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There must be an election on - both major parties are proposing policies which will push up house prices

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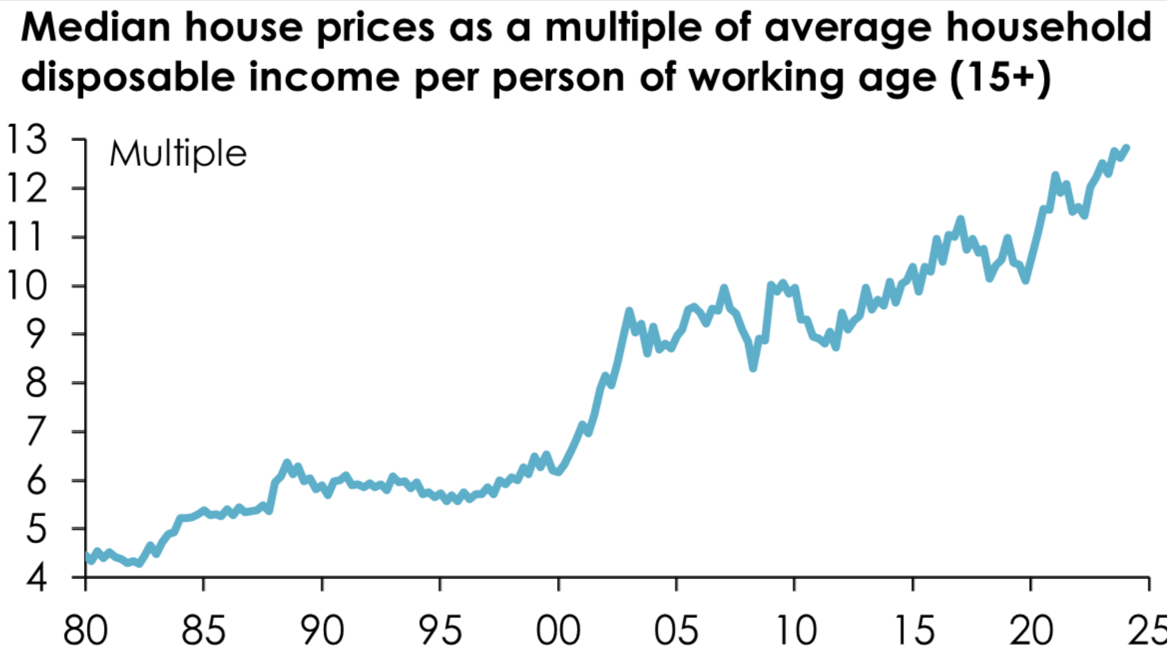
Today is a bad day for aspiring home-buyers. Both sides of politics are proposing policies which will put upward pressure on housing prices - albeit one more than the other. There must be an election in the offing. Oh, yes, of course there is - on 3rd May. I nearly forgot.



According to reports this morning, at its official campaign launch later today, the Liberal-National Coalition will propose that, if elected, they will make interest payments on mortgages (up to a maximum value of $650,000) taken out by first home buyers (with incomes of less than $175,000, or $250,000 combined for couples) who purchase newly-built houses or apartments tax-deductible for the first five years (in Australia, unlike, eg, the US, interest on owner-occupier mortgages isn't tax-deductible, but nor are capital gains on owner-occupied homes taxable).

The Coalition is claiming that that this will save a first home buyer (FHB) in the 30% tax bracket with a $650,000 mortgage around $12,000 a year, or for someone in the 37% tax bracket with a similar mortgage, around $14,500 a year

But we know from recent history - the big falls in interest rates that occurred during the GFC and more recently during the Covid-19 pandemic - that FHBs won't save these amounts. They will take out bigger mortgages. And so house prices will go up. As they always do.

We have sixty years' worth of history - going back to the very first First Home Owners' Grant scheme, introduced by the Menzies Government in 1964, having promised to do so at the preceding 1963 federal election, at the urging of the New South Wales Young Liberals whose President at the time was John Howard - that **anything** which allows Australians to spend more on housing than they'd be able to otherwise, results in **more expensive housing** and (notwithstanding the stated intent of such policies) **a smaller proportion of the population owning housing** (ie, a lower home ownership rate).

In other words, it's not a co-incidence that Australia's home ownership rate peaked at the first Census after the introduction of the first First Home Owners' Grant Scheme, the Census of 1966, and has been going down ever since (especially among people under the age of 45, for whom home ownership rates at the most recent Census in 2021 were the lowest they've been since the Censuses of 1947 or 1954).

Yes, at least the tax-deductibility of mortgage interest will be limited to those first home buyers who buy a new home.

The Coalition argues that its policy will encourage more first time buyers to purchase new homes - if they can find them, because there's nothing in this policy which will encourage more new homes to be built. But, as a matter of very simple logic, if the demand for new homes increases and the supply of new homes doesn't, then the price of new homes will go up. And history tells us that this will be reflected, to at least some extent, in the prices of existing homes.

When you combine this with the Coalition's 'Super for Housing' scheme - which as I've argued (**'Super for Housing' – a Thoroughly Bad Idea**) amounts to a 'souped-up' (no pun intended) First Home Owners' Grant scheme using first home owners' money (their superannuation savings) rather than taxpayers' - and it's clear that the Coalition's (unstated) intention is to re-ignite the housing price inflation which is the principal cause of the 'housing crisis' which we have today (indeed, which has been building for over two decades).

Taken together, these two policies would - if implemented - be a contender for overthrowing the disgraceful 'WA GST deal' as a contender for the title of **The Worst Public Policy Decision of the 21st Century Thus Far**.

But the Coalition aren't alone in advocating policies which would add to upward pressure on housing prices.

At its campaign launch in (where else?) Perth today, Labor will promise to extend its Deposit Guarantee Scheme, allowing all first home buyers (rather than, as at present, those with incomes of less than $125,000, or for couples, $200,000) to buy a first home with a deposit of 5%, by guaranteeing the remaining 15% of a mortgage normally covered by a deposit in order to avoid having to take out Lenders' Mortgage Insurance. And the current cap of 50,000 on the number of participants eligible to take up the scheme in any one financial year will be abolished.

In theory, the Scheme allows someone who's saved up a deposit of (say) $50,000 - and can thus take out a mortgage of $200,000 (without LMI) and so can buy a $250,000 house (if she or he can find one) - to instead be able to take out a mortgage of up to $800,000 (and thus buy a much more expensive house).

In practice of course someone who's only been able to accumulate a deposit of $50,000 probably wouldn't be able to service an $800,000 mortage (the loan serviceability assessment criteria applied by lenders won't change). But he or she might be able to service a mortgage of, say, $400,000. And so with borrowing capacity thus enhanced, prices will go up.

Labor says that its proposal will allow about 3,000 people currently unable to buy a home at all to do so, and another 27,000 people who can currentely afford to buy a home, to take out a larger mortgage in order to buy a more expensive one. They're arguing that this won't have a substantial impact on house prices - although they are at least honest enough to acknowledge that it will have some impact on house prices. (This policy won't cost the Budget much, because default rates on Australian mortgages are very low, so the government guarantee is rarely called on).

And they are also proposing a policy which will do something to boost the supply of housing - by 'investing' $10 billion (it's not clear over how many years) by way of grants to the states and territories ($2 billion) and interest-free loans or equity investments ($8 billion, which will be 'off-budget', adding to the mushrooming total of spending being funded in this way) to speed up the construction of new homes, especially on vacant or under-utilized government land, for sale to first home buyers. Labor says that this will result in the construction of an additional 100,000 homes (although again it's not clear over what period).

One is left to wonder, why do parties of both major political persuasions keep doing things which they know will put upward pressure on house prices, and thus exacerbate the problem which they say they are trying to solve?

It's hard to avoid the conclusion that the reason is that they know that there are only about 110,000 people who each year succeed in becoming first home buyers: and even if you assume that for every one who does, there are five or six who don't, that's still only 700,000 or so votes, tops, for policies that might restrain the rate of house price inflation, or halt it altogether. Whereas politicians also know that at any point in time there are more than 11 million voters who own their own home, and more than 2¼ million who own at least one investment property: and the last thing those 11-13 million voters want is anything that might restrain (let alone halt) the rate of property price inflation.

So on the one hand, 700,000 votes, on the other, something north of 11 million - even the dumbest of our politicians can "do that math" (as the Americans say). And they do.

Oh dear.

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