I wish to write in support of the points made by Saul Eslake in his submission to the current inquiry. I also wish to make a brief submission relating to the following matter before the inquiry:

Identify and assess the factors that promote or impede responsive housing supply at the Federal, State and Local Government level;

My concern relates to the calculation of the Consumer Price Index in Australia, and its deleterious effects on interest rates and therefore on asset prices, including the price of housing. I do appreciate that the horse has well and truly bolted as far as historically low interest rates supercharging house prices is concerned, but I hope to encourage a reconsideration of the CPI that might contribute to a moderation of house price inflation in the future (in combination with increased supply, design utility etc.). The following notes are based on a letter sent to the Australian Financial Review last month, on the 19th August 2021 (which, understandably, was not published – it is rather too long):

Ronald Mizen writes in today's AFR ("Sluggish wage deal new blow to home buyers" 19 August 2021) about the decidedly subdued level of wage growth in Australia of late and the unfortunate consequences for aspiring home purchasers. Home prices are forging ahead meaning first home buyers need "longer and longer to save for a deposit" according to EY chief economist Jo Masters quoted in the same article.

Perhaps there is a simple practical response to Australia's housing affordability problem: engineer higher interest rates by including the cost of land in the Consumer Price Index (CPI).

The AFR recently editorialised ("Wrong inflationary foe", 16 July 2021) on how the US Federal Reserve and Australia's Reserve Bank might have reached a limit with cheap money printing, and that the resultant dramatic housing, equity and commodities price inflation (all pretty much overlooked in Australia's present CPI makeup) is injecting more risk into the financial system and widening wealth inequality.

Has the time arrived to actually welcome modest inflation figures – as opposed to our current reportedly negligible inflation – as an essential cyclical moderator of economic activity, and an overdue countervailing force against further widening wealth inequality?

Higher recorded inflation should, one hopes, be matched by higher wages and steadier house prices (as interest rates increase) thereby inducing a beneficial cycle for aspiring first home buyers stuck on the deposit-accumulating treadmill. You will appreciate that higher interest rates should also flow through to term deposit savings accounts held by aspiring dwelling purchasers.

Alas what might be described as an "orthodox" economic outlook needs to be overcome first. AMP chief economist Shane Oliver perhaps expressed such a view (Karen Maley, "Bubble trouble hits home", AFR 27 July 2021) when reported as warning that "including house prices in the CPI could cause the Reserve Bank to run a tighter monetary policy, which would create problems for the rest of the economy."

A tighter monetary policy – implemented by the RBA as the business cycle ebbs and flows – might only seem problematic if you subscribe to the current commonplace that an economy should be run flat out all the time. It seems odd to expect our economy to power along in overdrive for ever and ever, so this could be an ideal time for the RBA to coordinate action with the US Federal Reserve which is now considering adding housing to its CPI calculations (again, as reported in Karen Maley's article, 27 July 2021).