

# Affordable Australian Housing Policy

*No More “Putting Out a Fire with Gasoline!”*

By the Australian economist Professor Steve Keen

2022

Executive Summary by Tom Foster (June 2024)

## Notes:

1. Prof Steve Keen is an internationally renowned Australian economist who was one of the few economists to accurately foresee the *Global Financial Crisis (GFC)*. Keen prepared this policy paper for the 2022 Australian Federal Election when he ran as a candidate for a NSW Senate seat.
2. Links to Keen’s podcast episodes that also explain this affordable housing policy are found at the end of this document (p31).
3. An abbreviation used in this policy paper is CICG for a *Currency-Issuing Central Government*. CICG governments are a nation’s central government that issues the sovereign currency of that nation. Examples include Australia’s Commonwealth Government and the US, UK, Canadian, NZ and Japanese governments. Australian State, Territory and Local governments are not CICG governments, nor are central governments that use a foreign currency.

## Executive Summary (by Tom Foster 2024)

Professor Steve Keen has developed a ‘two-pronged’ policy solution for the Australian Government to address Australia’s housing affordability issue. As Keen shows, since the 1980’s the growing housing unaffordability issue has been caused by past Labor and Coalition government’s housing policies, that in turn has led to a legacy of intergenerational inequity between older generations (that benefited from these policies that increased the price of their homes), and younger generations now ‘locked out’ of the home ownership market.

Solving this issue presents a significant political challenge, as, recognising there is no such thing as *expensive* affordable housing and therefore to restore intergenerational equity house prices *must fall*; thus the political conundrum presented is “*how do you bring prices down when two thirds of the population are owner-occupiers*”?

Combined, Keen’s two-pronged policy solution is designed to overcome this seemingly intractable political barrier by:

### 1. Correcting for the past

- Removing intergenerational housing unaffordability for those (mainly younger generations) ‘locked out’ of home ownership; and,
- Enabling those (mainly older generations) of existing homeowners and mortgagors to *not*, because of falling house prices, have the level of equity in their home fall

### 2. Protecting the future

- Ensuring for the future that the past causes creating the intergenerational inequity in home ownership are not repeated.

The first policy is a *Monetary Reset* which reverses the private debt mistakes of the last 40 years; and involves:

- Allocating to every Australian adult an identical sum of the Australian Central Currency-Issuing Government (CCIG)-created money; and
- Requiring those who have debt to use their allocation to pay down their debt, for instance:
  - Mortgagors use to help to pay down their existing mortgage; and
  - First home buyers use against a new mortgage to become a homeowner.
- Any balance remaining is to be used to purchase Treasury bonds that attract interest.

The second policy is the *Property Income Limited Leverage (PILL)* that involves the Australian Government implementing rules on lending institutions that limit mortgage debt, based on the income-earning potential of the property. By reducing the amount of debt that can be used to buy a property, this policy will:

1. reduce house prices; and it would also mean that;
2. if two parties were vying for the same property, the one that raised more money via savings would win (thus rewarding frugality over leverage).

Thus, the Monetary Reset increases the equity of homeowners and renters alike, whilst the PILL reduces house prices, leaving homeowners no worse off than they were before, while substantially improving the situation of would-be (first) homeowners via lower house prices.

This policy paper also:

- Provides a 40-year history of previous Australian government's housing policies, that paradoxically to their intended purpose, acted to create the housing affordability issues we have today;
- Identifies the primary cause to today's housing unaffordability as the significant increase in mortgage debt over the past 40 years; and
- That underpinning this cause is the misunderstanding by conventional economics in its thinking of money and debt.

In forming his housing policies Keen introduces readers to the accurate understanding of money and debt; and then applies this lens to develop his two-pronged policy approach to resolving the Australia's housing affordability crisis.

Whilst Keen acknowledges these policies "*may appear radical and are undoubtedly untested*", his approach demonstrates an accurate understanding of money, debt and the monetary system opens the 'policy space' for innovative policies to address seemingly intractable societal issues.

## Australian Housing Policy - by Prof Steve Keen

### Background: A record of failure

If the objectives of Australian housing policy over the last four decades have been to:

1. Drive house prices out of reach of young Australians;
2. Reduce home ownership;
3. Increase household indebtedness; and
4. Force non-owners onto the private rental market,

***then it has been a resounding success!***

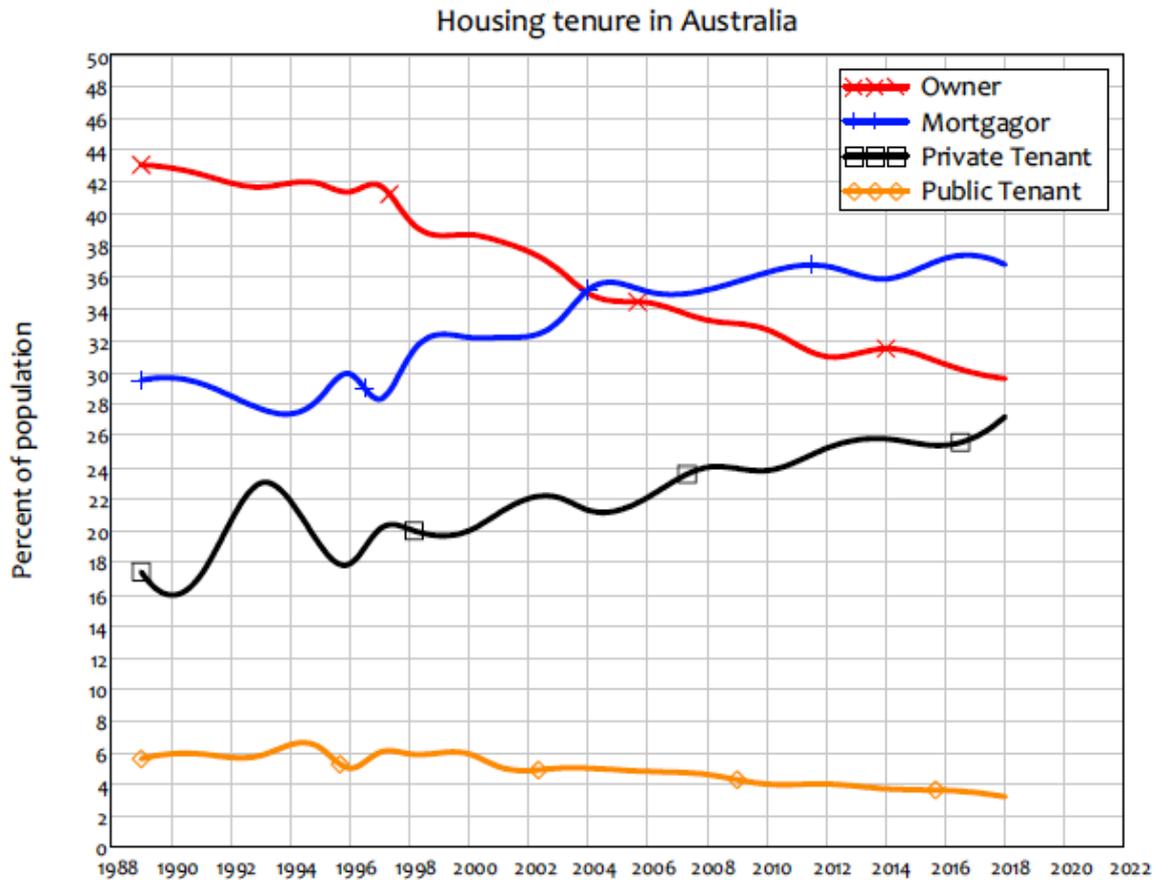
Between 1988 and 2018, the proportion of Australians owning their homes outright fell from 43% to 32%; the fraction in mortgage debt rose from 30% to 37%; and the fraction renting from private landlords rose from 18% to 28%—see Figure 1.<sup>1</sup>

Many young people, if they can afford to buy a house at all, are forced by high house prices to buy “investment properties” in regional centres, because they can no longer afford to buy a home in the capital cities.<sup>2</sup>

<sup>1</sup> The proportion renting from the government fell from 6% to 3% over the same period. Numbers do not round to 100% because of other forms of accommodation on Census night—caravan parks, hotel rooms, etc.

<sup>2</sup> See <https://www.realestate.com.au/news/gen-y-invest-regions-live-cities/>. Today, the property industry is recommending regional purchases as an investment strategy—see <https://www.afr.com/companies/financialservices/property-boom-sees-city-investors-pivot-into-regions-20210427-p57mp9> and <https://www.moneymag.com.au/top-five-places-to-buy-property-2021>. This is exporting the capital city house price bubble to the regions.

Figure 1: Housing tenure in Australia, 1997-2018



ABS Housing tenure, 1997-98 to 2017-18; 41020\_1998.pdf p. 144

Of course, these outcomes were the exact opposite of the intention of the Australian government's policy, which - *regardless of which political party was in office* - was to increase home ownership. That these policies have been an utter failure is obvious. *At the very least, we need to reverse the effect of these past failures.* To do so, we need to understand what these policies were, and what other aspects of housing they affected that led to these disastrous outcomes.

## An intergenerational plea

I won't beat about the bush here: if we are to restore intergenerational equity, *then house prices must fall*. There is no such thing as expensive affordable housing.

The longer the house price bubble goes on, the more the social compacts in this country between rich and poor, young and old, propertied and propertyless, will fall apart.

If you are an older Australian who owns his/her own house, either outright or with a mortgage, you quite possibly have younger relatives who can no longer afford to buy a house in the capital cities, without you risking your equity to help them. Many essential service workers can no longer afford to buy in the cities: an insecure lifetime of renting is their only option. This can't go on.

**But how** do we get out of this trap of ever-rising house prices, which benefit the old and the propertied, while impoverishing the young and the propertyless? We certainly can't do it by a continuation of the policies that got us into this mess.

In this document, I suggest a pair of policies which I believe can pull off the "impossible".

1. A "*Monetary Reset*" - which reverses the private debt mistakes of the last 40 years (pp 22-24); and
2. *Property Income Limited Leverage (PILL)* - rules that limit mortgage debt based on the income-earning potential of the property (pp 25-26).

Together, these two policies can reduce house prices, without reducing the equity that older Australians have in their homes - in fact, they can speed up how fast those with mortgages get to be debt-free. They can enable owners without mortgages to realise some of their equity, without having to sell their homes. And they can reduce house prices, to make it possible for would-be homeowners to buy their first homes.

My Monetary Reset policy increases the equity of homeowners and renters alike. My PILL policy reduces house prices, leaving homeowners no worse off than they are now, while substantially improving the situation of would-be homeowners via lower house prices.

If this, at first glance, sounds like magical thinking to you, it's because past policies have themselves been driven by magical thinking. Before I can explain my two policies that can unwind the black magic of the property lobby, it's important to learn why those past policies were wrong—and why they caused this bubble.

### Past housing policies: stoking demand and debt

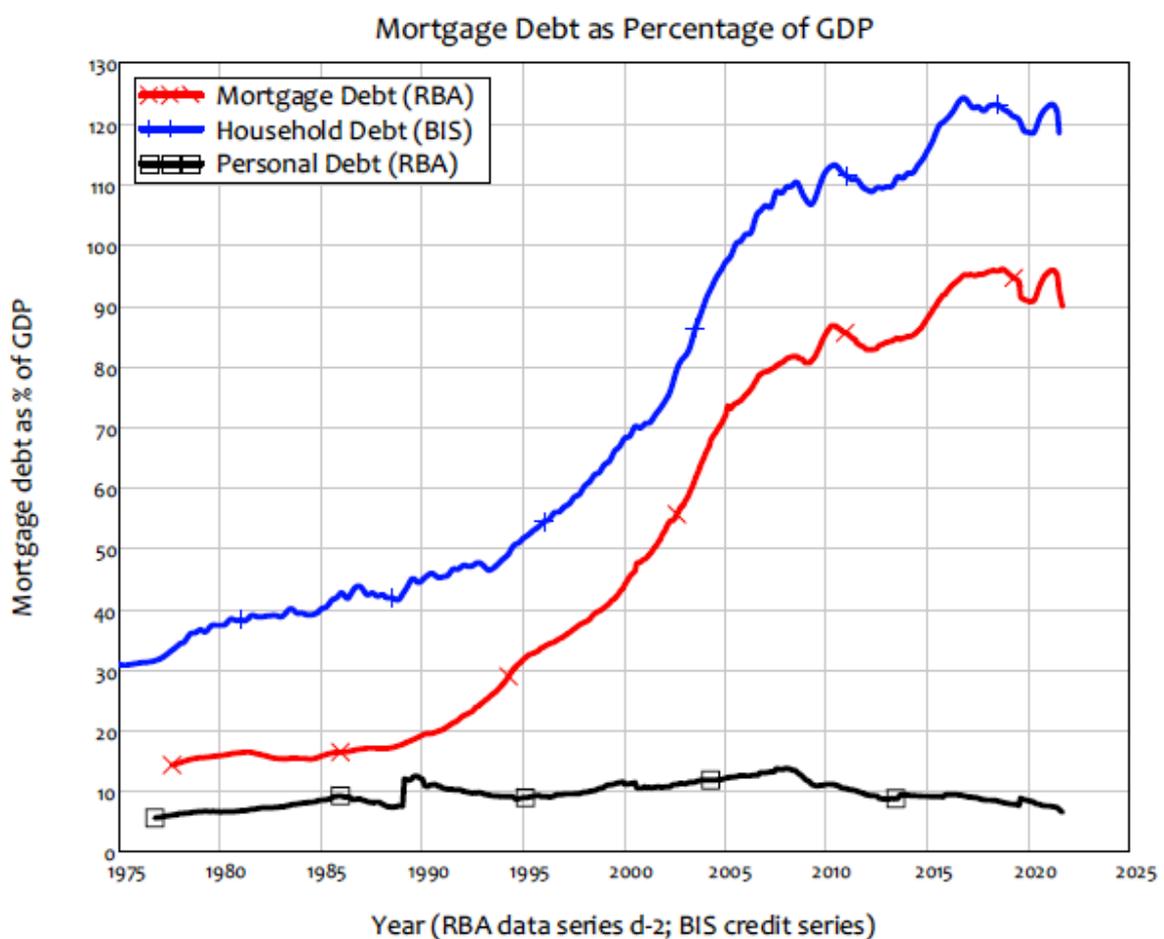
By far the dominant approach, under both Labor and Liberal governments, has been to add to the demand side of the housing market. This has primarily been done by giving grants to first home buyers, but also by encouraging house purchases as investment properties, see Table 1.

*Table 1: Australian government schemes to increase house buying power by date and political party*

Prime Minister	Party	Scheme	Start
Hawke	ALP	First Home Owners' Scheme	October 1983
Hawke	ALP	Negative Gearing	July 1987
Hawke	ALP	First Home Owners' Scheme 2	January 1988
Howard	Liberal	Halving capital gains tax rate	September 1999
Howard	Liberal	First Home Owners' Scheme 3	July 2000
Howard	Liberal	First Home Owners' Scheme 4	March 2001
Rudd	ALP	First Home Owners' Boost	October 2008
Morrison	Liberal	First Home Loan Deposit Scheme 1	May 2019
Morrison	Liberal	First Home Loan Deposit Scheme 2	May 2021

However, these grants and tax credits are only a fraction of the sum needed to purchase a house: the overwhelming proportion of the purchase price comes from mortgage debt. As Figure 2 shows, personal debt has not grown relative to GDP since the 1970s, while mortgage debt has risen almost sixfold since the first of these government interventions in the housing market: the introduction of the “*First Home Owners’ Scheme*” under Labor Prime Minister Bob Hawke in 1983.

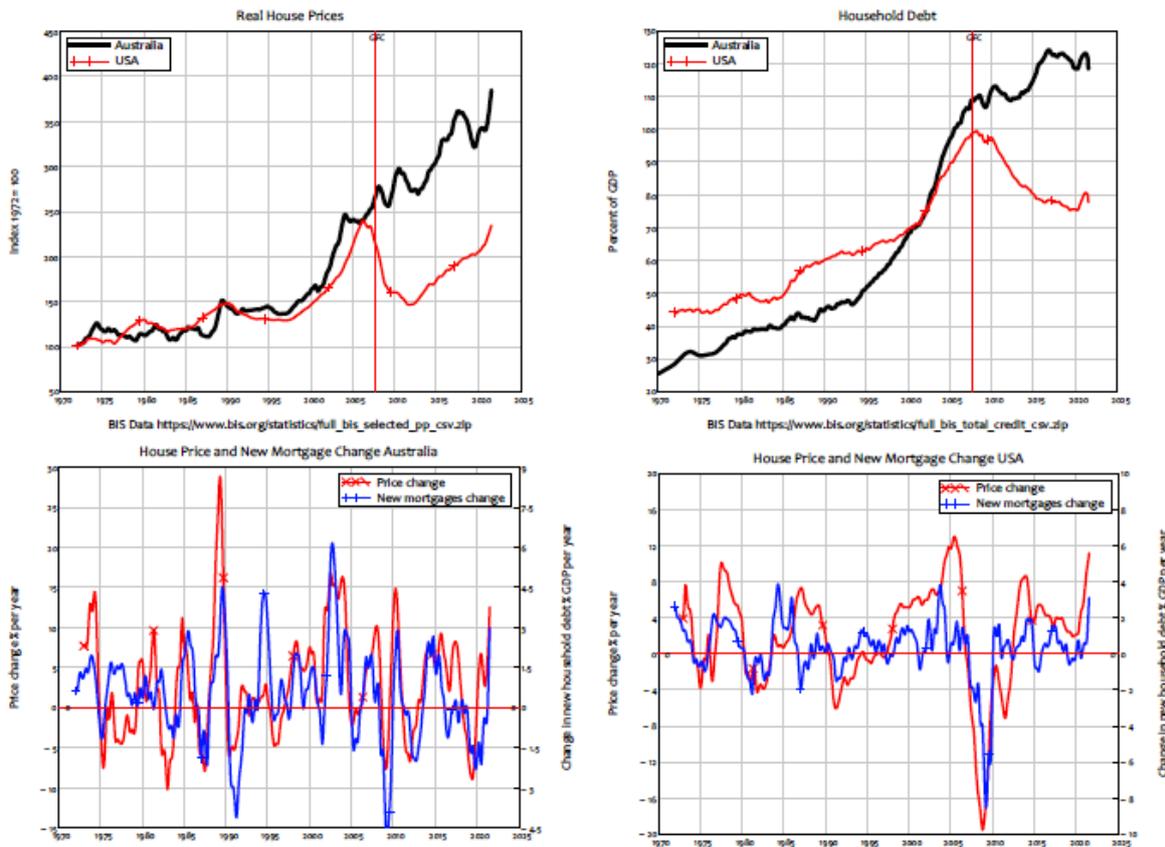
*Figure 2: Household debt in Australia*



### *The Primary Cause of Housing Affordability crisis*

This increase in mortgage debt is the primary cause of higher house prices. Since new mortgage debt is the main source of house-buying power, there is a causal link between rising levels of new mortgage debt, and rising house prices. Figure 3 illustrates this, by comparing the USA to Australia.

*Figure 3: Australia and the USA: Very different price & debt trends, same causal house price relationship*



Everyone acknowledges that the USA had a housing bubble, which burst and caused the GFC. However, many pundits claim that Australia hasn't had a housing bubble, simply because its house prices haven't crashed yet. Figure 3 shows that both countries have had, and continue to have, debt-fuelled housing bubbles: they're just at different stages in the process.

Despite very different trends in house prices (the top left plot) and household debt (top right), the relationship between *change in new household debt and change in house prices* (Australia bottom left, USA bottom right) is the same: (1) when new household debt is rising, house prices rise, and (2) when new household debt is falling, house prices fall. **This evidence illustrates the key to taming runaway house prices is to tame runaway bank lending.**

### *Extracting ourselves from intergenerational inequality*

We also need to extricate ourselves from the impasse that past policies have trapped us in, with house prices and household debt that are both too high. And we need a means *to reduce house prices* - so that young people who have been priced out of the market can buy in - without bankrupting those who are already in too much debt, and who depend upon high prices to keep themselves in positive equity. We need to do this in a way that will also not cause the financial system to collapse, as it did during the Global Financial Crisis in the USA and Europe.

Finally, we need genuine reforms to bank lending that prevent a house price bubble forming again. We need to encourage bank lending to support building up Australia's productive capacity and economic resilience, rather than supporting a never-ending speculative bubble.

### *So, what is the solution?*

It is possible to achieve all this, but it can't be done with the thinking that has led us into this trap, which is shared by both major parties. This thinking is that:

1. "Government debt is bad", because it's assumed:
  - a. The government borrows money from the private sector that the private sector could otherwise use for investment (the 'crowding out' argument); and that
  - b. Government borrowing imposes a burden of debt repayment on future generations; and
2. Private debt is simply some individuals lending to other individuals, and hence its level is easily controlled by varying the interest rate.

### *Conventional economic thinking about money and debt is wrong*

This thinking comes straight out of standard economics textbooks. Here's how they are expressed in US economist Gregory Mankiw's globally popular and influential first-year University economics textbook *Macroeconomics* (Mankiw 2016, pp. 555-557, 72. Emphasis in underline added):

*“When a government spends more than it collects in taxes, it has a budget deficit, which it finances by borrowing from the private sector or from foreign governments. The accumulation of past borrowing is the government debt... government borrowing reduces national saving and crowds out capital accumulation... Many economists have criticized this increase in government debt as imposing an unjustifiable burden on future generations...”*

*“Saving is the supply of loanable funds - households ... deposit their saving in a bank that then loans the funds out. Investment is the demand for loanable funds - investors borrow from the public ... by borrowing from banks. Because investment depends on the interest rate, the quantity of loanable funds demanded also depends on the interest rate.”*

#### *However, all these ideas are wrong!*

This may seem an outrageous claim to make - surely economists know how money works? However, no less an authority than The *Bank of England* has said that economic textbooks are wrong about how banks work:

*The reality of how money is created today differs from the description found in some economics textbooks:*

- Rather than banks receiving deposits when households save and then lending them out, *bank lending creates deposits*.

- In normal times, the central bank does not fix the amount of money in circulation, nor is central bank ‘multiplied up’ into more loans and deposits (McLeay, Radia et al. 2014, p. 14. Emphasis added).

**Mainstream economic textbooks are as wrong** about how governments operate as they are about how banks operate.<sup>3, 4</sup> We need to explain why they are wrong, before we can explain how it is possible to reduce house prices, maintain the equity that existing homeowners have in their homes, and keep the banking sector solvent.

<sup>3</sup> A first-year University economics textbook with the accurate understanding of how CIGG governments and banks operate has been published, co-written by two of the co-founders of Modern Monetary Theory (MMT), Australian economist Professor William Mitchell and US economist Professor L. Randall Wray, along with Australian economist Emeritus Professor Martin Watts. *Macroeconomics*. Macmillan Education Limited, London UK, (2019).

<sup>4</sup> Stephanie Kelton gives a simple explanation of how government finances work in Kelton, S. (2020). *The Deficit Myth: Modern Monetary Theory and the Birth of the People's Economy*. New York, Public Affairs. For an explanation of both government and private bank money creation see Keen, S. (2021). *The New Economics: A Manifesto*. Cambridge, UK, Polity Press.

## How government finances actually work

The conventional way of thinking about government is to treat it like just another household. If another household borrows off you, you have less money to spend, and they have more. This way of thinking is shown in Figure 4. If it were correct, then yes, government spending would require first require government “*borrowing from the private sector*”, and it would “*crowd out capital accumulation*”.

*Figure 4: The conventional way of thinking of government as “like a household”*

	<b>Private Banks</b>				
	Asset	Liability		Equity	A-L-E
Flows ↓ / Stock Vars →	Reserves ▼	Households ▼	Government ▼	Banks	0
Initial Conditions	1000000	800000	100000	100000	0
<i>Government borrows to spend</i>		<i>-100000</i>	<i>100000</i>		0

### *Adopting the correct thinking about money and debt*

However, this model is wrong. Though, like most governments, the Australian Government, the *currency-issuing central government (CICG)*, has accounts at private banks, [the Government’s bank is the Reserve Bank of Australia \(RBA\)](#) - and it is also the bank for private banks. When the CICG government spends, it transfers funds from its RBA account to the accounts of the private banks at the RBA (“*Reserves*” in Figure 4), and the private banks then credit the deposit accounts of the public.

This actual situation is shown in Figure 5: when the CICG government spends, it credits both the public’s deposit accounts at private banks, and the Reserve accounts of the private banks. *CICG government spending creates money*, which turns up in the deposit accounts of the public. Since the government can create money, it doesn’t need to borrow from you - or anybody else - to finance its spending.

*Figure 5: The accurate way of thinking, the government is a money-creator,  
not a borrower*

	Asset	Liability	Equity	A-L-E
Flows ↓ / Stock Vars →	<i>Reserves</i> ▼	<i>Households</i> ▼	<i>Banks</i> ▼	<i>0</i>
Initial Conditions	1000000	800000	200000	<i>0</i>
<i>Government spends</i>	<i>100000</i>	<i>100000</i>		<i>0</i>

In practice, the government is one of two money-creators in the economy:

- The currency-issuing central government creates “fiat money” when it spends more than it takes back in taxes; and
- Banks, under licence from the currency-issuing central government, creates “credit money” when they lend out more than they take back in repayments.

**Government debt is also very different from household debt.**

Household debt is mainly in the form of loans secured against household property—“mortgage” is derived from the two French words “mort” and “gage”, meaning “dead” and “pledge”. If you can’t meet the terms of the mortgage, you lose your property. If the bank doesn’t deem you creditworthy (though of course banks have very low standards these days), you can’t get the mortgage. If you don’t get a mortgage, you can’t afford to buy the house. You need the debt before you can do anything.

On the other hand, net spending by a CIG government creates money, as Figure 5 shows. The government doesn’t need to borrow to be able to spend. It issues bonds as part of this money-creation process, but this is done, not to raise money from the private sector, but to enable the Treasury to avoid running an overdraft at the Central Bank.

Most countries have passed laws that prevent the Treasury from running an overdraft at the Central Bank. This is a legislative rule: it is not impossible, in an accounting sense, for the Treasury to operate with an overdraft.<sup>5</sup>

Operating with an overdraft - a negative balance on a deposit account - is a difficult thing for a household or firm. The bank might not grant one to begin with, so any transactions that would push your account into the red will be disallowed. If the bank does grant one, it will come with a penalty interest rate - higher than you would pay for an ordinary loan. The bank can also impose onerous conditions on the overdraft that, if they are breached, can send you bankrupt.

A Treasury faces none of these problems, since it owns the *Central Bank*. Most countries don't require the Treasury to pay interest to the Central Bank on any bonds that it holds, and even in those where the Treasury is required to pay interest to the Central Bank, Central Bank profits are eventually remitted to the Treasury. Therefore, there is no technical problem with a Treasury overdraft at the Central Bank. But in almost all countries, including Australia, laws force the Treasury to sell bonds to avoid an overdraft.

Here, once more, the Treasury is in a much better situation than a private entity that tries to sell bonds. This is because there is no danger of Treasury bonds not being purchased, regardless of the interest rate offered on them, *since they are purchased by the banking sector using Reserves that are created by government spending in the first place*: as Figure 5 shows, government spending creating money by adding to the deposit accounts of Households, and it creates additional Reserves for banks as well.

<sup>5</sup> During 2020, [the UK's Treasury used its overdraft account at the Bank of England](#) to fund initial measures to lessen the impact of Covid on the private sector.

Reserves are an asset of the banking sector which (a) cannot be traded and (b) normally earns no interest. Government bonds, on the other hand (a) can be traded and (b) normally earn interest. When the Treasury offers to sell Bonds to the private banks, it enables the banks to swap non-tradeable, non-income-earning Reserves for tradeable, income-earning Bonds. It is “*an offer too good to refuse*”, which is one reason that government bond issues are always over-subscribed.

What does the government get out of this transaction? The revenue from selling the bonds to the banks “tops up” its account at the Central Bank, so that the account doesn’t go into overdraft. That, and not “*borrowing in order to spend*”, is why governments sell bonds when they run deficits. Whether the government issues bonds or not, if it spends more than it gets back in taxes, then its net financial position will be negative: its financial liabilities will exceed its financial assets.

This might sound horrifying: “*How can the government operate in negative equity?!*” But in fact, all governments do, including Australia’s. According to the IMF, in 2020, the Australian government’s net financial worth in 2020 was minus \$815 billion (see Table 2). This was not an aberration, but the normal situation for Australia (boosted somewhat by Covid), and the normal situation for every national government on the planet.

**Table 2: The IMF's record of Australian government assets and liabilities**

(<https://data.imf.org/regular.aspx?key=61042577>)

Instrument and Assets Classification	2001	2002	2003	2018	2019	2020
TOTAL NONFINANCIAL ASSETS	77	81	81	190	200	209
FINANCIAL ASSETS	121	116	119	442	477	559
LIABILITIES	196	196	201	1,004	1,173	1,374

Therefore, the answer to the question “*How can the government operate in negative equity?*” is “*a lot better than you can*”. Because the government is both a money creator and “*owns its own bank*”, not only can it sustain being in negative equity, but its negative equity is what enables you to be in positive equity.

Figure 6 illustrates, in a stylized way, four essential points about how government finances actually work:

1. Net government spending - spending in excess of taxation - creates money for the non-bank public, and Reserves for the banking sector;
2. Purchases of Treasury bonds by the banking sector convert non-income earning, non-tradeable Reserves into income-earning, tradeable Bonds;
3. The government’s negative financial equity - its excess of financial liabilities over financial assets - enables the general public to have positive financial equity - an excess of financial assets over financial liabilities; and
4. Bond sales allow this negative financial equity to not show up in the Treasury’s account at the Central Bank (the government’s non-financial assets, however, can be substantial and positive - both in the form of businesses and land that the government owns, and the notional worth of the country that the government administers).

*Figure 6: Net government spending creates net financial assets for the non-government sector*

<b>Private Banks</b>						
	Asset		Liability	Equity	A-L-E	
Flows ↓ / Stock Vars →	Reserves ▼	Bonds ▼	Households ▼	Banks ▼	0	
Initial Conditions	1000000	0	800000	200000	0	
Government spending	Spend		Spend		0	
Banks buy Bonds	-Buy	Buy			0	

<b>RBA</b>						
	Asset		Liability	Equity		A-L-E
Flows ↓ / Stock Vars →	RBA <sub>Assets</sub> ▼	Reserves ▼	Government ▼	RBA <sub>E</sub> ▼	RBA <sub>Assets</sub> ▼	0
Initial Conditions	1100000	1000000	100000	0	0	0
Government spending		Spend	-Spend			0
Banks buy Bonds		-Buy	Buy			0

<b>Households</b>				
	Asset	Liability	Equity	A-L-E
Flows ↓ / Stock Vars →	Households ▼		Household <sub>E</sub> ▼	0
Initial Conditions	800000		800000	0
Government spending	Spend		Spend	0

<b>Government</b>				
	Asset	Liability	Equity	A-L-E
Flows ↓ / Stock Vars →	Government ▼	Bonds ▼	Government <sub>E</sub> ▼	0
Initial Conditions	100000	0	100000	0
Banks buy Bonds	Buy	Buy		0
Government spending	-Spend		-Spend	0

The bottom line of this is that the government *should normally run a deficit, since that provides the “debt-free” money that a growing economy needs.* If it attempts to run a surplus, it necessarily pushes the private sector into a deficit.

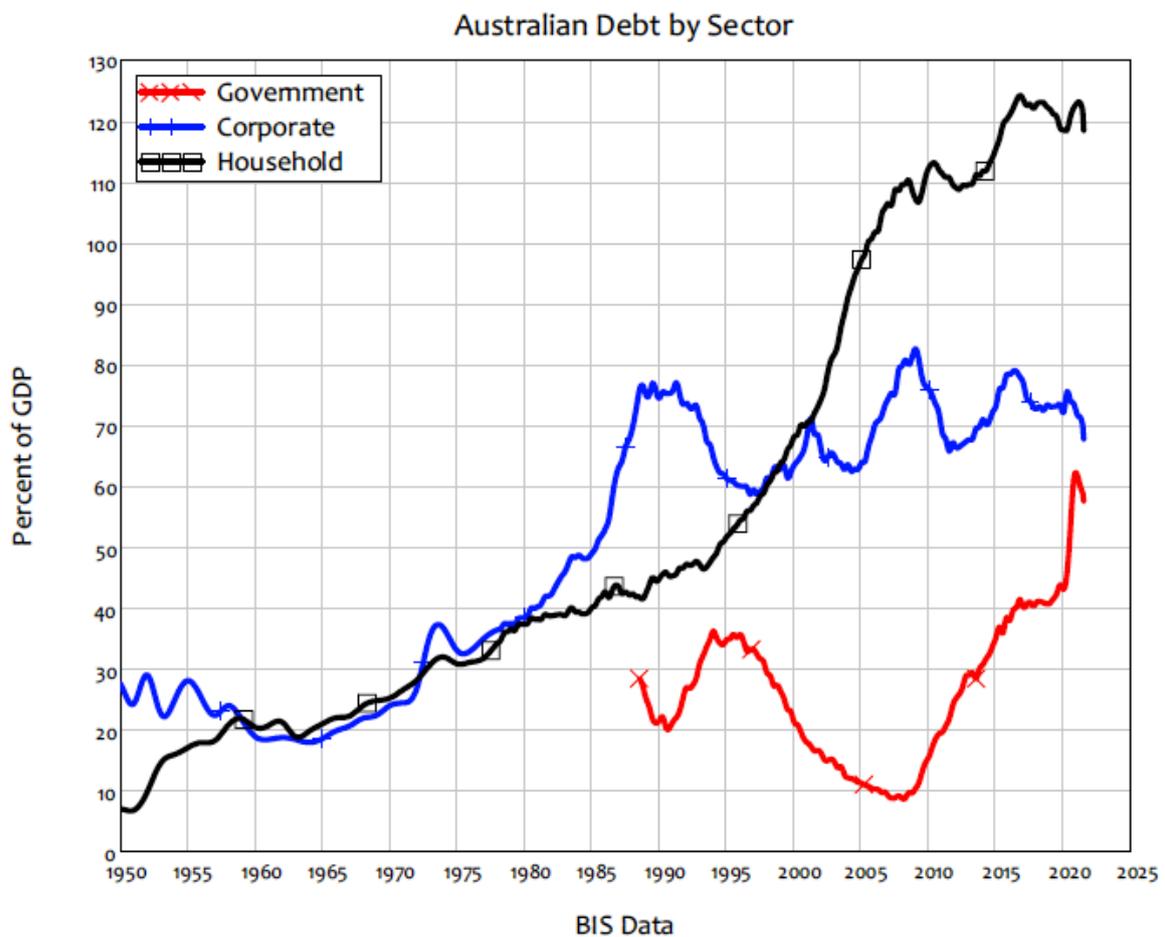
The private sector’s response to this is normally to borrow from banks, in order to speculate on nonfinancial assets—predominantly housing, but also gold, shares on the secondary market, cryptocurrencies, etc. The obsession that both Liberal and Labor governments have had on running a government surplus has helped set off the Australian debt-fuelled housing bubble, and encouraged private sector speculation, rather than private sector enterprise.

## Australia's debt history

From the focus of both Liberal and Labor parties on the level of government debt, and their lack of discussion of household and corporate debt, you might automatically think that government debt is relatively huge, while corporate and household debt are relatively small. In fact, nothing could be further from the truth. *Even after Covid*, government debt is less than half the size of household debt, while it is about 10% of GDP less than corporate debt—see Figure 7 (before Covid, government debt was 30% of GDP less than corporate debt).

*Figure 7: Australian debt by sector. BIS Data*

[https://www.bis.org/statistics/full\\_bis\\_total\\_credit\\_csv.zip](https://www.bis.org/statistics/full_bis_total_credit_csv.zip)



Furthermore, *more than 100% of the increase in private debt since 1990 has been from increased mortgage debt*: household debt was 45% of GDP in 1990, and corporate debt was 74%; corporate debt in 2021 is 6% lower than in 1990, at 68% of GDP, while household debt is 74% higher, at 118% of GDP. All this additional household debt has done is to inflate house prices.

It was a mistake to let household debt increase at all, let alone this much—tripling compared to GDP in just over 30 years. *This mistake has to be reversed*. With an understanding of how money is created, it is possible to reverse it, by replacing bank-debt-based money with government-fiat-based money. This can be done in a way that:

- makes it possible for house prices to fall, without reducing the equity of existing homeowners and mortgagors; and
- does not benefit those who rode the housing bubble at the expense of those who did not.

We need a *monetary reset* that will convert debt-based money to fiat-based money and unwind this *historic mistake*.

## The Two-Pronged Policy Approach

### 1. A Monetary Reset

The Monetary Reset would:

- Allocate to every Australian adult an identical sum of government-created money;
- Require those who had debt to use that allocated money to pay down their debt;
- Sell Treasury Bonds to banks, precisely as is currently done in deficit financing; and
- Require those with less debt than the amount allocated to purchase Treasury Bonds from banks, from which they will earn interest income;
- This would not create any additional money and put inflationary pressure on the economy, but rather, it would change the asset backing the money from private debt, to reserves and government bonds.

The essential steps in the monetary reset are shown in Figure 8:

- Create fiat money for the public and reserves for the banks;
- The public repays much of its private debt;
- Banks buy bonds with the reserves created by the reset;
- Banks are paid interest on their bonds; and
- The RBA buy bonds from the banks.

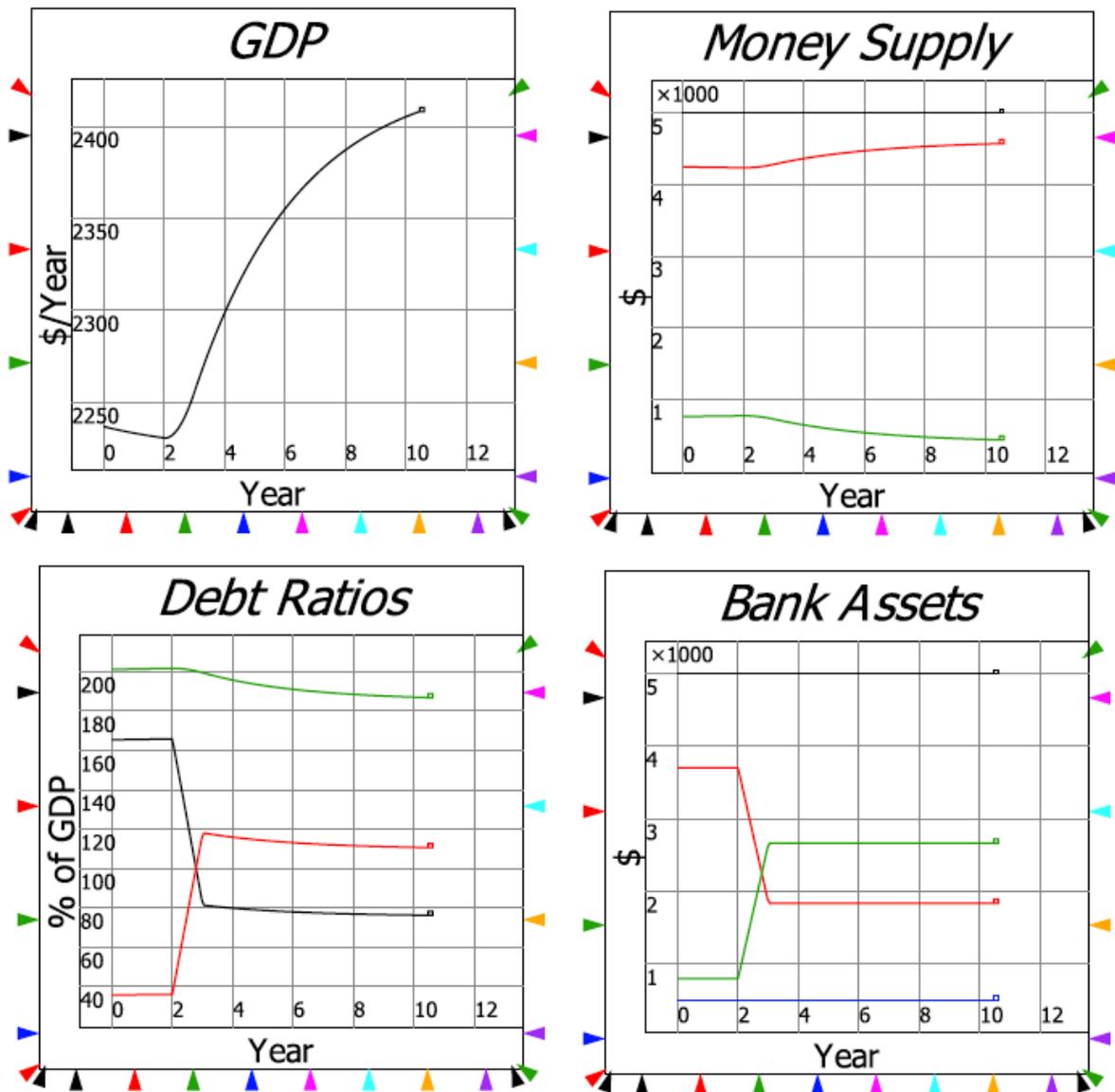
Figure 8: The essential steps in the monetary reset

Flows ↓ / Stock Vars →	<b>Banks</b>					
	Asset			Liability	Equity	A-L-E
	<i>Reserves</i> ▼	<i>Bonds</i> ▼	<i>Loans</i> ▼	<i>Deposits</i> ▼	<i>Banks</i> ▼	<i>0</i>
Initial Conditions	500	800	3700	4250	750	0
<i>Debt reset</i>	<i>Reset</i>			<i>Reset</i>		0
<i>Private debt reduction</i>			<i>-Reduce</i>	<i>-Reduce</i>		0
<i>Bond sales to Banks</i>	<i>-Bond<sub>B</sub></i>	<i>Bond<sub>B</sub></i>				0
<i>Bond Purchases by RBA</i>	<i>Bond<sub>RBA</sub></i>	<i>-Bond<sub>RBA</sub></i>				0
<i>Interest to Banks</i>	<i>Interest<sub>B</sub></i>				<i>Interest<sub>B</sub></i>	0
<i>Interest on Debt</i>				<i>-Interest</i>	<i>Interest</i>	0
<i>Bank Spending</i>				<i>Spend<sub>B</sub></i>	<i>-Spend<sub>B</sub></i>	0

The outcomes of the monetary reset are:

- A dramatic and necessary fall in the indebtedness of the Australian public;
- A matching increase in the public's financial equity. The pressure to speculate to achieve financial security for your future is substantially reduced;
- An increase in GDP, as money is redistributed away from the finance sector and towards the real economy; and
- A fall in the total debt ratio, as the private debt ratio falls more than the government ratio rises.

Figure 9: A simple simulation of a monetary reset. See Appendix for full details



This policy on its own will reverse the mistake of the last 40 years of feeding the housing bubble, and it actually increases the net equity position of homeowners, as well as those who are currently renting. But it doesn't necessarily reduce house prices. That is the role of my next policy.

## 2. Property Income Limited Leverage (PILL)

The current ratio of the average mortgage to the average rent in Australia is of the order of 20 to 1 - see Figure 10; which shows data up to 2018 (the ratio has surely gotten worse with the bubble that has occurred during Covid). As little as 20 years ago, it was of the order of 10 to 1. This is what has made entry into the housing market impossible for the young: though interest rates have fallen, the deposit needed to enter the market has risen far faster than incomes, and even faster than house prices themselves.

This is irresponsible lending - something that the Morrison Government has actively encouraged by its outrageous reactions to the findings of the Banking Royal Commission. We need to bring such irresponsible lending to an end.

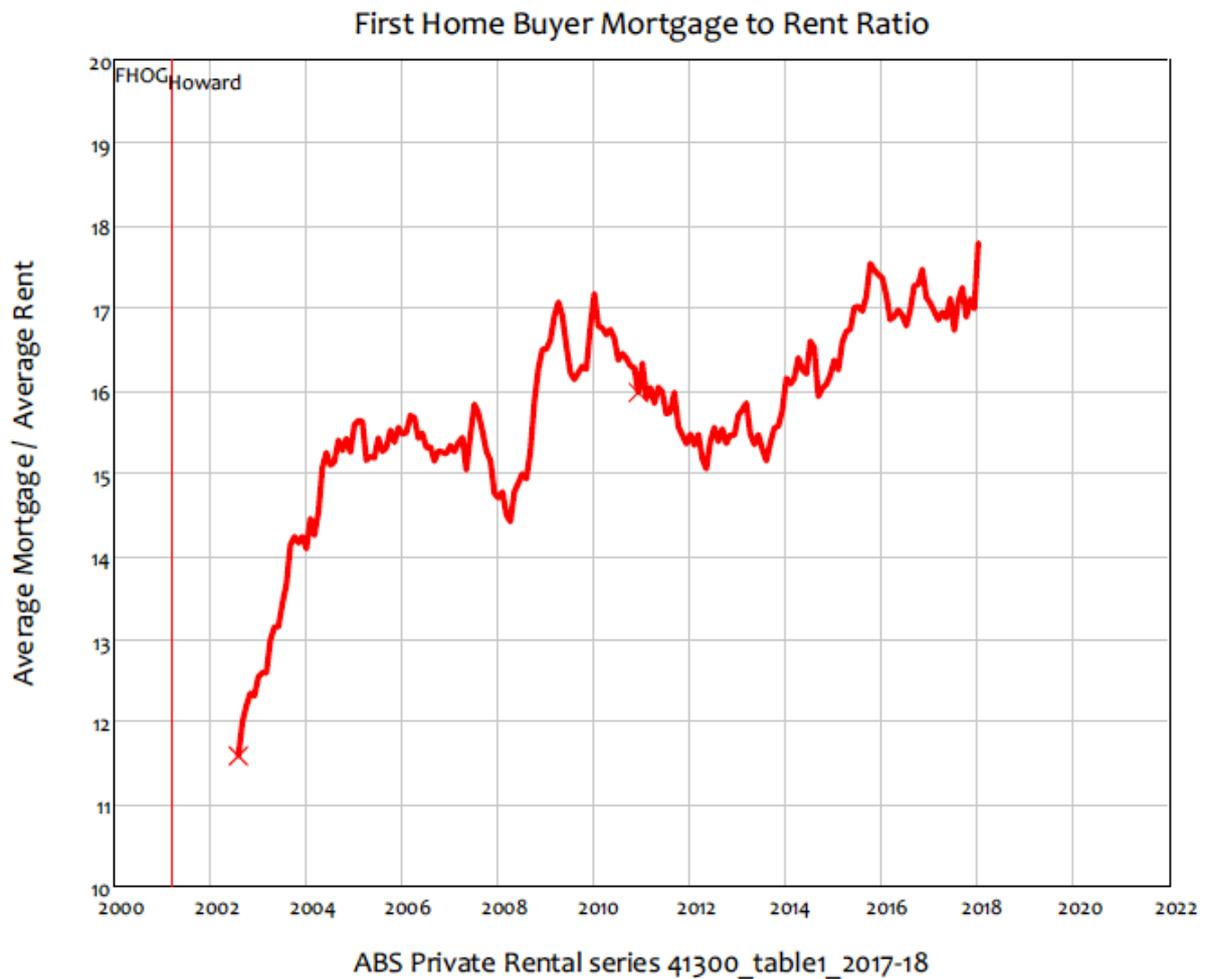
I propose a policy limiting the maximum amount that can be lent to buy a house to a multiple of its rental income. Initially this will start near the current ratio, but the ratio will be progressively reduced until *the maximum amount that can be borrowed to buy a property will be ten times its annual rental income*. So, if a house would rent for \$1000 a week, the most that could be borrowed to buy it, by anyone, would be \$520,000.

By reducing the amount of debt that can be used to buy a property, this policy will:

1. reduce house prices; and it would also mean that
2. if two parties were vying for the same property, *the one that raised more money via savings would win*.

Thus, this policy will stop rewarding leverage and start rewarding frugality as the first step towards home ownership.

Figure 10: Ratio of average first home mortgage to average rent



On its own, this policy would benefit house buyers and penalize house sellers. This is why I have paired it with my above *Monetary Reset* policy, which, on its own, increases the equity of homeowners and renters equally.

## Conclusion

The policy objective I have - which I agree will be difficult *but not impossible* to achieve - is that by implementing the two policies together they offset each other, so that homeowners end up *no worse off*, while renters benefit so that the property and *intergenerational unfairness of the last 40 years is reversed*.

Existing homeowners would therefore retain the benefits they have gained from 40 years of bad policy and the housing bubble it allowed. The primarily young people - but also low-income older Australians - whom those policies discriminated against would benefit from both policies, via increased financial net worth from the *Monetary Reset*, and a fall in house prices via the *PILL* to bring them back into line with incomes.

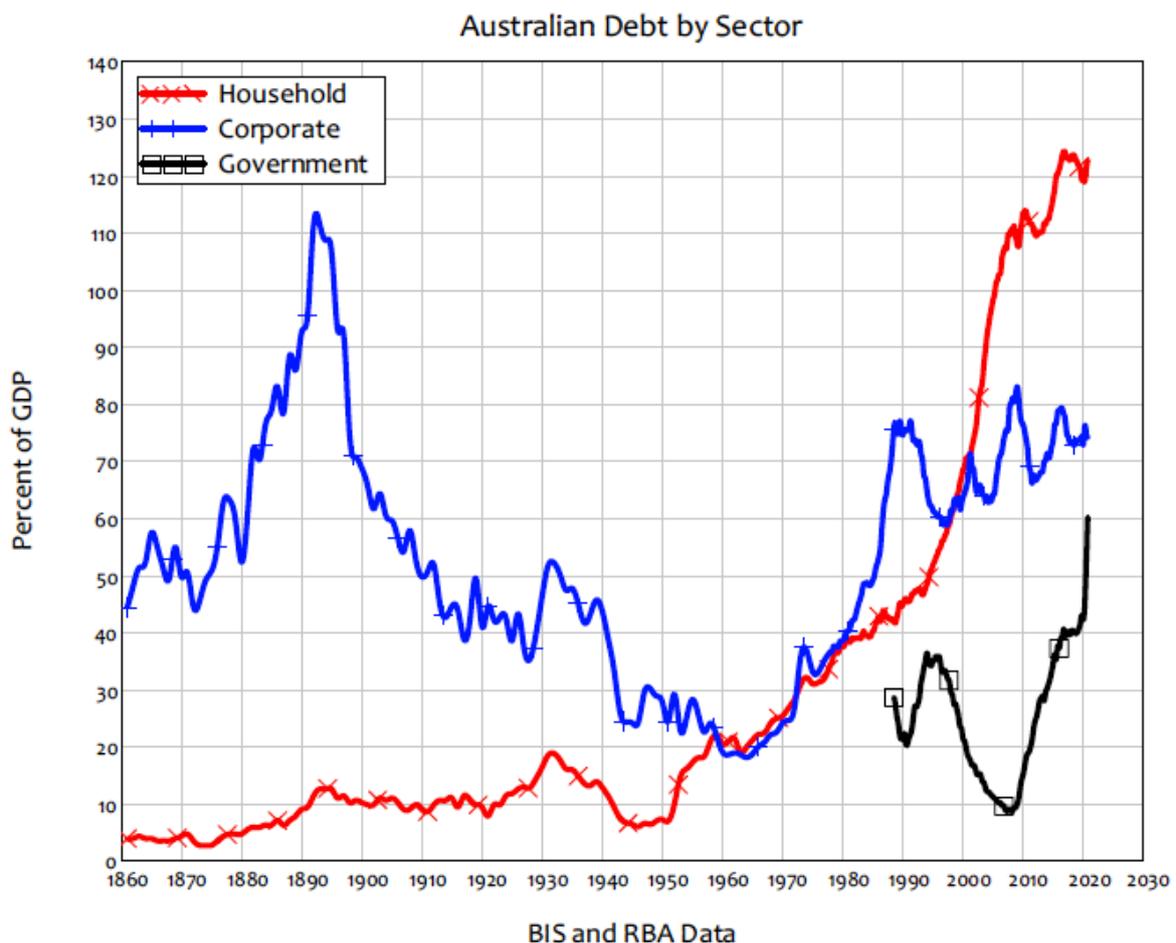
The policies outlined in this document may appear radical and are undoubtedly untested. But the conventional policies that have been followed by both major parties have been tested and have clearly failed. It is time to try something new.

## Appendix

### Australia's long term debt history

The American philanthropist Richard Vague's magisterial review of the last one and a half centuries of economic crises (Vague 2019) found that *all of them* had been caused by the collapse of private debt bubbles. This has also been Australia's long-term history of private debt, which is well described in the RBA publication *Two Depressions, One Banking Collapse* (Fisher and Kent 1999), which compares the 1890s Depression, which was devastating for Australia, to the 1930s, which was relatively mild—though still a Depression, Figure 11.

*Figure 11: The long-term history of Australian debt. Private debt has always been the problem*

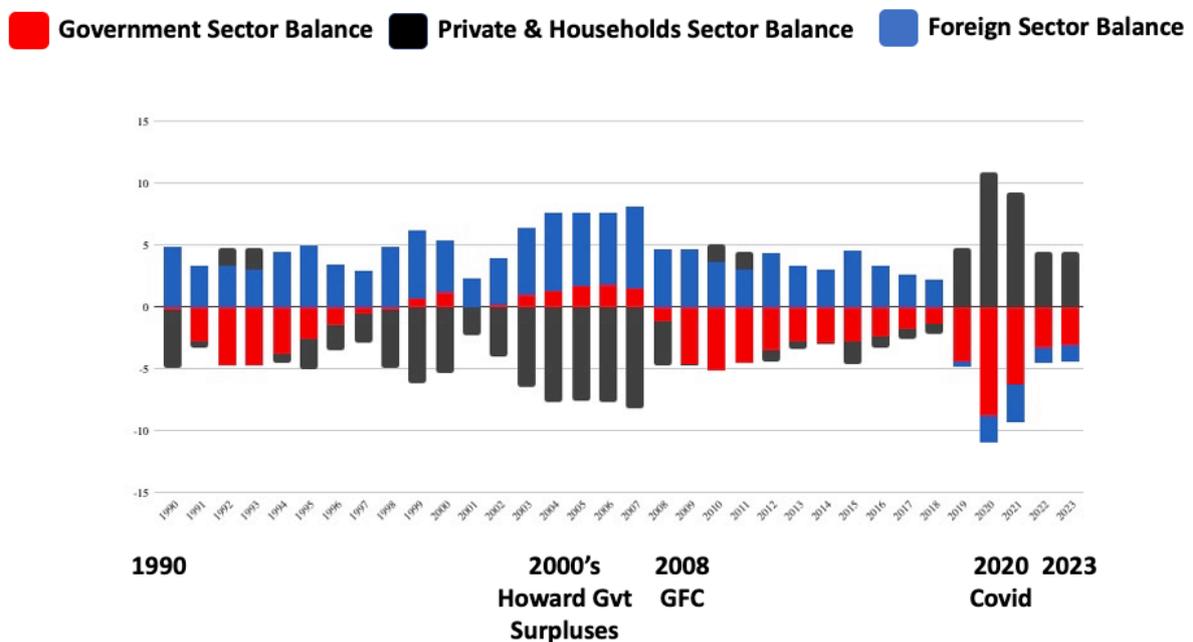


## Government balance sheet

Like almost all governments, the Australian government has mostly been in a net negative position in terms of government debt as this enables the private sector - the flipside of the balance nation's sheet—to be in the position of net positive surplus, see Figure 12.

*Figure 12: Australia - Sectoral Balances (% GDP)*

<https://modernmoneylab.org.au/databank/>



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## Debunking Economics podcast episodes

Keen explains his 'two-pronged' housing affordability policies across two respective podcast episodes from his *Debunking Economics* podcast series:

### ***How to burst the housing bubble***

Season 1, Ep. 256 - Wednesday, February 2, 2022

*House prices in Australia continue to rise. According to Domain's House Price Index, prices in Sydney have risen by a third in the last year, to a median value of \$1.6 million. Housing affordability has never been a bigger issue, but how do you bring prices down when two thirds of the population are owner occupiers. That's a question Phil Dobbie puts to Steve Keen, as he explains his two-pronged approach to containing house prices - first, limiting the value of loans to a multiple of the rental value of a property and, secondly, a big reset, which sees debt repaid and bonds issued to those who don't currently own a property. Would it work, and could it be explained in a way that the voting population will understand?*

<https://shows.acast.com/debunkingeconomics/episodes/how-to-burst-the-housing-bubble>

### ***Time for a monetary reset?***

Season 1, Ep. 258 - Tuesday, February 22, 2022

*A society riddled with debt is a society that is reluctant or unable to spend. A lot of that debt has now found its way into housing, with mortgages higher than ever. That's money we're using to pay off our home loan that we could be spending keeping the economy moving. In short, its slowing the speed at which money circulates. So, how do we fix it? The answer is get rid of the debt. And Steve Keen has a cunning plan. A monetary reset. How would it work? Phil Dobbie explores the idea in detail with Steve on today's Debunking Economics podcast.*

<https://shows.acast.com/debunkingeconomics/episodes/time-for-a-monetary-reset>