

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