Home Buyers Will Be Hurt by Aid Plan

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The Government's First Home Saver Accounts policy, announced during the last federal election, is a promise that should never have been made. It will place upward pressure upon inflation and increase the potential for domestic financial turbulence. It will be the individuals that the policy is designed to help (young Australians with a still-insecure financial foundation) that will be most hurt in the long-run.

There are four broad areas of concern. Firstly, although the policy appears economically sound, closer inspection shows that it amounts to government encouragement of irresponsible mortgage practices (remember that irresponsible mortgage practices contributed to the sub-prime meltdown in the US). Specifically, it provides a tax concession to allow individuals to qualify for a loan but does not provide similar help to make repayments. The effect will be similar to that of the substantial decrease in the US interest rate during the early 2000s — families will be able to take out home loans which they could not ordinarily afford. These are the American families experiencing the greatest hardship from the sub-prime meltdown and similarly, it will be the Australian families taking advantage of this policy that will suffer when forced to service debt larger than they can reasonably repay.

Secondly, even if the Australians helped by this policy are able to afford the repayments given the current domestic economic position it is irresponsible to expect these conditions to continue indefinitely. The inability of individuals to meet repayments under changed conditions would lead to significant foreclosure activity — an outcome not desired by any Australian.

Thirdly, the policy increases the exposure of young Australians to interest rates (and thereby international economic conditions). Increased international money market links are not beneficial to most Australians in the

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short-term given current international money market conditions and especially not the group targeted by the policy.

Finally, as the policy is available to all first home buyers it does not increase the relative ability of any targeted individual to purchase a house from the normal first home market i.e. when bidding against other first home buyers — a zero-sum game. However, the increase in house prices to be expected as a result of the game engenders domestic inflation pressure.

Given domestic economic conditions, responsible policy ought to encourage saving. In order to avoid the above concerns, such savings must not be tied to the residential property market and thus policy needs to encourage broader economy-wide saving. Its nature would be such that some of the increased savings would be invested in projects increasing productive capacity — important given current capacity constraints.

The First Home Saver Accounts policy amounts to encouragement of irresponsible mortgage practices and even if it does increase the ability of young Australians to purchase their first home (which it will not) it is likely that they would be placed under substantial financial pressure during a domestic slowdown. The economic conditions we currently enjoy represent a rare opportunity to increase the long term savings rate — a change which will fight against inflation and policy must reflect this.