Sabwinion to **Ennui** **John A Turner** L+

27t' August 2003

The Chairman,
Productivity Commission

Dear Sir,

re: House Prices for First Home Buyers

There is a multitude of factors that have caused home prices to increase inordinately. However six are, in my opinion, of major importance.

Firstly there is the value placed on land when it becomes available for housing development. This valuation seems to have no relationship to the value of the land for any agricultural purpose. Speculation in vacant land is a case of the older generations taking unfair advantage of the young. The young wore not about when a particular piece of land was available cheaper than it is now. The basis for resumption of land for housing development needs to be reviewed and 1 would suggest a basis of, say, a multiple of the land's average agricultural net profit over the last ton yews or the land's last ownership transfer price indexed for inflation. A high proportion of the lots made available when resumed land is subdivided should be reserved for fint-home buyers with young families, There would necessarily be clauses in the necessary legislation to prevent manipulation and bogus transfers. We should avoid subdividing good agricultural land,

The second factor is George Soros' concept of reflexivity. Reflexivity is the practice of overvaluing assets and then granting loans of a high proportion of the inflated value. This leads to inflation in prices and a self-fulfilling cycle.

The third factor is the rate of increase in the loam or assets books of financial institutions. Allowing financial institutions to determine the rate at which they can create loans by letting them set the rate at which they can expand their capital adequacy has led them to seek extraordinarily high profits ftorn excessive charges. Those profit over and above that necessary for a reasonable dividend can be added to their capital base, At a capital adequacy ratio of 10% each billion dollars of excess profits each year allows the financial institutions to extend their loan portfolio by ten billion dollars. For the last five years at least the banks have increased their loans by 12-15% per annum compound. 19 it any wonder that money has lost purchasing power in the housing asset market, particularly while the share market has been in the doldrums both here and internationally? This problem has been caused only by Commonwealth Government policy. It was John Howard who commissioned the Campbell Report into the deregulation of the financial industry although the Hawke Governinent put the Campbell recommendations into effect. I assume that the Frazer Ministry had more sense. I could go on at length over this deregulation but the fundamental argument is that money is not something that is produced in a manner similar to guns and butter, or subject to the economic choices that the production of real goods entail. Creation of money is subject only to prudential considerations and as such should be the subject to sufficient regulation to ensure that money's is maintained reasonably steady. We need to move away from a self regulation system based on capital adequacy ratio to something similar to the old statutory ratio and loans and government securities holdings which allowed the government adequate controls over the money supply as long as it applied to all lending agencies.

The fourth main cause is failure to effectively apply tax law in regard to negative gearing. The Tax Commissioner has some power to ensure that interest charges are allowed as a tax deduction only if there is the prospect of the activity being profitable in a reasonable time fMme. Allowing those on high income to compete for properties, while their interest bill is tax deductible, against home-seekers for whom the interest bill is a non deductible burden is inequitable. One possible solution would be to only allow, for taxation purposes, interest to be deducted from the rental income on an investment property up to a fixed percentage (say 50%) of the rental income.

Fifthly, the divergence in the relative incomes of various occupations in this country is leading to the situation where the highly paid are seeking safe investments for their large savings. Paying executives in large corporations millions and specialist medical practitioners, senior legal counsel, dentists and even accountants incomes of hundreds of dollars per hour is bound to lead to the creation of a landlord or asset rich class and a consequent underclass. If we are a society that believes in equal opportunity we need to ensure that our income and our tax policies are such that equal opportunity is a possibility. At just on 73 years of age and as someone who paid 66cents tax from *the last* dollar while raising five children for many years 1 see no reason for making the tax rates less progressive. I suspect that the adoption of a OST has compounded the reduction in the progressive nature of our tax system, Any discretionary expenditure by those with low incomes is now subject to taxation. One possibility would be the introduction of a gift and inheritance tax file number for each citizen so that tax was paid on any gift or inheritance once a threshold was exceeded. I suggest that an appropriate threshold would be about the value of three years average income. Tax raised in this way could be used to increase the income tax threshold and, reduce the tax rate on the last dollars particularly for those with young families. Laws in relation to trusts and similar escape mechanisms would need amendment. Property passing from a deceased to a long-term partner would not need to be subject to such a system. Taxation collected in this manner would serve to bring more properties onto the market particularly those properties not needed for accommodation by heirs.

Lastly the *changes* to the initial capital gains tax legislation have had effects that were probably not foreseen when the changes were introduced. The original legislation, introduced by the Hawke Government, was sensible in that only gains in excess of the relative changes in the purchasing power of money were taxable. The move to the current system has meant landlords and investors pay tax on windfall income at half the rate that is paid on the same amount *of income* earned m wages or Wary paid in return for effort. This is certainly inequitable. The system has also increased the attraction of property investment

I will expand further if necessary on any points 1 have raised, I look forward to seeing if your review effectively tackles what is a thorny political issue.

I have appended a short description of my education and experience.

Yours sincerely

John Turner