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Joe Hockey gives Labor an unexpected gift

Joe Hockey's fumble over housing affordability was a gift for Labor and has also exposed the Coalition's failure of economic management, writes Phillip Coorey and Jacob Greber.

Joe Hockey's sin this week was twofold. **Andrew Meares**

by Phillip Coorey | Jacob Greber

Tony Abbott is not making it up when he told reporters this week he knows what it is like to feel mortgage stress.

After John Howard lost the November 2007 election, Abbott, like other ministers, became a shadow minister and his pay dropped by about $90,000.

Back then, shadow ministers were paid the same as backbenchers and Abbott, with a large North Shore mortgage and kids in private schools, was the first to go cap in hand to then manager of government business Anthony Albanese proposing a pay rise for shadow ministers.

"The advent of the Rudd government has caused serious mortgage stress for a section of the Australian community, i.e former Howard government ministers," he joked to The Australian newspaper in January 2008.

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"You don't just lose power ... you certainly lose income as well, and if you are reliant on your parliamentary salary for your daily living, obviously it makes a big difference."

PAY RESTRUCTURED

A few years later, the change was made. "We made them wait," says Albanese. MPs' pay was restructured significantly and everyone, shadow ministers included, received an enormous boost.

Losing a ministry or even your job is an accepted risk that arises in federal politics with each election. That's why they are paid pretty well and, until Howard lost his nerve to Mark Latham in 2004, were well superannuated.

But as it was back then and is today, the rest of society has no such recourse to the public teat should they find their salary insufficient to buy a house, or service a mortgage, in Sydney particularly but in parts of Melbourne too.

The political debate over housing affordability is not new but it is at its most pronounced since the lead-up to the 2007 election when then opposition leader Kevin Rudd put it on the agenda by appointing a shadow minster for housing, holding a round table of experts and proposing policy ideas.

Howard did not denigrate Rudd. He, too, acknowledged a problem, empathised with voters and tried to outbid Rudd with policy proposals of his own.

Neither leader claimed to have a single solution but it was smart politics to try.

HOCKEY'S COMMENTS

Joe Hockey's sin this week was twofold. When asked if housing in Sydney was unaffordable, he should have said that for many people it was and that the government was very concerned about it and while there was no silver bullet, it was exploring policy solutions.

Instead, he said it was not unaffordable because houses were still selling.

And people with good jobs unable to crack into the market felt patronised when the Treasurer said a good job that paid well was an important starting point.

The response to Hockey's comments differed greatly depending on geography, demonstrating just how sensitive the issue is in Sydney where the median house price rose 15 per cent in the year to the end of May, to $752,000 and is tipped to reach $1 million by Christmas.

SUPPORT IN ADELAIDE

While he was generally being taken apart, in Adelaide, where the median price rose 3.4 per cent over the same period to $400,000, talkback radio was overwhelmingly in support of the Treasurer who they said was simply stating the obvious.

Talkback and listener feedback on top-rating commercial station 5AA, was running nine-to-one in Hockey's favour.

While a school teacher married to a police officer in Adelaide can still buy a house, the same couple in Sydney is far more pessimistic.

Before Hockey's comments, Labor had been tip-toeing towards doing something about housing affordability. At the National Press Club two weeks before the budget, shadow treasurer Chris Bowen mentioned Labor would be looking at changing negative gearing as part of a housing affordability policy it was developing.

Bowen emphasised two core principles – any changes would not affect existing investors who had invested in good faith, and they must do nothing to dampen the supply of new housing. Options included restricting gearing to new homes or restricting the number of properties which could be geared by an individual.

Soon after, the government used the admission to bolster its case that Labor was the party of tax increases.

'POLITICAL OPPORTUNITY'

One Labor source says Hockey's fumble on Tuesday has provided Labor with the political opportunity to swing the debate. Only days before the gaffe, Labor had been playing down negative gearing.

"In order to tackle that issue, we think there's a lot of focus that needs to be on the supply side. Negative gearing changes are not the focus of the Labor Party," said leader Bill Shorten on Monday.

The day before, Greens senator Scott Ludlam announced a policy to abolish negative gearing for all new investment properties from July 1, 2015, onwards – a move the Parliamentary Budget Office estimated would save $42 billion over a decade.

By Wednesday, the same day Reserve Bank governor Glenn Stevens said Sydney house prices were "crazy", shadow finance minister Tony Burke said Labor's policy would examine capital gains tax concessions for investors, as well as negative gearing.

GOVERNMENT RESPONDS

The government, which is busily ruling out tax changes as part of its pre-election strategy, went into overdrive.

"They want to hit your super with more tax, they apparently want to drive down the value of your existing home and now it seems they want to put rent up by fiddling with negative gearing," Abbott said.

The Labor source says the party will take its time before arriving at any policy decisions, saying a "light touch" is needed in order to cool down the growth in house prices without devaluing property prices.

"That is a tension you need to land on the right side of," he says.

The Greens policy is excessive, he says, as it will create negative equity.

"If you were starting from scratch, you wouldn't have negative gearing but it's here now."

NEGATIVE GEARING CONSIDERATIONS

Any changes to negative gearing would have to avoid a stampede in investor purchases before any deadline and any impact on flatter markets elsewhere would have to be considered.

The halving of CGT for investors by the Howard government in 1999 was cited on Wednesday by Grattan Institute chief executive John Daley as a far greater driver of price rises than negative gearing.

One of the more seasoned property experts, CBD-based buyer's agent for real estate Chris Curtis describes specific parts of the city's market as a "time bomb" and that federal politics could do little to change affordability.

"Sydney has never been this risky," says Curtis, who worries that many are buying in areas that will soon be disrupted by projects such as WestConnex, or pouring money into Sydney's "future slums," such as the rapidly growing high-density areas of Alexandria, Wolli Creek and parts of the North Shore.

'CHANCE OF OVERSUPPLY'

Curtis says few people recognise there is now a real chance of an oversupply of dwellings in such areas, which are also suffering from second-rate services and throttled by severe traffic gridlock.

"They're bad investments and people are going to do their dough when interest rates go up," he says.

Despite those specific worries, Curtis also questions much of the hype around high-profile property sales in the city, saying the current so-called frenzy is nothing compared with what happened in 2002 or even 2007, when "it was across-the-board lunacy".

"My feeling is that there is not a collective gripping of madness," he says of the current price boom. "Affordability levels are what they were before, incomes aren't going up. People are still more prudent than before the GFC [global financial crisis]."

Curtis also questions why Hockey opened the fraught affordability debate, given much of its causes are because of state issues, such as land supply.

"The feds are bloodying their noses unnecessarily – they can't change anything."

COLLATERAL DAMAGE

The first-time buyers and lower-income households locked out of Sydney's latest house price explosion are essentially the collateral damage of a broader failure of economic management.

Had the promises of the Coalition government been realised, there would be less need for today's ultra-low official interest rates.

The very same low interest rates that are causing the property frenzy in Sydney that Stevens himself described this week as crazy.

Yet the fact Stevens pointedly opened the door on Wednesday to even more official rate cuts shows he won't let one city's property market become the tail that wags the broader economy.

With the resources investment boom in rapid retreat and national income shrinking as commodity prices fall, there is a desperate need for fresh drivers of growth.

INFRASTRUCTURE AN OPTION

One option would be for governments to accelerate many of the infrastructure projects badly needed in cities such as Sydney and Melbourne.

For now, however, most of that is mired in political deadlock. Even if someone does get a major project under way, the timing is likely to be sluggish.

As Stevens put it, when it comes to infrastructure, the "evidence of history is that it takes too long to start and then too long to stop".

Once again, had successive governments at both state and federal levels worked harder at preparing a long-term pipeline of roads, railway and services projects, many would be in a position to roll them out today.

Stevens has also been waging a war against the high currency – which remains above the US75c level he says would better reflect the drop in commodity prices.

ECONOMY IN WORSE SHAPE

The result is an economy that is in far worse shape than what the Reserve Bank forecast two years ago, ahead of the 2013 federal election, when many in business hoped the change of government would be a catalyst for reform, productivity and growth.

Instead, the Reserve Bank now expects economic growth to finish the current financial year at a sub-par pace of less than 2.5 per cent.

Even more concerning, consumer confidence continues to be weak. Westpac's monthly survey showed it fell this week after a brief rally following last month's budget.

The weakness means Stevens has a legal obligation – set out by the Reserve Bank Act – to do all he can to bring down unemployment by using the only lever at his disposal, interest rate cuts.

This will, in turn, likely produce fresh instability across pockets of the Sydney property market.

Stevens and Treasury Secretary John Fraser, who this month described it as in a bubble, are not the only observers increasingly worried by the city's excesses.


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