



Australian Citizens Party

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MEDIA RELEASE

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Rip the band-aid off! How to manage an orderly fall in house prices so Australians survive and thrive

Australia's housing bubble faces a reckoning, following today's decision by the central bank to finally lift interest rates, by 0.25 per cent.

The major parties are responsible for the property bubble that has made Australian housing completely unaffordable.

Peter Costello and John Howard instigated the bubble with their 50 per cent capital gains tax discount in 1999 and first home owner grant in 2001; the ALP rescued the bubble in the 2008 crash by tripling the first home owner grant.

The Reserve Bank of Australia (RBA) and Australian Prudential Regulation Authority (APRA) also share the blame: in 1998 the RBA changed the way inflation was calculated, excluding land from the Consumer Price Index (CPI), which kept inflation artificially low, allowing the RBA to lower interest rates as house prices rose so banks could lend more and more; APRA rigged its "risk-weighting" of bank assets to make mortgages far more profitable than any other lending.

Finally, the banks are also culprits: they became so addicted to mortgages, and derivatives on mortgages, which now account for more than 65 per cent of their lending, that as house prices became more unaffordable they resorted in many cases to outright fraud, including so-called "liar loans" that faked expenses and income, so borrowers could qualify for loans they couldn't afford and the banks could keep pumping money into the housing bubble.

Too scared

Now, the major parties are too scared to face the reality that, as former RBA governor Ian McFarlane said yesterday, house prices must fall. "You actually have to have probably a fall in house prices", McFarlane told the Actuaries Institute's annual summit in Melbourne. "That's not going to be very popular, but that's probably essential to any solution."

When prices started falling in 2019, PM Scott Morrison, Treasurer Josh Frydenberg, and Assistant Treasurer Michael Sukkar scrambled to prop them up, pressuring the corporate regulator not to enforce responsible lending laws against the banks, and pushing another scheme to lure young borrowers into the market with only a 5 per cent deposit; consequently, during the pandemic recession and lockdowns, house prices soared by record amounts.

Labor Party leader Anthony Albanese this week unveiled a new housing affordability scheme to "help" 10,000 borrowers a year buy a home by sharing equity with the government; however, this is yet another scheme which is primarily intended to prop up and push up house prices.

Rip the band-aid off!

While a crash in house prices would be devastating for many Australians, financially and psychologically, the extreme unaffordability of housing means we've reached the boundary condition at which it is inevitable.

Yet there is a way it could be managed to ensure the people survive, and the nation thrives in a post-crash economy in which families can again afford housing.

The nation must face up to the reality and accept that the best approach is to rip the band-aid off. The government must not respond to rising interest rates by doing even more to prop up the bubble; in fact, it must do less: remove the first home owner grants and other incentives; end the artificially low interest rates; enforce responsible lending laws; end the 50 per cent CGT discount on property investments.

The Citizens Party has developed the following policy prescription for the Commonwealth government to manage a housing crash in an orderly way:

- First, declare a moratorium on foreclosures of family homes and farms. It is imperative the government avert a massive social dislocation by keeping families in their principal places of

residence, instead of letting the banks that caused the crisis mass-foreclose on households, as happened in the USA in 2009.

- Most Australian states enacted foreclosure moratoriums in the 1930s Great Depression, and the Citizens Party has drawn on those precedents to draft a bill for a foreclosure moratorium.
- Second, direct the RBA to place the private banks into temporary receivership, and write down the value of their mortgage loans to reflect the new, reduced values of the homes (the mortgage debt should be restructured to ensure households don't spend more than 25 per cent of their income to meet their mortgage payments).
- This would involve a massive write-down of the banks' assets, but as the RBA is owned and backed by the whole nation of Australia, it has the capacity to issue national credit to finance a reorganisation on this scale. For instance, in the past two years the RBA has conjured up more than \$350 billion in so-called Quantitative Easing (QE) just to prop up the banks and their addiction to mortgage lending; it's time its capacity was used instead for "the economic prosperity and welfare of the people of Australia", as the *Reserve Bank Act 1959* requires.
- US President Franklin Roosevelt's Home Owners' Loan Corporation similarly restructured debts to enable families to keep their homes in the Great Depression. And in 2013, Bob Katter MP, working with finance experts, introduced a bill in Parliament to establish an Australian Reconstruction and Development Board at the RBA to restructure farm debts; the same principle applies to a restructure of mortgage debts, but on a larger scale.
- Third, using the RBA in this way, as a national bank like its predecessor the original Commonwealth Bank, the government must also invest in a massive infrastructure development program, and in productive industries. This will reorient Australia's economy away from its focus on the housing bubble and create productive jobs for the mass of construction and other workers left unemployed by the housing crash.

Australia can't kick the can down the road any longer. Two generations are being locked out of home ownership and affordable housing generally. It's time to demand the government act for the public good and use its powers to ensure an orderly transition to affordable housing again.

[Click here to sign the Citizens Party's petition for a public post office bank, which would be an important institution for re-directing lending towards small and medium enterprises and productive industries and away from the housing bubble.](#)