Housing dream becomes a housing nightmare
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Housing plays a critical role in the Australian economy. Apart from meeting one of the most basic human needs – for shelter – it is most people's primary store of wealth. It accounts for more than half of total household wealth (and close to two-thirds of the wealth of middle-income households). It also plays a vital role in Australia's financial system. Almost 60% of the assets of Australia's financial institutions are secured against residential property. And the housing cycle is one of the key influences on the fluctuations of the broader Australian economy. Even though housing construction accounts for less than 6% of GDP, fluctuations in the level of housing activity have accounted for over 30% of the variation in real GDP growth over the past four decades.

The past decade should have been an unusually prosperous one for the Australian housing industry. Australia's population has grown rapidly – at an average annual rate of almost 320,000 (or 1.5%) since 2000, compared with 209,000 (or 1.2%) per annum during the 1990s – implying very strong growth in 'underlying' demand. Housing finance was more readily available, from more sources, than at any other time in Australia's history – and at interest rates which were, on average, lower than at any time since the 1960s.

On top of all that, the Commonwealth and State Governments gave more than $15bn by way of cash grants to first-time buyers (about two and a half times as much, in real terms, as they had done over the previous 35 years), as well as foregoing billions of dollars of revenue through stamp duty concessions.

Moreover, the halving of the capital gains tax rate in 1999 made 'negative gearing' a much more attractive proposition for property investors, turning it from a vehicle which allowed them merely to defer tax into one which facilitates permanent reductions in tax liabilities.

Yet despite this incredibly favourable backdrop, housing has spent most of the 21st century to date in the doldrums, apart from the policy-induced surge which followed the onset of the global financial crisis. Since 2000, we've only added an average of 149,500 new dwellings to the housing stock each year – that's just 2.300 more each year than we did during the 1990s, even though the annual increase in the population was almost 110, 000 per annum more than it was during the 1990s – and that's without taking account of demolitions of existing dwellings. As a proportion of (real) GDP, dwelling construction has fallen from a most recent peak of 6.2% in 2004 to just 4.7% in 2012. That's the smallest proportion in at least 50 years.

Moreover, notwithstanding the ostensible commitment of governments of all political persuasions to promoting home ownership, the home ownership rate at the 2011 Census – of 67% - was the lowest at any Census since 1954, and down 5 pc points since 1991. And this masks much larger declines in home ownership among most age groups: from 56% to 47% among 25-34 year olds, from 74% to 64% among 35-44 year olds, and from 81% to 73% among 45-54 year olds.

These outcomes represent a monumental failure of policy at all levels of government, by governments of all political persuasions.

Commonwealth and State Government programs, whether in the form of direct cash expenditures, or revenue foregone through tax concessions, have served largely to inflate the demand for housing; while programs which used to boost the supply of housing directly have been largely wound down (apart from the short-lived Social Housing program that formed part of the Rudd Government's response to the financial crisis, and the National Rental Affordabililty Scheme).

Meanwhile State and local governments, have (to varying degrees, and often perhaps unintentionally) constrained the supply of housing – by making developers pay up front for the cost of providing suburban infrastructure, by failing to provide adequate transport infrastructure to maintain the amenity of new housing estates, and by placing increasing obstacles (in terms of both time and money) in the path of efforts to redevelop inner suburban areas.

As a result, the increased demand for housing that should have been matched by increased supply of housing has instead served largely to inflate the price of housing – to the very great benefit of those who already own at least one property (and since they account for a large majority of the population, it's no wonder that governments haven't felt any compelling need to change any of these policies), but to the even greater detriment of those who don't.

Australia thus has among the world's most expensive housing, and a housing system that, increasingly fails to meet people's needs. One illustration of this failure is that between the 2006 and 2011 Censuses, the average number of people per dwelling actually rose for the first time in at least 100 years – the result of more young adults remaining in or returning to their parents' homes, or living in more crowded rental accommodation, because they have been effectively shut out of the housing market.

This will have long-term consequences – including for younger generations' financial position in retirement, their capacity to start businesses, and possibly for their willingness to have and raise families of their own. Those consequences are worth thinking about between now and the election, and beyond.