

TITLE: Three solutions to housing affordability other than ‘get a good job’

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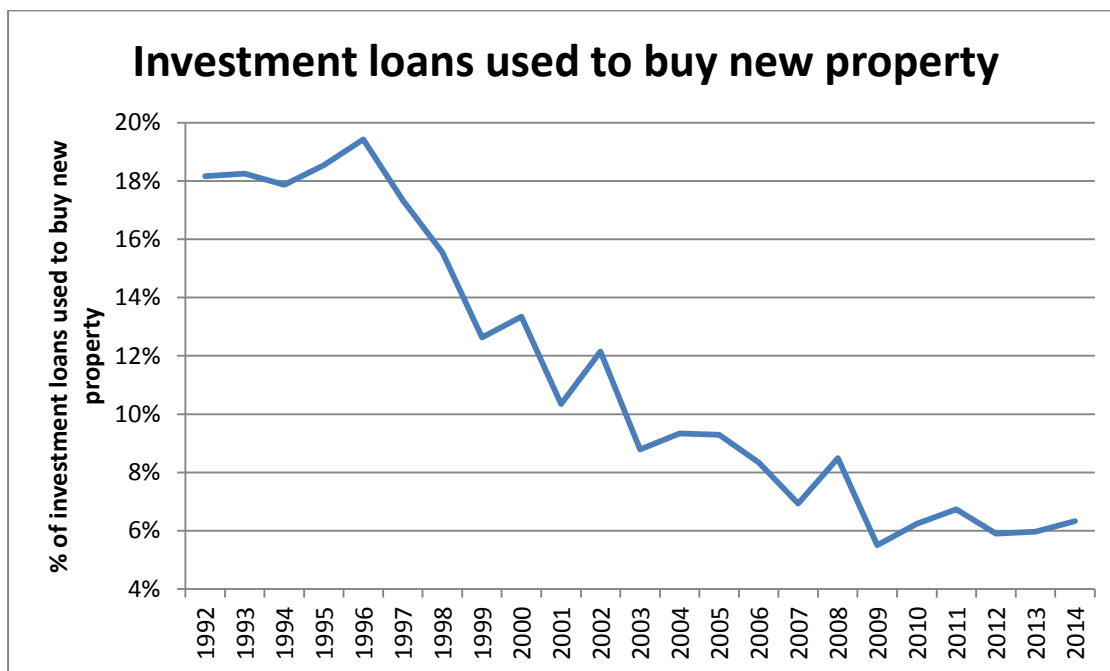
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While the public are rightly outraged at the callous tone of the Treasurer’s ‘get a good job’ remarks in response to housing affordability, economists should be equally disturbed about the bizarre logic behind the government’s approach to the issue.

Joe Hockey seems to be increasingly confused about what housing affordability is. Hockey and Abbott believe that more housing supply will make houses more affordable, but also want house prices to continue to rise. Surely they understand that the way additional supply makes housing more affordable is that it lowers house prices. This flies in the face of economic orthodoxy, and history. Given the stubborn refusal to look at the effect of government policy on housing affordability, it’s no wonder Hockey is at a loss for a decent answers when questioned about the issue.

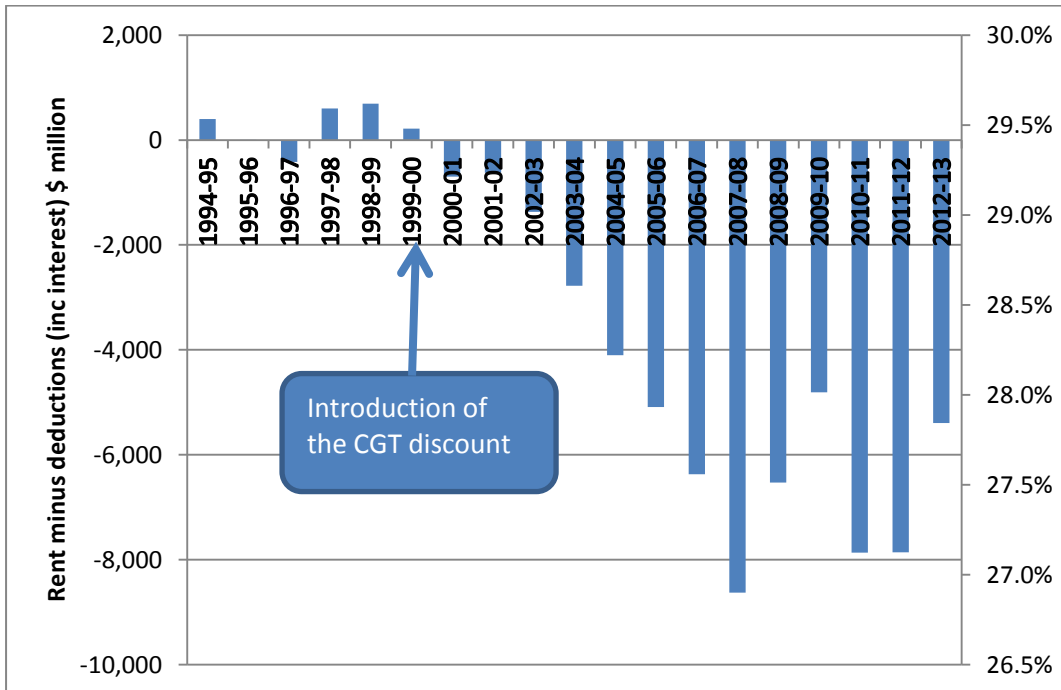
Three economic indicators suggest that negative gearing, working together with the capital gains tax discount are working against housing affordability. Here they are, with three solutions other than ‘get a good job that pays good money’ to be considered:

1 - Negative gearing is doing very little to increase the supply of housing and its effect is becoming smaller over time. It peaked at almost 20% in 1996 and is now down to just 6%.



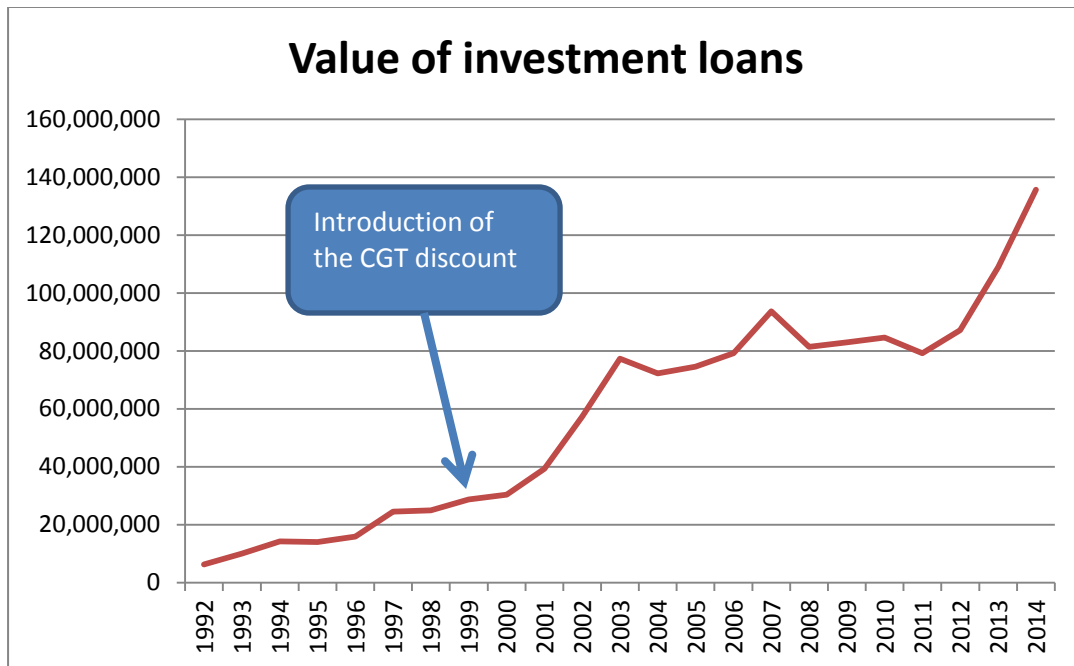
Solution: If the government is keen to have negative gearing bring new houses to the market then one way it could do this is to restrict negative gearing to newly built housing only. Investors buying existing houses off owner occupiers are certainly not increasing the housing stock. They are simply reducing the amount of people living in their own house by one and increasing the number of renters by one.

2 - The capital gains tax discount is encouraging people to invest in residential property. After its introduction in September 1999 there was a massive increase in the amount of money people were losing on property investments and hence the amount they were deducting off their taxable income.



Solution: Reverse the 1999 policy. Scrap the discount and tax capital gains at its nominal value like everything else. The benefits of the CGT discount flow overwhelmingly to the top 10% of income earners.

3 - Investors with big tax incentives have entered the market in record numbers to outbid owner occupiers and push up the price of housing. There have been two big increases in the amount of money borrowed for investment loans. The first after the CGT discount was introduced and the second after the GFC.



Solution: Pushing people out of home ownership is not healthy for society. While a rental market for housing is a good thing, it shouldn't come at the expense of those who want to own their own home. The tax incentives that investors are getting are giving them a big advantage. These tax incentives need to be restricted.

While Joe Hockey complains that releasing new land is the State's concern, that doesn't mean that he doesn't have the power to make housing more affordable. The problem is that any solution to housing affordability, whether it's more supply or less tax incentives, means either falling house prices or slow growth for an extended period. If the government is serious about housing affordability then it is going to have to face this economic fact and drop the idea that rising house prices are always a good thing.

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