

Comments

What Should We Do Now?

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Key Issues

- Any policy considerations around the housing market must be:
 - based on an assumption that we are in some sort of market equilibrium with price stability
 - of a nature such as to not stoke (or douse) the housing market in the future
- It is not clear that this is the case.
- Market still looks out of kilter with long run equilibrium.
 - Rent as a measure of future expected value suggests this.
 - Scary prospects of simply worthless property (apartments in distant suburbs for example).
 - Inertia due to negative equity **OR** cashing in asset growth for lucky ones (first up best dressed!)
- Little evidence of clarity of what economic policy on housing is trying to do, and how it interacts with broader policy aims within the housing market (e.g. price stability, rental markets) and the wider economy.
- Critical that we get consistency between economic policy around housing, and economic policy generally.
- Even more critical that we get the market into some sort of clear equilibrium before we start implementing new fiscal strategies around the housing market!

Some thoughts

Stamp Duty

- Easy to get used to - but clearly a volatile source! And one with hidden effects - labour market mobility just when we need it most, high 'entry' cost to the second hand market
- No reason to abolish in a market that is functioning normally but rates are high by international standards and as a transaction tax it does distort market activity.
 - Lower the stamp duty considerably and use in conjunction with a property tax.
 - Use as a policy lever that is less lumpy than alternatives to control the pace of the market - raise or lower (a bit like a pension levy!!) with relative speed and ease.
 - Australians taking some lessons in behavioural economics - partial withdrawal of housing supports in October, more by December, fully by Spring 2010.
- Worth nothing now to the exchequer so abolish now with pre-announced period where transactions are 'free' before any other taxes are applied - jog the market out of slumber.

Property Tax

- As with any *ad valorem* tax the tax is more stable as a revenue source.
- Works best if hypothecated against a defined expenditure need and therefore it adjusts up or down (!) to meet that need, with Stamp Duty providing some cyclical levers.
- Even more critical that the market is in some sort of equilibrium before any introduction - failure to keep the valuations up to date will inevitably lead to the perception that the tax is "unfair" and eventually to its abolition prior to an election!

Pitfalls

Consistency with other government policy

- 'green' agenda will require some tricks like density and planning boundary to avoid chasing lower property taxes by 'sprawling'
- Will be politically even harder than stamp duty - property tax broadly progressive but at margins can be regressive.
 - boom made a lot of former Council tenants 'wealthy'
 -and made a lot of leafy middle class households (including ageing ones) release equity and take on after tax debt.
 - Asset rich and income poor within both groups
 - This could get very messy!!!
- Rental market - upward price pressure to allow owner to absorb tax.³