

Commonwealth & RBA must consider house price effects on productivity, instability: Report

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The Reserve Bank of Australia (RBA) and a Royal Commission should address the effect of soaring house prices on productivity and economic stability, according to a [landmark new report](#).

It also finds all levels of government must collaborate to expand housing supply and the infrastructure needed to support it.

The UNSW report to the Housing and Productivity Research Consortium, titled *'Housing: Taming the Elephant in the Economy'* interviewed a panel of 87 experts and undertook an extensive review of national and international literature.

[The study noted](#) that national household debt has more than doubled, from 70% of GDP in 1990 to almost 185% in 2020, exposing a ticking economic time bomb should interest rates rise in future.

Australia's house prices have risen by 10% in the year to April 2021 and are forecast to increase between 10% and 14% over the coming year.

The report stresses the importance of intervening to stabilise the market, with housing stock valued at an estimated \$8.1 trillion and housing construction accounting for five per cent of all Australian jobs.

The report's lead author, Prof Duncan Maclellan, said the review confirms Australia's housing system is not working for the economy and an immediate overhaul is needed.

"Australia's approach to housing policy has fueled income and wealth inequality and created significant economic instability. This is a huge drag on productivity and warps Australia's capital investment patterns," Professor Maclellan said.

"The recent explosion in house prices brings a fresh and troubling dynamic. Rampant price growth has returned to the larger cities and is now spreading to regional Australia. This is in part due to the pandemic-fueled work-from-home revolution but is also because so many younger Australians can no longer afford the life they want as homeowners in the larger cities.

"Policy makers must pay greater attention to the economic fallout created by housing market distortions. The Commonwealth Government's policy actions are boosting inflationary pressures and the RBA has effectively washed its hands of responsibility for house prices, arguing higher prices are good for the economy. But when people are paying more and more for rent and to service their mortgages, they have less and less to spend on other goods and services.

"The responsibilities of the RBA need to be expanded to include maintaining a more stable, rational housing market.

"The Commonwealth is right to highlight sluggish housing supply but wrong to assume that State and local planning is the cause. Shortages of infrastructure, skilled labour and raw materials all matter too. States do need to audit housing supply chains and bring all their powers to bear to make them faster and more flexible. But short political time horizons and cross-border and cross-sector blame games will not help younger and poorer Australians.

"The scale and complexity of the problem demands that a Royal Commission be established to investigate how to defuse the time bomb and create a more effective and equitable market for all Australians.

Respected housing economist Saul Eslake said: "Media coverage is rightly sounding alarm at recently booming house prices that are locking more young people out of the market. But this is far from a short term or cyclical issue. It's a structural problem that's been building for decades. And it's one that won't be solved by policy initiatives that just tinker round the edges.

“It’s been more than amply demonstrated that what governments need to do is step back from policies which serve mainly, or only, to inflate the demand for housing, and step up to pursue policies which expand the supply of it.”

Everybody’s Home national spokesperson Kate Colvin said: “Surging property prices have left some wealthier and older Australians better off but younger and poorer Australians, who are the future buyers, are much worse off. It’s time to shine a light on the fundamental flaws in our nation’s housing policies and create a concrete plan of solutions that work to address growing housing inequity, like building more social and affordable housing.”

Key recommendations from the report include:

- The establishment of a Royal Commission on Housing Future Australia
- The expansion of RBA formal accountabilities to include housing market stability
- The establishment of a permanent Housing Committee as part of the National Cabinet
- The development of a national housing strategy by the Commonwealth Government, including a housing market strategy
- The establishment of a national housing agency under Commonwealth Treasury with specialist policy capability to champion actions to achieve effective housing-economy outcomes, to promote affordable housing development and to re-create the analytical capacity of the former National Housing Supply Council
- In the immediate term, Australian governments should give consideration to switching housing stimulus efforts from market housing to the rental sector with potentially lesser inflationary consequences

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