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Scott Morrison and the RBA have supercharged the property market

In combination, Malcolm Turnbull, Bill Shorten and Glenn Stevens' replacement, Philip Lowe, have adopted a set of conflicting strategies, which are set to create yet, another strong housing price rise in parts of Sydney and Melbourne, which will spread, to other cities.

It's a bizarre situation made even worse by a set of top public servant advisers, who having watched on as their own superannuation nests were feathered, are advising on the destruction of parts of superannuation in the private sector that is contributing to the latest house price rise (*Mandarins' super bonanza requires a fair-minded inquiry*, August 26).

I cannot recall our nation being faced with such dangers as have been caused by this mismatch of strategies from its leaders and their advisers.

Inevitably another housing boom, albeit selective, on top of the one we have just had, will end in grief.

To understand why Australians are racing for dwellings in the Sydney and Melbourne markets you first need to look at how Australians saved before Treasurer Scott Morrison took public service advice on private sector superannuation.

There is a huge rump of Australians who will have saved say, $200,000 to $700,000 via superannuation in the lead-up to retirement. The majority, when approaching retirement, pay large sums to financial planners who show them how to maximise the government pension while running down their superannuation savings.

The changes to the means test means that this game must be played with even more skill but the key to the game is that the family home, no matter how large, is sheltered from the mean test. Those who release cash by downsizing the family home are in danger of seeing their pension reduced by the cash released.

Accordingly, the envisaged source of fresh housing supply is reduced by the introduction of a tougher means test.

Traditionally, middle- to high-income people on high tax rates have saved in one or a combination of the following four ways:

- superannuation, particularly by injecting large tax paid sums into their self-managed fund
- Negative gearing of residential property.
- Big investments in the family home.
- The use of trusts to spread income.

I emphasise that the above is a generalisation and there are many exceptions, including those that simply save in their own name and pay the high rates of tax.

The use of trusts to spread income can be very effective but it requires great family harmony and is studded with tragic consequences.

So, it is the first three savings avenues — superannuation, negative gearing and the family home — that dominate the scene in the middle- and upper-income market.

In the superannuation segment, we have seen both Malcolm Turnbull and Bill Shorten make proposals to levy a 15 per cent tax on higher-level superannuation income.

On its own, the 15 per cent superannuation income tax plans were not game changers.

The first game changer came when Bill Shorten and his shadow Treasurer Chris Bowen proposed to stop negative gearing on existing houses.

Malcolm Turnbull went to the polls saying that the Shorten/Bowen plan would slash the price of houses and put up rents. If nothing else happened, Turnbull was right, although, as politicians always do, he exaggerated the impact.

But one of the Coalition's own moves has boosted home buying and almost certainly weakened Turnbull's negative gearing prediction, although few if anyone realised what was ahead (I certainly didn't).

In the budget Treasurer Scott Morrison, in effect, eliminated substantial tax-paid contributions to superannuation as a savings pillar. So now, whereas there were three savings pillars, we are now down to two — the family home and negative gearing.

At the same time, incoming Reserve Bank Governor Philip Lowe wants to reduce the rising Australian dollar and he only has one weapon — lower interest rates.

Earlier this month, the RBA lowered official rates and the market expects more cuts. Lowe believes (hopes) the cuts will not cause another housing rally because the banking regulator had curbed the banks' previous practice of borrowing overseas to lend on housing. Lowe looks like being wrong thanks to Turnbull and Shorten.

Many Australians have now decided that, with superannuation out, the best way to save, tax efficiently, is via the family home. An additional benefit is that you also avoid the wild rides of the stockmarket.

They are expanding their existing homes and buying bigger ones. Last weekend we saw a high 81 per cent clearance rate in Sydney and 79 per cent in Melbourne. Prices are rising. Clearance rates in other capitals are much lower but that is likely to change because of the government's structural changes.

The family home is a magnificent tax shelter because there are no capital gains on the sale and it does not reduce the government pension.

Moreover, you can borrow on it, or engage in a part-sale scheme, to enable it to produce cash during retirement without reducing the government pension (care needs to be taken in these strategies).

Thanks to what Scott Morrison and his feathered public servant advisers have done to private sector superannuation, the family home is being turned into a "superannuation fund" for many parts of the society.

And Bill Shorten now plans to make conventional superannuation even less of a savings vehicle for middle-income earners, thereby locking in the trend.

And the other savings pillar, negative gearing on existing homes is still there so there is a rush to 'get set' in the fear that eventually Bill Shorten will have his way.

If Lowe drops another lower interest rate match into the Turnbull-Shorten tin of kerosene, the housing market will really explode in those parts of the Sydney and Melbourne where middle- and upper-income people live.

Because Turnbull has boosted the demand for the family home via hitting superannuation tax paid concessions, the ALP plan for ending negative gearing becomes a force to moderate the rise.

The rules have changed.

In hindsight, what might have been better for the bottom line and for the community would have been to have the feathered public service advisers leave the room and work to raise money from the exploding defined benefit public service superannuation at the top end.

The proposed cost reductions in the private sector are about equal to the annual exploding cost of the defined benefit public sector driven by those on high incomes