The Negative Gearing Fallacy

Intro

"The way to tackle the housing crisis is to scrap negative gearing and the capital gain tax concession, so a first home buyer gets a chance."[1] "The issue of negative gearing is one of Supply will it add to supply or will it decrease supply uh the figures and research that has been produced by organisations like the property Council indicate that it would reduce supply and therefore uh not contribute to solving the issue"[2] "Billy, I'm very sorry, you must've had a little bit of PTSD all week, you okay?"[3] "Labor is not going to continue putting 10 billion do plus of taxpayer money into uh negative gearing. Why should a first homeowner have to compete on an unlevel playing field with someone who's buying their fifth or 10th property being subsidised by you."[4] Housing in Australia is absolutely cooked.[5]

For such an utterly inconsequential tax discount, negative gearing has for some reason become the epicentre of discourse surrounding housing policy in this country. Negative gearing is where you borrow money to invest, in lets a house, and the income, the rent, from that house is less than the money it took to invest. You can then claim that loss as a tax deduction. Social democrats like the Greens and many on the left of the Labor Party will catastrophise about negative gearing and the capital gains concession, centering their understanding and rhetoric around the housing affordability crisis on these tax concessions. They say that these concessions give leeway for investors to increase demand and put up

[1] https://www.youtube.com/watch?v=7f9EIW4BuaE (1:39)
[2] https://www.youtube.com/watch?v=MKq8G26L-qM (0:53)
[3] https://www.youtube.com/watch?v=QTcyHBW4RAs (0:00)
[4] https://www.youtube.com/watch?v=HJTre97-AxY (0:00)
[5] https://www.youtube.com/watch?v=rvcCzyR0WJE (1:00)

prices, outbidding otherwise residential home buyers. "Negative gearing is basically a bit of a legalised tax rort."[6]

Likewise, the conservatives like the Liberals and Nationals will catastrophise about proposals to abolish negative gearing, claiming it will drive up rents by decreasing housing investor rental supply, and broadly be ruinous for the Australian housing market and economy broadly "It's kinda like watching a slow motion train wreck."[7] [runs property companies].[8] [9]Both of these views overstate the impact negative gearing has on the economy, and these seemingly opposing camps, might actually have a similar end goal, an end goal that might actually be at the root of our problems.

It won't fix things

By the admission of progressive, conservative and centrist think tanks, consultancy firms, academia, political parties, the abolition of negative gearing will have a very minimal impact on house prices and rents. "Independent experts have said that [abolishing negative gearing] will have a very minimal if any impact on house prices."[10] Take the Australia Institute, a progressive policy think tank that often aligns with the Greens and Labor Left. The only time they've quantified the impact the tax policy has on prices and rents is when it cited a Deloitte study. It suggests the Labor Party's 2019 reduction of the capital gains tax concession and changes to negative gearing would've reduced house prices by 4.3% and increased

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[6] https://www.youtube.com/watch?v=n-zUyTcxdmE (2:30)
[7] https://www.youtube.com/watch?v=kUOvJiyqe2s (1:40)
[8] https://www.aph.gov.au/-/media/03_Senators_and_Members/32_Members/Register/47P/SZ/Wallace_47P.pdf?la=en&hash=033E6DDEA651679C0DB129A755035BE7292AD058
[9] https://www.dailymail.co.uk/news/article-13779769/Politicians-investment-property-Australian-Albanese.html
[10] https://www.youtube.com/watch?v=3MgJ8RksR84&t=193s (3:10)

rents by 0.5%, by 2030.[11] "Grattan Institute modelling suggests house prices would fall about 2% if negative gearing was limited to new homes and the capital gains tax discount was halved."[12] Now to suggest that reducing house prices by 4% and a minimal increase in rents in a decade, is doing anything substantial to address the housing crisis in Australia, is actually worse than anti-immigration types suggesting that a 1.1% annual decrease in house prices is going to solve the crisis.[13]

The peer-reviewed literature is equally sceptical of the supposedly far-reaching consequences of negative gearing. Probably the most comprehensive study on the matter, *Investment Housing Tax Concessions and Welfare: Evidence from Australia*, argues that abolishing negative gearing decreases house prices by 1.5% and increases rents by 3.6% over 25 years. This would increase home-ownership from 67.9% to 72.2%, or a 4.3 percentage point increase, again, over 25 years. The overall economic prosperity or 'welfare' increases by 1.7%, which is felt by everyone, but least by young and rich landlords. [14] "The fraction of owner occupiers (homeowners without housing investment) increases by 10.1 percentage points of which 4.3 percentage points come from renters who become homeowners and the remaining 5.7 percentage points are landlords who choose to become owner-occupiers in the counterfactual economy."[15] So while there is a case to be made for its abolition, getting rid of negative gearing isn't going to do many favours for anyone. When you have progressive groups and parties like the Greens chastising the Albanese government for pursuing piecemeal, insignificant legislation, it's weird to see them turn around and almost catastrophise about negative gearing.

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11 https://australiainstitute.org.au/post/the-report-the-prime-minister-cites-against-changes-to-negative-gearing-actually-shows-housing-would-be-more-affordable-and-rents-barely-affected/

12 https://www.youtube.com/watch?v=frmvuNgy9Fg (2:11)

13 https://www.google.com/url?q=https://www.sciencedirect.com/science/article/pii/S105681902301151X%23:~:text%3DOur%2520results%2520indicate%2520that%2520a,there%2520had%2520been%2520no%2520immigration&sa=D&source=docs&ust=1728195796041527&usg=AOvVaw39INVFpUTJwjSljvRiHPyo

14 https://cama.crawford.anu.edu.au/sites/default/files/publication/cama_crawford_anu_edu_au/2022-12/2a_2021_cho_li_uren.pdf

15 https://cama.crawford.anu.edu.au/sites/default/files/publication/cama_crawford_anu_edu_au/2022-12/2a_2021_cho_li_uren.pdf

So why is negative gearing so inconsequential? According to Warlters (2024), the 2019 proposed changes to negative gearing and the capital gains tax concession only decreases the annual share of investor purchases in the market by 2%.[16] That means that the investor demand that negative gearing is apparently turbo-charging, for the most part, still remains.

It's still not good

This isn't to say that negative gearing is something we should keep. Evidently the scheme is inequitable, it benefits wealthier landlords,[17] it prompts investors to put their money into low yield markets, given they can pay off their negative expenses through their taxes, and make back the overall venture by selling off the property for a much larger price later.[18] It's something that undeniably enables and signals how much housing investment means to our economy. And as mentioned, the abolition of negative gearing benefits people without investment properties the most. While the paper does suggest that rent prices do increase due to a fall in rental supply, this increase can seemingly be mitigated. When negative gearing was briefly abolished between 1985 and 1987, prices increased in some cities, but stagnated or fell in others.[19] Additionally, although small, the overall welfare gain is positive, indicating that abolishing negative gearing is a net positive for most of the country. However, what should be noted is that while most landlords will also benefit from negative gearing going away, that's because they'd get more revenue from rents going up.

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[16] https://onlinelibrary.wiley.com/doi/epdf/10.1111/1467-8454.12335

[17] https://cama.crawford.anu.edu.au/sites/default/files/publication/cama_crawford_anu_edu_au/2022-12/2a_2021_cho_li_uren.pdf

[18] https://link.springer.com/article/10.1007/s10901-023-10069-3#Sec16

[19] https://www.acoss.org.au/wp-content/uploads/2016/04/Fuel_on_the_fire_ACOSS.pdf

The Australian dream, the economy, a fundamental shift needed

So we should get rid of negative gearing, but it's clear that simply focussing on negative gearing and the capital gains tax concession is a very shallow way of looking at the problems in the housing market. But what Australia's insistence on keeping these tax incentives shows, is that the housing crisis is something more fundamental to our economy than we otherwise might think. As the literature suggests, "cheaper and more accessible housing finance is a central part of the story,"[20] with financial liberalisation "directly raising the long run level of real house prices by around 51%."[21] Financial liberalisation, competition in the lending market, the expectation that prices will always increase, and yes, favourable tax incentives like negative gearing, doubled the proportion of taxpayers who owned an investment property. Clearly, only pulling one lever, that being a favourable tax regime, is insufficient. But this doesn't mean that everything was fine and dandy before the big neoliberalism button was pressed "Mate because I wanna do you slowly".[22]

In saying this I'm subjecting myself to insufferable discourse on twitter but, yes, the idea of homeownership in Australia is rooted in settler colonialism, was a central tenet to Australian capitalism in the 20th century and yes, key to this country's neoliberalism. Stick with me.

Settlers, squatters, convicts, soldiers, people who immigrated to Australia from Europe in the 1700s and 1800s, came here and were basically given land by the colonial governments.[23] Almost immediately, these parcels of land were speculated on, people idealised having their own ranch, farm, house in the outback.

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20 https://www.emerald.com/insight/content/doi/10.1108/SEF-07-2012-0078/full/pdf?title=macro-drivers-of-australian-housing-affordability-1985-2010-an-autoregressive-distributed-lag-approach

21 https://ora.ox.ac.uk/objects/uuid:3001a2ac-a58a-439d-9ea4-4c097341cacc/download_file?safe_filename=paper432.pdf&type_of_work=Working+paper

22 https://www.youtube.com/watch?v=nVuJLiuo5zc&pp=ygUlcGF1bCBrZWF0aW5nIHJlY2Vzc2lvbiB3ZSBoYWQgdG8gaGF2ZQ%3D%3D

23 https://onlinelibrary.wiley.com/doi/epdf/10.1111/1745-5871.12581

As early as the 1820s, there were financial crises that centred around land and wool markets.[24] Throughout the rest of the 1800s, the land market boomed, which was generally beneficial for the Australian economy. Cities began to form, yet people increasingly began to turn their backs away from urban areas, which were either too expensive or full of slums. People turned to building societies, which expanded further out from the urban areas, creating 'suburban' areas, offering working class people an out from the otherwise shitty city life. Of course, the land market went into overdrive in the 1880s, crashing in the 1890s and leading to Australia's worst depression on record. Rather than abandon the speculative, sectioned off, suburban allotment, Australians continued to view the suburbs as a haven. This meant that Australia had some of the highest home-ownership rates in the world, by federation.

Fast forward to the 1950s and 60s, you had people like Robert Menzies who saw expanding homeownership as a bulwark against communism, by turning each Australian citizen into little-capitalists, who own their own home as an asset, "we are always apprehensive of the spread of communism."[25] This is what the literature calls 'embourgeoisement', whereby otherwise working class people are also simultaneously private property owners, who speculate their homes on a market for a large, long term gain. The combination of this and the mentioned sectioned off suburban allotment is what became known as the Australian Dream "the Liberal Party believes that every worthwhile oestrogen wants to own his own home, choose his own job, run his own business, and make financial headway."[26] Menzies used the government to solidify the embourgeoisement of the working class, i.e. increase homeownership, which both effectively ensured the electoral success of Australia's longest Prime Minister, and the conservatisation of the Labor Party and union movement. By encapsulating the population into being little capitalists, homeowners may otherwise vote for and support policies that wouldn't be in their class interest. Embourgeoisement was a key foundation to the extension of the Australian Dream that would come in the 70s, 80s and 90s. It's partially why it was a Labor Party that implemented the majority of the

[24] https://www.rba.gov.au/publications/rdp/2001/pdf/rdp2001-07.pdf
[25] https://www.youtube.com/watch?v=cEXS4Bo1ZbQ (3:28)
[26] https://www.youtube.com/watch?v=PdkQFQO1jtk (1:24)

financially liberal reforms that we can pinpoint today as key drivers of housing unaffordability/price growth, "this is a recession that Australia had to have."[27]

In simple terms, here we have a clear progression. Settler colonialism sparked interest and speculation over detached parcels of land. With a growing population came more people who wanted that ideal. Regular people saw the suburbs as an escape from the cities. Government policies, cultural forces would nudge the "Australian Dream" into the national psyche, which used both these elements to not only root out counter-hegemony, but to solidify and expand homeownership. A mass, home-owning economy, one rooted in speculation, votes, participates in, supports, politics that otherwise contradicts their class disposition, which is how we get the extension of this 'Australian Dream.' That extension being, instead of owning one nice fenced allotment, you own that and some more rentals. "I'm talking about the people sort of in the suburbs here who have invested for their future because you know they're not going to get superannuation by virtue of reasons beyond their control such as people who have been like wives who have been widowed by their husbands etc who've just taken advantage of um you know being able to buy maybe a small investment or something and then sell that for their retirement so for the people who are going to get like possibly 100 grand or less superannuation when they retire you know I think that would be quite sad to like you know get rid of negative gearing because that's kind of like the only livelihood for a lot of these kinds of people."[28] It may be beneficial for homeowners, 70% of the population, for prices to grow. Yet centering our society so much around housing, predicating our economy so much around price growth, trapping so many people into wanting or needing house price growth, has left Australia more unequal than ever, mortgage holders or the majority of homeowners more precarious than ever, the next generation increasingly unable to afford a home, and renters facing ever growing insecurity due to landlords passing down these pains.

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[27] https://www.youtube.com/watch?v=UJEPm_8Q46o&t=38s (34:21)
[28] https://www.youtube.com/watch?v=N2qF9b0VqN0 (2:54)

So yes, Australian homeownership is colonial, capitalistic and neoliberal, and that is why we're in a housing crisis today. Cringe academic rant over.

So we can't really just return to one and hope for the best. These are natural evolutions of one another, one driven evidently by class relations. So to get at the root of it, we need to tackle those class relations. I get into it here, but basically, the current conception of homeownership is unsustainable. It's also political suicide to even touch homeowners. "If you touch negative gearing in any fashion at all you'll be out on your rear end because the property industry will stop it."[29] In that video I go over the economic consequences of affordable housing policies, but politically, good luck saying we need to abolish homeownership in a country where nearly 70% of the population own a home. It will never work electorally, no matter how correct it is. While the benefits of this system do disproportionately favour the wealthy, the idea that is pushed a lot on the left is that otherwise working or middle class people are completely left out, which they're not. They've been roped into and enveloped into this system, through embourgeoisement. Decentralised decommodification, something that we can do generationally, like what I've proposed here, would effectively disentangle the population from being in this middle of the way thing, and that's something that doesn't require a single vote in parliament.

In the face of all this bullshit, suggesting that abolishing negative gearing or other favourable taxes would solve the housing crisis, I think is rather naive and unfounded. The inability for the electorate to recognise negative gearing as something bad, minor, still bad, is I think symbolic of how layered and engrained the Australian Dream and its extensions still are. Unfortunately, such a huge task requires much more than left of centre political parties winning elections on the margins, it requires an unprecedented societal shift.

[29] https://www.youtube.com/watch?v=N2qF9b0VqN0 (6:00)