Treasurer Scott Morrison wants to use the May budget to ease growing community anxiety about housing affordability. Lots of ideas are being thrown about: the test for the Treasurer is to sort the good from the bad. Reports that the government was again considering using superannuation to help first homebuyers won't inspire confidence.

It's not the first time a policy like this has been floated within government. While these latest ideas to use super to help first homebuyers are marginally less bad than proposals from 2015, our research shows they still wouldn't make much difference to housing affordability.

A seductive idea with a long history

Allowing first homebuyers to cash out their super to buy a home is a seductive idea with a long history. Both sides of politics took proposals to the 1993 election , before Prime Minister Paul Keating scrapped it upon his re-election.

Former Treasurer Joe Hockey last raised the idea in 2015 and was roundly criticised, including by then Coalition frontbencher Malcolm Turnbull .

Politicians are understandably attracted to any policy that appears to help first homebuyers build a deposit. Unlike the various first homebuyers' grants that cost billions each year, letting first homebuyers cash out their super would not hurt the budget bottom line – at least, not in the short term. But as we wrote in 2015 , that change would push up house prices, leave many people with less to retire on, and cost taxpayers in the long run.

Having learned from that that experience, the government has instead flagged two different ways to use super to help first homebuyers. Neither proposal would make the mistake of giving first homebuyers complete freedom to access to their super. But nor would they make much difference to housing affordability.

Using voluntary super savings for deposits

The first proposal reportedly supported by some in the Coalition , but now denied by the Treasurer , would allow first homebuyers to withdraw any *voluntary* super contributions they make to help purchase a home. Any *compulsory* Super Guarantee contributions, the bulk of Australians' super savings, could not be touched.

Using super tax breaks to help first homebuyers build their deposit would level the playing field between the tax treatment of the savings of first homebuyers and existing property owners.

First homebuyers' savings typically sit in bank term deposits, where both the initial amount saved and any interest earned is taxed at full marginal rates of personal income tax. In contrast, the nest eggs of existing property owners are taxed very lightly. For owner occupiers, any capital gain is tax free. For investors, capital gains are taxed at a 50% discount, and they get the benefit of negative gearing.

But even if there's some merit in allowing first homebuyers to use super tax breaks to save for a home, it's unlikely to make much difference. Few people are likely to take advantage of the scheme. Households are reluctant to give up access to their savings, especially when they're already saving 9.5% of their income via compulsory super.

In fact the proposal works out to be very similar to the former Rudd government's First Home Saver Accounts , and is likely to be just as ineffective. First Home Saver Accounts provided similar financial incentives to help first homebuyers build a deposit. Treasury expected A$6.5 billion to be held in First Home Saver Accounts by 2012. Instead only A$500 million had been saved by 2014, when Joe Hockey abolished the scheme , citing a lack of take up.

A "shared equity" scheme for super funds

The Turnbull government is reportedly also considering a “shared equity scheme” where workers' super funds would own a portion of the property investment, and money would presumably be returned to the super fund when the property was sold.

Details are scarce, but the proposal raises several questions.

First, would the super fund use only the super savings of the co-investor to help buy the home, or would they add capital from the broader super fund pool?

Second, how would the super fund generate a return on the investment? A super fund that invests in rental housing gets the benefit of a rental income stream. A super fund co-investing in owner-occupied housing would not. The super fund could take a disproportionate share of any capital gains to compensate, but that hardly seems attractive for the funds in a world where interest rates are already at record lows.

Third, why involve super funds in a shared equity scheme in the first place? Australia's super sector is already notoriously inefficient – total super fund fees equate to more than 1% of Australia’s GDP each year. A shared-equity scheme would inevitably add to super funds' administration costs.

If the federal government is serious about super funds investing in housing, it needs to encourage wholesale reform of state land taxes, which levy a higher rate of land tax the more investment property a person owns. This discourages institutional investors such as super funds from owning large numbers of residential properties, because they pay much higher rates of land tax on any given property than a mum-and-dad investor.

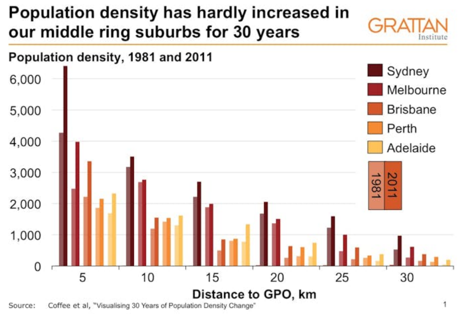
Focus on what matters

If Scott Morrison really wants to tackle housing affordability, he can no longer ignore those policies that would make the biggest difference. That means addressing *both* the demand and the supply side of housing markets.

On the demand side, that means reducing government subsidies for housing investment which have simply added fuel to the fire. Abolishing negative gearing and cutting the capital gains tax discount to 25% would save the budget about A$5.3 billion a year , and reduce house prices a little - we estimate they would be about 2% lower than otherwise.

The government should also include the value of the family home above some threshold – such as A$500,000 – in the Age Pension assets test. This would encourage senior Australians to downsize to more appropriate housing, while helping improve the budget bottom line.

At the same time the government should support policies that boost housing supply, especially in the inner and middle ring suburbs of our major cities where most of the new jobs are being created . Population density in the middle ring has hardly changed in the past 30 years.



The federal government has little control over planning rules, which are administered by state and local governments. But it can provide incentives to those tiers of government, if it is looking to do something that would really improve home ownership.

While there are plenty of ideas to improve affordability, only a few will make a real difference, and these are politically hard. In the meantime, the latest thought bubbles about using super savings for housing might be less bad than in the past, but they would be just as ineffective.

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