



A cruel tool to use

From the desk of ...

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THE Reserve Bank's recent interest rate increase makes Australia the first developed country to reverse the cycle of interest rate cuts triggered by the GFC. Concerns about rising house prices seemed to contribute to the decision.

It's disgraceful the only tool we can use to control our economy is interest rates.

I totally agree the growth of house prices needs to be slowed down, but the low interest rate is not the only driver pushing prices up. The prime driver of price growth is the shortage of available housing.

Increasing interest rates will hurt the very people the Government has been helping with the home owners grants.

Interest rate increases hurts all homeowners with a mortgage, as well as just about every other business in the country. Addressing the shortage of housing on the other hand, can have a positive flow-on effect.

With increasing interest rates borrowers will have to allocate more of their income to paying off their mortgage which means they will have less disposable income.

The Government should do more to improve public transport and infrastructure to encourage development. According to Tony

Richards, head of economic analysis at the Reserve Bank, one reason for the housing shortfall is the difficulty and cost of developing land.

The Government is spending billions of dollars as part of their economic stimulus package. If Government spending can be directed at alleviating the housing shortage they will also be making housing more affordable for all Australians.

The small improvement we had in housing affordability was due to low interest rates. The ratio of house prices to incomes, currently at more than seven times, is still very high compared to other countries. (For 30 years prior to 1990 it was only three times). Housing can be made more affordable by either low interest rates, or falling house prices. Controlling our economy by increasing interest rates is a cruel tool to use.

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