

EYE OF THE SPECULATIVE STORM



By **Karl "K2"**
Fitzgerald, Proz
Oz's Project
Coordinator, who
had this printed in
The Age on 25/10/08

Free market principles are being put to the test like never before. With share prices shocking, policy makers are scrambling to keep up with the loss of confidence in the market. After 18 years of rampant growth, bubbles have popped in real estate, the sharemarket, oil and even the art market.

Rudd has stepped into the breach with gusto. A \$1.5 billion dollar injection into the property market via the First Home Owners Grant will keep the banks and property lobby happy. And yes the ubiquitous financial analyst will support this too. But what about the hard working single person?

The 1% cut in interest rates will save the property investor \$200 per month. One can rest assured that this will not be passed on to renters. Single renters will also miss out on the \$1000 Christmas bonus that families will enjoy. With the market benefiting from this additional purchasing power, these economic forces will push housing prices even higher, strangling Rudd's affordable housing credentials.

Pensioners must understand that these same forces will soak up their handout too.

The looming raft of infrastructure projects will also make prime locations more valuable. Meanwhile, property prices are dropping dramatically in sprawling suburbs.

The monopoly power inherent in land deems economic growth irrelevant. All social developments are captured in higher land prices.

Rising property prices are only good for banks and speculators. The IMF's *Boom-Bust Phases in Asset Prices and Fiscal Policy Behaviour* report reveals that economic downturns are more pronounced when following a housing price bubble. With inflation now at 5%, the report says that such downturns are greater when inflation is high. Inflation may well accelerate this summer as the effects of climate change hit primary producers.

Many blame the sub-prime crisis for the meltdown. However, the motivating forces driving the land and property bubble should be looked at more closely as the cause of the crisis. The easy, low risk returns that property flipping has delivered over the last 18 years are the magnet for our credit blackhole.

Society has been conned into believing that property prices never fall. The lure of easy profits encouraged an over-investment in land and housing. Whilst Australian banks have not leveraged as far as the Americans, the Aussie battler certainly has. And then some.

Land prices have risen to record prices. The US housing market required four times the average wage to purchase a house at its peak. Australian first home buyers require over 7.5 times the average wage to pay off an average house. This trend has nothing to do with regulation or the behaviour of bank CEO's.

Now Rudd and world leaders have prioritised policy to ensure that we spend more than 40% of the average income on housing. From what we hear, we will soon be spending 50% of our earnings on housing. And this will be a good thing?

The crunch to the crisis is that US banks have been hit by falling property prices. This forced the mass writing down of assets, sub-prime loans included. Sub primes were an 'effect'. The 'cause' was land speculation.

The government, rather than the banks, are to blame for changing the tax mix over the last 30 years.

Both China and the new Western
Australian government have pledged
their allegiance to the world's
wealthiest speculators by cutting
property taxes

Do the OECD's tax structures affect aggregate economic growth? (Arnold, 08) says 'Property taxes, and particularly recurrent taxes on immovable property, seem to be the most growth-friendly'. Will the Henry Tax review have the ticker to push this powerful reform, a reform that has given the 'fair go mate' mantra a chance during our formative years?

The continual reduction in holding charges on land has given the nod to property speculation. Whether we talk about land taxes or council rates on land, the trend has been to downsize these from the tax mix. Such holding charges are a tax burden that the wealthiest people on the planet cannot dodge.