Budget will hit young Australians with higher rates and fewer rental properties

The Treasurer's housing reforms could backfire spectacularly, driving up rents and pushing more debt onto future generations while failing to deliver affordable homes, writes Noel Whittaker.

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Treasurer Jim Chalmers claims his Budget is about fixing intergenerational inequality and making housing more affordable for first-home buyers. Tell him he's dreaming.
For starters, the term "intergenerational inequality" is a social construct dreamt up by Labor to create a whole new class of victims they can encourage to vote for them. Yes, young people have challenges, as young people always have, but so do older Australians.

As for affordable housing, it is fast becoming a pipe dream. Even the Budget papers forecast housing prices will rise by 4 per cent over the next year.
A tax cut worth roughly $50 a week for younger workers is hardly going to help much when mortgage repayments keep climbing as interest rates rise.
There also seems to be an assumption that the best way to increase housing supply is to make investing in residential property by individuals as unattractive as possible. Clearly, they have never heard the adage: "Money flows to where it's treated best."

Anybody who has seen the brilliant ABC series Utopia knows how modern government works. The priorities are the quick fix and the political sugar hit, while long-term consequences are either ignored completely or kicked down the road for somebody else to deal with. Too often, policy is built around the next news cycle rather than the next generation.
Picture a make-believe Cabinet meeting during a crisis where somebody says: "People are hurting. Let's cut fuel excise and give everyone 30 cents a litre relief."
A wise prime minister might reply: "Do we really want to borrow another $3 billion for a temporary feel-good measure while pushing the national debt even higher? Perhaps Australians should simply weather this one themselves."
But that's not how modern politics works: borrowing money to buy votes has become the norm. Only debt never disappears, it gets handed to the next generation with interest attached.
That's the real intergenerational inequality, and it has been building for years, with Covid pouring petrol on the fire. Morrison panicked, the Reserve Bank slashed interest rates to emergency levels and Canberra spent money as though there was no tomorrow. JobSeeker became so generous that hospitality businesses complained staff were better off staying home than returning to work.
Ultra-cheap money and massive government spending created the perfect inflationary storm. House prices exploded, wages failed to keep up, and younger Australians were left trying to save a deposit while competing against a flood of cheap money. We are still paying the price today.

One of the biggest reasons for the jump in housing prices has been the endless stream of government incentives for first-home buyers. Allowing people to borrow with a 5 per cent deposit, avoid mortgage insurance and qualify more easily for a loan pushed prices even higher. More interest rate rises could easily push some recent borrowers over the edge and force sales, which would finally start to put a brake on the market. Every rate rise also reduces borrowing capacity and therefore acts as its own brake on prices.

The housing market has always been about supply and demand and, now that changes to capital gains tax and negative gearing are looming, it is not hard to work out what happens next. Anyone currently negatively gearing an investment property will be reluctant to sell, while anybody sitting on a large, unrealised capital gain will be equally reluctant to let go. The result will be fewer properties for sale, tighter rental markets and higher rents, which always hit the most vulnerable hardest.
What many people fail to understand is that the real key to success in property is buying well, ideally by purchasing an undervalued property from a motivated seller and then adding value over time.

In today's market, with soaring construction costs and chronic shortages of labour and materials, only a very brave investor would build a new property. In many cases, the only realistic option is a house in a giant cookie-cutter estate where every second property looks the same.

Obviously, a better choice for a would-be property investor is to buy an older, established home in an up-and-coming area and hope the location will drive future value. But here's the problem: to add value, repairs and improvements are often needed. If negative gearing on established properties disappears, those repairs will have to be funded from after-tax dollars, with the owner praying they will recover the benefit years later through capital growth. Who in their right mind would do this? I predict fewer investors, fewer rental properties and higher rents, with poorer Australians once again wearing the pain.

It will also be a bonanza for property spruikers, whose pitch never changes: cash in the bank is useless, shares and superannuation can't be trusted, so the only safe investment is property.

Thanks to the new rules, the only way to obtain negative gearing benefits now is to buy a new property and, conveniently, the spruiker has one ready to go. The inexperienced investor is now on the hook. The spruiker organises the finance, the paperwork and, if you are short of cash, may even encourage you to start a self-managed super fund and roll your super into the deal, which is one of the fastest ways imaginable to destroy your retirement savings and financial future.

The budget gives us a look into the government's real priorities. Nothing for poorer older people who rent and are not allowed to earn much money working, because of the way the Centrelink rules are arranged. But they're happy to allocate $50.4 million in 2026–27 to continue to support the prosecution of war crimes alleged to have been committed by the Australian soldiers in Afghanistan.

Australia is still the "banana republic" Paul Keating warned about in 1986, where government revenues and national income remain heavily dependent on commodity prices we do not control, so the easiest and most effective way to improve intergenerational equity is not to dream up more spending programs whenever commodity prices surge, but to use the windfall revenue to pay down debt before the next crisis arrives.

The Treasurer says this Budget is about responsibility, productivity and fairness. Fine words, but the reality looks very different. The headline measures are attacks on negative gearing, higher taxes on capital gains and yet another round of government spending dressed up as reform. Yes, the deficits are slightly smaller, but that has far more to do with windfall revenue flowing into Treasury coffers than genuine fiscal discipline or tough decisions by government.

At the very time the Reserve Bank is trying to crush inflation and bring spending under control, this Budget continues pumping money into the economy, which simply makes the RBA's job harder and increases the risk that interest rates stay higher for longer. Younger Australians trying to buy homes will ultimately pay the price through larger mortgage repayments.

The bigger problem is structural. Government spending keeps rising, deficits are forecast for years ahead, and national debt continues climbing with barely any discussion about how it will be repaid. Canberra now behaves as though borrowed money is normal, permanent and without consequences, though every extra dollar of debt pushes the burden onto future taxpayers.

This is not genuine tax reform. It is largely a tax grab with a fancy label attached. Real reform would simplify the tax system, reduce red tape, encourage investment and improve productivity. Instead, we get more complexity, more regulation and more disincentives for people prepared to take risks, employ staff or invest their own capital.

The sad reality is that Australia increasingly punishes risk-taking, rewards bureaucracy and talks endlessly about productivity while doing very little to actually improve it. And this budget offers more of the same.