The Australian housing market: A social disaster and a financial crisis in the making

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The Reserve Bank of Australia (RBA) cannot carry out the kind of "quantitative easing" currently being undertaken by its counterparts in the US, Japan and Britain. Nonetheless, its own version of the same program—the lowering of official interest rates—is having a significant effect.

The official rationale for the policy is that it will stimulate investment by businesses, creating more jobs, and encourage consumer spending, thereby boosting the economy. But the series of rate cuts—some 2 percentage points over the past two years—has had no effect in either of these areas. Investment is coming down and the latest figures on retail sales are the worst in 50 years.

Rather than boosting the economy, the RBA policy is fuelling a growing social crisis for young working-class families seeking to buy a home, and inflating a financial asset bubble.

With official interest rates at record lows—the RBA last week cut its cash rate by 0.25 percentage points to 2.50 percent last week—the resultant decline in mortgage rates has driven a further rise in house prices, already among the highest in the world.

According to the Australian Bureau of Statistics, house prices rose by 2.4 percent in the June quarter, the largest increase in more than three years. They are now above the record levels attained in 2010.

The rapid price rise is being driven by cuts in mortgage rates charged by the banks which, while providing some limited relief to existing home buyers, have resulted in a flood of investor finance into the housing market, bidding up prices.

As a result, young families, seeking to purchase their first home, are either being shut out of the market or confront increasing financial hardship. If they manage to secure a loan, it is often for a house in the outer suburbs where they face great difficulties in travelling to and from work and where social services are either under-resourced or almost non-existent. Because of the size of the mortgage they have taken out—the average loan size has more than doubled since 2000—they potentially face steep increases in repayments as a result of only small increases in home loan interest rates.

The scale of these problems received graphic expression in one of the auctions held in Sydney over the weekend of August 3–4.

A rather modest house in the working-class suburb of Matraville, in Sydney's south-east, sold at auction for almost $1 million. It was not an unusual occurrence.

The *Australian Financial Review* reported: "In Sydney, homes priced under $1 million are drawing hundreds to … inspections, and multiple bidders at auctions. An unrenovated Matraville house (more than 50 years old) sold for $996,000 after eight bidders took the price to $30,000 above the reserve."

One real estate agent cited by the newspaper predicated a further "flurry of activity" in the market for properties under $1.5 million as "buyers try to jump on the property ladder before it further strengthens and stock levels become even tighter."

Following the latest interest rate reduction, an analyst from the UBS bank told the financial newspaper that record low rates meant that the "ingredients are now in place for another bout of house price inflation in Australia and Sydney in particular."

The Labor government hailed the rate cut as being good for home buyers and businesses. In fact, it was the outcome of a worsening economic situation which has seen finance capital seeking to gouge out profits through speculation, especially in houses.

The escalation is being assisted by the taxation

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system. Investors often take out interest-only loans in anticipation of further rapid rises in house prices. They can write off their interest payments against their tax liabilities, in a process known as “negative gearing,” then sell at a profit.

As a result, ordinary families face a wall of investor money pushing them out of the market when they try to buy a new home.

The Bureau of Statistics reported that investor finance commitment to home purchases rose by 18 percent over the past year. By contrast, first-home buyer commitments were down by 10 percent in June, and 13 percent lower than a year ago. They represent just 15.1 percent of total owner-occupied commitments.

Various government home buyer grants do nothing to alleviate the situation and often worsen it, because the grant is simply factored in to the price of the house.

At the apex of this system of financial gouging are the big four Australian banks, which last year raked in more than $25 billion in profits, an increasing proportion of which comes from the housing market.

Last February, a report in the *Australian* cited experts who noted that the surge in bank profits over the recent period had been driven by a “huge lift in the profit margin of millions of Australians’ home loans.”

UBS analyst Jonathan Mott said then: “Banks are in a purple patch.” The latest rate cut has turned it an even richer shade.

The housing price bubble is not just worsening the position of working-class families, especially those seeking to buy their first home. It is creating financial conditions that in some ways resemble those that led to the sub-prime crisis in the US that triggered the global financial breakdown of 2008.

The Australian housing market may not have the plethora of “no-doc”, “liar” loans and other scams that characterised the American housing bubble.

One of the underlying causes of the collapse of the US bubble, however, was the divergence between house prices and real wages, from which interest and principal payments ultimately derive. Those conditions are being replicated in Australia.

While house prices, especially in Sydney, are heading into the stratosphere, real wages are declining.

In its quarterly economic survey, the RBA noted that “a range of measures of wages have displayed a decline in the pace of growth.” The wage price index, which measures wages and salaries for a constant quantity and quality of work performed, “grew at its slowest pace since the early 2000s, other than for a short period of weak growth following the global financial crisis.”

The RBA pointed out that unemployment is expected to continue to rise, while over the past year “increases in employment have tended to be greater in lower-paying industries.”

These facts and figures demonstrate that not only has the banking and financial system produced a social disaster for millions of working people, with rising rates of homelessness, rental and mortgage stress, it is generating the conditions for a financial crisis when the speculative bubble inevitably collapses.

The Socialist Equality Party is advancing the only program that can guarantee affordable housing for all. Historical experience has demonstrated that there is no answer to the housing crisis within the existing profit system—home buyer grants and interest rate cuts have not only failed, they have created more problems.

A genuinely radical approach is needed—one that tackles the problem at its source. It starts with the ending of the domination of the housing market by giant financial interests, for whom the basic need of workers and their families for decent housing and accommodation is a source of profit.

The banks and financial institutions, as well as the major construction firms, should be taken into social ownership in order to initiate a program of construction of apartments and houses. Rather than being determined by the profit dictates of the banks, mortgage payments must be based on income and employment. Tax dodges that favour big investor and financial interests must be ended.

Only under a workers’ government committed to socialist policies can the basic social right of the working class to decent affordable housing and accommodation be secured.

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