

In Australia, as in many other countries, home ownership is regarded as a Good Thing. It caters to the need, which most people feel, to have a place which they can call their own. Typically, it provides a source of stability and security for families when they are raising children, and to people in retirement. It provides the means by which many people accumulate the majority of such wealth as they have. For some, it provides the financial base from which a small business can be built. Arguably, home ownership also provides broader social benefits such as stable communities in which people feel they have a tangible stake, and to which they are willing to contribute.

Historically, centre-right political parties have believed that home owners are more likely to vote for them. This view was also at one time shared by the Labor Party which, in the famous words of the Chifley Government's Housing Minister, John Dedman, was 'not concerned with making the workers into little capitalists' by making it easier for them to become home-owners. In more recent times, however, the Labor Party has been no less fervent than the Liberal and National Parties in its support for home ownership.

As a result, programs involving the provision of financial assistance to intending first home buyers have long enjoyed bi-partisan support. Such assistance has included the provision of low-interest loans through State housing agencies to eligible first-time buyers for the purchase of dwellings built by or for those agencies (which was the principal form of assistance to home buyers from the 1940s until the 1970s) or, more recently, other dwellings; exemptions from (or reductions in) the stamp duty payable on the purchase of housing by first-time buyers; and (since 1963, with some interruptions) cash grants to first-time buyers.

The current form of cash grants to first home owners was introduced in 2000, ostensibly as compensation for the imposition of GST on new homes, although the First Home Owner Grant is available to first-time buyers of existing homes (on which no GST is levied) as well as purchasers of new dwellings. Unlike earlier programs of cash grants to first home buyers, the current scheme does not require any savings history on the part of applicants and thus can not be additionally depicted as providing an incentive to save.

Between 2000-01 and 2007-08, State and Territory Governments spent over \$8 billion on First Home Owner Grants. In addition, the Commonwealth Government spent at least \$140mn on higher grants to first-time purchasers of new homes between March 2001 and June 2002, and at least \$2 billion on higher grants to first-time buyers of new and existing dwellings between October 2008 and December 2009. Three States provide additional grants on top of those paid out under the First Home Owner Scheme; Victoria, for example, spent \$121 million on these grants in 2007-08, as well as around \$70mn on stamp duty concession to first-time buyers.

However, despite all of this assistance to home buyers, and notwithstanding the substantial decline in mortgage interest rates since the early 1990s, the overall Australian home ownership rate has remained almost entirely unchanged since the early 1960s, fluctuating between 68% and 72% between the 1961 and 2006 censuses.

Indeed, between the 1996 and 2006 censuses, the home ownership rate actually declined in every age bracket except the over 65s (where it remained

unchanged)<sup>1</sup>; the only reason why the overall home ownership rate rose (by about one percentage point) over this interval is because of an increase in the proportion of the Australian population aged 45 and over, among whom home ownership rates are consistently above the national average.

In other words, the panoply of policies pursued by governments of both political persuasions in the name of promoting increased home ownership has conspicuously failed to achieve that objective.

The best that can be said of these programs is that – possibly – home ownership rates may have declined without them; but even that is by no means beyond dispute.

The basic problem is that, for at least the past thirty or so years, home ownership policies in Australia have focussed almost entirely on increasing the purchasing power of would-be buyers, by allowing them to pay more for dwellings than they would have been able to do without cash grants, stamp duty exemptions or concessions and lower interest rates, whilst doing very little to increase the quantity or variety or to lower the price of the dwellings available for purchase. That is, housing policy has sought to increase *demand* for housing whilst doing almost nothing to increase the *supply* of it.

Indeed, in many instances (particularly in New South Wales), government policies have had the effect of *reducing* the supply of housing, by preventing land from being developed for housing, or by increasing the costs of land development (through 'up-front' infrastructure charges and the like) to the point where developers can no longer profitably produce housing at prices which first-time buyers can afford to pay, so that they instead seek to build a smaller number of higher-priced dwellings targeted at second- or third-time buyers. Similarly, urban planning policies have (in response to strong community pressure) often had the effect of making higher-density development more difficult, or more expensive, or both.

In these circumstances, it has been almost inevitable – and entirely predictable – that the assistance which governments have provided to intending home buyers has ended up being capitalized into the price of housing, thereby enriching the owners of the existing housing stock, whilst doing almost nothing to make housing more affordable or to increase the rate of home ownership. The only result of policies which put additional cash into the hands of intending first-home buyers and thus allow them to pay more for the homes which they wish to buy is that housing has become more expensive than it would have been in the absence of those policies. Indeed, it would be more accurate to describe the First Home Owner Grant as a Second and Subsequent Vendor Grant, because more often than not, that's where the money ends up.

This probably explains why the home ownership policies long favoured by Australian governments remain so popular, despite their conspicuous failure to achieve their stated objective. There are close to six million home-owning households in Australia, nearly all of whom believe (rightly or wrongly) that rising house prices make them richer; whereas in any given year since the introduction

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<sup>1</sup> Judith Yates, Hal Kendig and Ben Phillips with Vivienne Milligan and Rob Tanton, *Sustaining fair shares: the Australian housing system and intergenerational sustainability*, AHURI National Research Venture 3: Housing Affordability for Lower Income Australians, Research Paper 11, February 2008.

of the current First Home Owner Grant scheme there have been on average only 125,000 successful first home buyers, for whom rising house prices are a negative (at least up until the moment at which they join the club of home owners, when their perspective on rising house prices typically undergoes an abrupt change).

And that, in turn, is why Australia's housing affordability problem will almost certainly never be 'solved', except inadvertently. The United States *has* 'solved' its housing affordability problem: as a result of the fall in house prices which helped precipitate the global financial crisis, housing there is now more 'affordable' than at any time since the 1960s – if you can get a mortgage. But the broader economic consequences of 'solving' the American housing affordability problem in this way have been horrendous, and not just for the United States.

No Australian government – or political party aspiring to government - would ever implement or advocate measures intended to bring on an across-the-board fall in house prices. On the contrary (as we have seen as part of Australia's response to the global financial crisis), Australian governments will go to considerable lengths to prevent even a modest decline in house prices prompted by factors entirely beyond a government's control.

So although the answer to the question, 'Wot if ... governments stopped subsidizing home buyers?' is, 'Housing would become more affordable, and the home ownership rate might actually go up', the probability that governments will abandon a set of policies which have been so stunningly unsuccessful in achieving their stated objective is, in the end, risibly small.