Opening statement to the House of Representatives Standing Committee on Tax and Revenue's Inquiry into Housing Affordability and Housing Supply

Saul Eslake – 17th November 2021

Once upon a time, Australia had one of the world's highest rates of home ownership. It rose from 52½% in the years immediately before and after the Second World War to a peak of 72.5% at the Census of 1966 – an extraordinary achievement considering how rapidly Australia's population grew during that period. It was still over 70% at the Census of 1986.

But over the following thirty years, it fell to 65.5% - and has since fallen to 62.7% as of 2019, according to the Household Income and Labour Dynamics in Australia (HILDA) Survey. That places us 27th among the 38 member countries of the OECD, and 5 percentage points below the OECD average.

The situation is even worse when you look at the distribution of home ownership across age groups. The home ownership rate among people aged 24-35 at the 2016 Census was 45% - lower than at any Census since that of 1947 – while the rate among people aged 35-44 was, at 62%, 13 percentage points lower than it had been in 1981 and only 1 percentage point higher than it had been at the Census of 1954. By contrast, 82% of people aged 65 and over owned their own homes at the 2016 Census, a drop of only 2 percentage points from the peak in 1991.

There are, of course, many reasons why home ownership rates have declined among younger Australians over the past four or five decades – including, in particular, that younger Australians nowadays remain in the education system (and hence don't start earning an income) for longer than was typical in the two or three decades after World War II: and they also typically partner, and have children, later than previous generations did.

But it seems unarguable that the single biggest reason for the decline in home ownership rates among younger Australians is declining housing affordability – as encapsulated in the fact that average property prices have more than doubled, as a multiple of average household disposable incomes, over the past thirty years, that ratio having been reasonably stable over the preceding thirty or forty years.

It is of course true that interest rates have come down significantly over the past thirty years – which (all else being equal) makes servicing a mortgage of any given size easier.

But lower interest rates don't do anything to offset the adverse impact which rising property prices have on the ability to accumulate the deposit required to obtain a mortgage (indeed, they make it more difficult). And, along with other economists, I would argue that lower interest rates have been one of the factors contributing to the dramatic inflation of residential property prices over the past three decades.

Residential property prices are – like any other prices – the result of the interplay between supply and demand.

The main reason why residential property prices remained relatively stable, as a multiple of average incomes, during the three or four decades after the end of World War II was that, for the most part, governments (at all levels and of all political persuasions) for the most part focussed their attention on boosting the supply of housing, and (apart from maintaining high rates of immigration) avoided doing things which inflated the demand for it.

But, beginning with the introduction of the Home Savings Grant in 1964, and especially since the late 1980s and early 1990s, the policies of governments – of all political persuasions and at all levels – have shifted away from boosting supply towards inflating demand.

Federal and state Governments have significantly reduced the amounts which they spend on maintaining and adding to the stock of new social housing; while state and local governments have, in many ways, added to the cost and complexity of adding to the stock of privately-owned housing. Meanwhile, both federal and state governments have pursued policies which – intentionally or otherwise – have had the effect of inflating the demand for housing, including ever-more-generous cash grants to and stamp duty concessions for first-time buyers, and more generous tax preferences for property investors.

This shift in the emphasis of housing policies has unambiguously rewarded existing property owners, at the expense of those who have been unable to become property owners. The value of residential land and buildings has risen by 931% (from $825 billion to $8.5 trillion) over the past thirty years: while the stock of household debt has risen by almost 1,200% (from $206 billion to $2.6 trillion).

And the wealth which that represents has become increasingly unequally distributed across generations. According to the ABS Surveys of Household Income and Wealth, the share of total household wealth owned by households where the 'reference person' is aged 65 or over rose from 25% to 33% between 2003-04 and 201 7-18 (the latest available survey): while the share owned by households where the 'reference person' is aged under 45 has declined from 27% to 18% over the same period. (These are much bigger shifts than can be explained by changes in the proportion of total households in these age groups).

If these trends continue – which they will, in the absence of any change in the policies which have brought them about – they will have profound consequences for many aspects of both our economy and our society, including the capacity to start small businesses, and the ability of our retirement income systems to provide adequately for people in their later years.

The terms of reference for this inquiry implicitly assume that the 'solutions' to Australia's housing affordability problem are to be found primarily, if not wholly, on the 'supply' side.

While I don't dispute that there is more that could and should be done to increase the supply of housing, I would nonetheless note that quite a lot has already been done on the 'supply side'. In the five years to 2019-20, dwelling completions averaged just over 208,000 per annum – 37% above the average of 152,000 per annum over the previous 25 years.

What's less clear is whether this (significant) increase in housing supply is of the 'right' type (having regard to the sort of housing which people want to live in), whether it is in the 'right' places (having regard to where people want to live and work), and in particular whether it is at the 'right' price points (having regard to what people in need of housing can afford to pay).

I would also argue, however, that focussing solely on the 'supply side' of the Australian housing market is not sufficient to solve the housing problems which Australians are now facing. To do so is, in effect, to tie one hand behind your back. Attention also needs to be given to the way in which government policies also serve to inflate demand – in ways which reward those who already have (one or more properties) at the expense of those who have not.

To those on the Coalition side of this Committee I would observe that the American equivalent of 'negative gearing' was abolished by the Reagan Administration in 1986, and the UK equivalent of it was abolished by the (Conservative) Cameron Government about six years ago. In other words, scaling back the preferential treatment afforded to property investors is not something which only left-of-centre governments do.

To those on the Labor side I would point out that your colleagues in New Zealand have this year gone considerably further in reducing tax preferences for property investors than you advocated at the last two Federal elections: and yet the sky has not fallen in.

To all honourable members of this Committee, I would ask: with whose interests are you most concerned, as you consider the issues raised by your terms of reference?

Is it the interests of the 11 million Australians who already own at least one property, and the more than 2 million who own more than one? Or is it with the minority – albeit a growing minority – of Australians who are unable to achieve what their parents and grandparents took almost for granted, that if they worked hard and saved they would be able to own their own homes: and another, also growing, minority, who know that they will never be able to own their own homes, and must seek to provide shelter for themselves and their dependents an increasingly difficult private rental market.

The answer you give to that question will determine what you recommend to the Parliament.

Saul Eslake