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Why the election is a referendum on house prices

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Labor plans to limit negative gearing, the Coalition to reintroduce the Australian Building and Construction Commission.

To a large extent the 2016 Federal is all about house prices, which is both good and bad.

Put simply, to help the transition from the mining boom into new export industries, Australia needs either a currency devaluation or a big fall in its domestic cost structure, and therefore house prices.

The Reserve Bank is out of ideas, since cutting interest rates to lower the dollar just sends house prices higher, so it's the politicians' turn to do something — and they are doing something, sort of.

Typically, each political party has a different, perfectly valid, idea and is fiercely attacking the other side's idea as an ideological disaster. Thus only one of the ideas will get up, when both would be better.

The Labor Party wants to limit negative gearing to new construction, the Coalition wants to reintroduce the Australian Building and Construction Commission.

One of the main blockages to establishing domestic industries that can replace mining construction as a generator of growth and jobs is the high cost of doing business in Australia, specifically high wages.

Underlying Australia's high wages is the high cost of accommodation: housing, both residential and commercial, is the most important input in the cost of living, and therefore the cost of doing business, and land in Australia is overpriced.

Well, to be specific, land in Sydney and Melbourne is overpriced. The per square value of it in Sydney is higher than Paris, Los Angeles and Shanghai, and about the fourth highest in the world.

The result is that workers have to be paid a lot to service their housing debt; without overpriced houses, Australian wages wouldn't have to be so high.

Without actually discussing this issue plainly and directly, the nation's politicians have made this year's election all about dealing with it.

Labor has a tricky selling task selling its negative gearing policy because it is trying to argue that the change will make housing more affordable, but won't result in house prices falling. That's because the Liberal Party is shouting that the policy will produce

a house price crash and economic disaster.

So Labor leader Bill Shorten has to assert that it will merely lower the rate of increase in house prices — that they will become a little less unaffordable than they would have become, which is hardly a silver bullet.

Such are the verbal gymnastics required during elections, but there's no doubt that being able to deduct property investment losses from one's salary as if they are a work-related expense, when they are plainly nothing of the sort, is an obvious distortion in the property market and helps drive up the price of land.

So limiting deductions to new houses is a worthwhile attempt to turn it into a positive distortion by increasing housing supply.

Similarly, the Coalition's policy of cracking down on the construction union and bringing back that ABCC, which is the potential trigger for the double dissolution election and therefore its key reason, is an attempt to reduce the cost of building apartments and thereby reduce Australia's high cost structure.

In his interview with the ABC's Leigh Sales on the 7.30 program on Monday, the Prime Minister Malcolm Turnbull, in response to a question on the ABCC bill, said: "You see, Leigh, the real agenda here, the key agenda here is how do we successfully continue to manage our transition from an economy that was fuelled by a mining construction boom to a new and more diverse one?"

It's being discussed politically as an ideological anti-union crusade, which it is to some extent, but at a practical level it's just an attempt to bring down Australia's high cost of housing.

The dividing point between union and non-union construction is three storeys: anything above that height must involve the CFMEU; anything below that can use non-union labour. Simply put, a house can be built using non-union labour, except — usually — if it's done by a large company, but high-rise apartments (and offices) must work to CFMEU rules.

Research commissioned by Master Builders Australia has found that the difference in labour cost between four storeys and two storeys is 24 per cent. That's the extra cost of the union. In essence, the election is partly a referendum on reducing that difference.

It is not actually about corruption, since the ABCC is not an anti-corruption body and existing laws and policing bodies can deal with it, even though there is plenty of political guff about corruption and the Senate crossbenchers are attempting to have the ABCC legislation turned into a national anti-corruption body.

And it's not really about productivity. As Productivity Commission research has shown, the ABCC made little difference to productivity, mainly because CFMEU workers are quite productive — no less than non-union workers. They all work hard.

It's about cost — union construction is much more expensive than non-union because of higher wages and conditions, including costly safety rules.

Neither political party is being plain that their policy is designed to bring down the cost of housing because the ALP doesn't want to admit that it wants to reduce house prices, and the Coalition doesn't want to admit that that it's trying to reduce wages and conditions. It is, to an extent, "look at the hand" politics, where attention is distracted from what's really going on.

But if Australia is to achieve a successful economic transition out of the mining construction boom to a new economic foundation in a globalised world, then both of these things — the removal of the negative gearing distortion and lower construction costs — need to happen.

The only alternative is a big currency devaluation that would lower living standards across the board, and in many ways that would be more desirable, since devaluations don't really discriminate between types of workers or house-owners and renters.

But that's proving very elusive, frustratingly so for the Reserve Bank. Commodity prices are rising, inconveniently, because the Chinese currency is devaluing and rekindling its export industries, and the US dollar is falling, not rising as it should do with interest rates finally starting to go up.

In the absence of an external devaluation, a high-cost country must undergo an internal devaluation in order to succeed in a world of free (ish) trade and globalisation.

That means lower domestic costs, which in turn means lower wages; but that's hard in Australia while houses cost so much.

So Australia either needs a big currency devaluation or a big house price fall, or both, which would be doubly effective, but doubly hard.