Australia’s tax and welfare system is one of the most tightly targeted in the world. In general, welfare payments and tax concessions go to those who need them most. However, there are substantial welfare payments and tax concessions available to older people. Is age-based welfare justified? Are Australia’s tax and transfer systems, including the Age Pension and other age-based concessions as well as superannuation tax concessions, targeted to those who need assistance? And are current arrangements sustainable given the long-term budget pressures on Australian governments? How do we fund the needs of an older population equitably?

Cassandra Goldie, CEO of the Australian Council of Social Services discussed the issues with Grattan Institute CEO, John Daley.

Speakers: John Daley, CEO, Grattan Institute
Cassandra Goldie, CEO, ACOSS

BEN CLARKE: So onto this evening and we’re here to hear about Australia’s age-based tax and welfare system and the crucial question: is it fair?

I’m very pleased to introduce our speakers. John Daley, who many of you will know, is the CEO of the Grattan Institute. He’s one of Australia’s leading public policy thinkers with 20 years of experience in public, private and university sectors. He’s worked for ANZ and McKinsey in a career that also includes expertise in law, finance, education and workers’ compensation. He’s joined this evening by Cassandra Goldie, who joined the Australian Council of Social Service (ACOSS) as Chief Executive Officer in 2010. She’s worked globally as a human rights advocate through the United Nations Commission on the status of women and the UN habitat. She’s also worked in legal practice, both as a Legal Aid lawyer and as Director and Principal Solicitor of the Darwin Community Legal Service. She’s played a central role in major gender equality reforms as the Director of the Sex Discrimination Unit at the Australian Human Rights Commission. In 2012 Cassandra was recognised as one of the inaugural Westpac Australian Financial Review 100 Women of Influence.

Please join me in welcoming John Daley and Cassandra Goldie.

CASSANDRA GOLDIE: Thank you very much for the welcome and may I first of all, from John and myself, acknowledge the traditional owners and pay my respects to Elders past and present. As I was walking into the State Library I bumped into somebody I haven’t actually managed to see much this year, which was my former colleague Liz Broderick, the Sex Discrimination Commissioner. She’s doing another gig in another part of the State Library and so John and I were chatting about whether or not tax and transfers was the gripping topic of the day or whether big ideas and changing the world on gender and women might grab you. But I think we’re actually going to talk about some of the same issues this evening, so thank you very much for coming to pick us rather than Liz.

Speaking of groupie moments, John and I are both fresh off the plane from the G20. We bumped into each other going, “Obama, Obama!” and we were both fortunate enough to be at the UQ speech and, I’ve got to say, the buzz that happened outside in the media environment was nowhere near the buzz in the room. And I think there were a few words that the President of the US put out there that day...
that really struck a chord, one of which was the language of rights and the language of government responsibility about protecting those rights. Obviously the G20 was focused on economic policy and there was this grand plan about economic growth. We were very pleased as the Civil Society – I was involved with the C20, we were pushing very strong for a commitment on inclusive growth and a strong recognition that we’re not pursuing growth for growth’s sake, but to reduce poverty and inequality. And, as you know, John and the Grattan Institute has done a lot of work on this analysis about what’s going on in the Australian context.

And John, I would be really interested to hear where you’ve got to in your own thinking about what is the scale of the problem on inequality in Australia and what you see as being some of the key drivers of having us to the point where we are right now?

JOHN DALEY: Thank you and Cassandra, thank you very much for coming, it’s great to have you here. Cassandra of course thought that the President’s speech was insightful and thoughtful and provocative, and I thought he was really good looking.

CASSANDRA GOLDIE: That was a gender neutral response, mind you.

JOHN DALEY: So anyway, it’s great to have you here. Where have we got to on inequality? And we’ve talked about this in some of our previous reports. I think first of all it’s worth thinking about there are two kinds of ways of approaching inequality. One of those is to say we would like the curve to be as flat as possible, which I guess is what you essentially measure with a Gini coefficient, and it’s asking not just what’s the difference between the top and the bottom but what’s the shape of the curve? And in particular, you move that curve if the middle moves upwards and, of course, that’s the way that we think about Gini coefficients and often that’s the way we compare countries. One of the issues with that is that it’s actually quite hard to find compelling moral reasons for that being important. To find a compelling moral reason why you simply want to maximise equality of outcomes is actually pretty hard.

Then there’s a whole second doctrine around inequality which says what we really care about is the people at the bottom and whether or not they have opportunities to live lives of value, as Amartya Sen might put it, or the ability to fulfil basic human goods, as my former supervisor John Finnis might put it. And if you actually read the Sen footnotes very, very, very carefully it’s actually all based on Finnis, or at least that’s what I reckon. But either way, you’re worried about the position of the people at the bottom and whether or not they’ve got real opportunities.

CASSANDRA GOLDIE: Just on that, that was the debate that we had in the C20 about our push to try and convince the leaders to adopt not only a growth target but an appropriate other target, and we had this debate about how would you frame a target around reducing inequality? And we landed with pushing for a target to increase the income levels of the bottom 20% within country.

JOHN DALEY: Yes, and I think that’s very sensible, not least because apart from the fact that it’s much easier to construct reasonably convincing ethical arguments that you care about, the fact that some people can’t get a decent education, can’t enjoy some of the really basic things in life and therefore really miss out on some of the basic things that we believe make life worth living. I think there’s a second reason which is that politically it’s much more sellable. The Left is always going to care about equality. The minute you say “equality and justice” people get excited. The Right inherently doesn’t, there’s much less of a value.
CASSANDRA GOLDIE: You’re too unkind to the Right John, some people talk about justice; it’s just about how you get there.

JOHN DALEY: Well, I think on the other hand the Right does care about equality of opportunity and the whole point is that when you’re framing this worry about the incomes of the people in the bottom 20% inherently what you’re talking about often is they just don’t get enough opportunities to do really basic things, and then you’re all of a sudden talking a language that the Right can identify with as well. So I think you’re absolutely correct to pick on that as a definition. I think it’s much more defensible and inherently also much more politically sellable.

CASSANDRA GOLDIE: Of course though, we now have the IMF and the OECD that have named a rise in inequality as an economic problem.

JOHN DALEY: Yes, they have and I think that there’s some evidence for that although it’s, again, not overwhelming and, again, it depends what kind of inequality you’re looking at. There are pretty obvious reasons why if people are in the bottom 20% and they really have no resources and they have no ability to get a good education, they have no ability to even have the resources to try and find that first job, then there are obvious reasons why that has economic impacts. I think that the evidence, particularly out of things like the Spirit Level, I think it would be fair to say there’s a lot of correlation. The evidence around causation is as yet probably less proven and there certainly remains a very active debate around it.

CASSANDRA GOLDIE: Although I think there’s recognition, for example, in the G20 communique – and this has been in successive G20 meetings – a strong recognition that if you’re pursuing jobs growth that a significant majority of jobs growth will come from small and medium enterprise. So you’ve got this recognition that a lot of the real economic activity is actually occupied within what might be described as the middle of the economic environment as well.

JOHN DALEY: That’s absolutely right, although those people running those small businesses may not necessarily do a lot better out of all of that. The thing that I would suggest that you really care about most from an ethical perspective is not that those small businesses become more profitable; you care that they will have enough incentives to hire more people so that you do something about unemployment at the bottom because, as we know, far and away the biggest driver of inequality and poor outcomes for people at the bottom is whether or not they’re employed. The minute they wind up with a job chances are they’ll be a lot better off, not only economically but because jobs and employment will tend to plug them into a network of social connections. That means not only will they be economically better off, but chances are they’ll be better off from a wellbeing perspective as well.

CASSANDRA GOLDIE: Yes. So we’ll come back to that first point, do we have a problem about rising inequality and what’s the scale of it?

JOHN DALEY: I think the short answer on this is much less in Australia than elsewhere. If you look at household incomes over the last 20 years or so in Australia, the bottom 20% of households have actually seen quite a substantial rise in income. I think over the last 10 years it’s the better part of 35%. That’s not bad in the scheme of things. Some of that’s been delivered through higher welfare payments, particularly age and disability pensions. Some of it’s been delivered by the fact that we’ve got much higher female workforce participation than we used to, so those households are more likely to have a second income and that’s essentially pushed up the earnings of that bottom 20%.
So I think however you cut it it’s hard to say that the bottom 20% in Australia today is on average doing worse than it was 15 years ago. Now, the inequality has risen a bit, so incomes for people in the top 20% have risen faster, but this comes back to what do you care about? If you care simply about the ratio between the top 80 and the bottom 20 we’ve got worse. If you care about what’s the absolute income in real terms of the people in the bottom 20% we’ve clearly got a lot better. And I think the Australian debate has suffered from the fact that people read what they’ve read about the United States and they say, “Oh, that’s dreadful”. In the United States we’ve seen almost all of the income gains over the last 20 years essentially go to the top 20%, indeed even more tightly than that. Essentially, very little increase in incomes for people not only in the bottom 20% but in the bottom 50% and they say, “Well that’s a terrible outcome. In Australia, we should be taking policy action so that doesn’t happen”, to which I think the answer is well yes, if Australia looked like that we should be taking policy action, but our outcomes are completely different to those of the US. We have seen very substantial income growth for the people at the bottom over the last 10/15/20 years and it’s a very different story as a result.

CASSANDRA GOLDIE: So are you suggesting that because our analysis of people who are reliant upon income support, particularly in the working age payment area, are clearly worse off in real terms than they have been, for example, a decade ago and that on the OECD Relative Poverty Measure we’ve got about 2.5million people living below that poverty line?

JOHN DALEY: Yes.

CASSANDRA GOLDIE: So I think this is part of the challenge in the public debate about the granulation of this and this is one of the things I often say is that the truth is we are one of the wealthiest countries in the world and also, for the majority of people, we are enjoying living standards better than ever before, but there is this core group of people who are falling further and further behind. And then that throws up, I think, the debate about the role of the tax and transfer system and whether or not we’ve got some features of that now that are clearly not driving us in the right direction in terms of what might be described as a fair sense of overall benefit for the community out of economic growth.

JOHN DALEY: Well let’s come to tax and transfer in just a minute, but before we close off on that discussion of inequality I’d suggest two things. One is I’ve never been totally keen on those Relative Poverty Measures precisely because what they do is by and large look at the ratio of incomes of people in the bottom 20 to people at the median. So it’s the precise thing that I think is actually the wrong way of thinking about all of these because it’s essentially about the shape of the overall curve, rather than asking what is the absolute position of the people in the bottom 20% which I think is far and away the most important thing. But to go to your second point which is that when you do do it at a finer degree of granulation and, in particular, you don’t just look at the bottom 20% but you look at essentially the bottom 5% or 6%, which is pretty much those that are on unemployment benefits, yes their position has probably got worse. Any way you cut it, they’re doing it tough. Any way you cut the questions, they wind up saying that they are under severe financial stress, they’re often unable to pay utility bills, they often go without meals, they can’t afford to invite people to dinner, which when you think about it is pretty horrific: I can’t afford to buy enough extra food to invite someone to dinner once a month.

CASSANDRA GOLDIE: Well, it’s more extreme than that. I was involved and we’ve done a lot of work particularly analysing what’s gone on for single parent households and the single parents that are reliant on income support who were affected by the changed under the Labor government, the
research that we have done shows that the sorts of things that are going are the $5 on sporting activities, so what might not even be seen as a luxury in the context of the wellbeing of the children in those households, so the withdrawing of even those very basic additional costs that are now built into our education system. And this is why I do want to come back to this discussion because it’s not only incomes, it's also wealth distribution and we know over a lifetime even if you’re on a survivable income but you are not actually getting any ability, because of some of the other policy changes, to accumulate any form of wealth behind you then your lifetime picture is grim. I mean, this was work that I did actually with Liz when we kicked off our retirement income lifecycle analysis about the gendered nature of poverty and inequality and that women are clearly disproportionately not getting the kind of wealth accumulation, that the future looks grim for you as you hit retirement age.

JOHN DALEY: Yes. Well, ironically I suppose if you spend a lifetime on unemployment benefits you wind up with more in the way of government welfare when you go on retirement and on the pension which, when you think about it, is slightly weird.

CASSANDRA GOLDIE: We might come back to that.

JOHN DALEY: We’ll come back to that problem. But I think you're absolutely right and, of course, the other households who are doing it by and large pretty tough, probably not as tough as those on Newstart, are those households which are retired, solely reliant on the age pension, and who do not own their own house. So if they’re paying rent and only supported by the age pension life can be pretty tough. So I think clearly those are the two groups and, as I think some have observed elsewhere, the conclusive proof that there’s a problem here on Newstart is if the Business Council of Australia thinks that Newstart is too low, it’s probably too low.

CASSANDRA GOLDIE: And the OCED and the Henry Tax Panel. But let’s just talk about the wealth picture for a moment, again, in terms of setting the scene. In the work that you’ve done, what are the kinds of trends that we’re seeing around the accumulation of wealth and whether or not we do have a sense of some fairness associated with that?

JOHN DALEY: Well, so far we’ve been very much talking about fairness within a particular point in time, so to what extent do we have some people today who are not getting much of a deal? I guess the work we’ve been doing recently has been thinking about fairness in a different way. It’s been thinking about intergenerational fairness: to what extent will the next generation get a fair deal relative to the current generation? So it’s a very different way of thinking about the word “fairness”, it’s a very different way of thinking about the problem, and very different ethical considerations I suspect come into play.

So what we’ve been doing is looking at what are some of those trends in terms of incomes of particular age groups? So how much does a 30 year old earn today relative to a 30 year old 20 years ago? How much does a 35 year old have in terms of wealth relative to a 35 year old 20 years ago? How much does government support a 35 year old on average relative to a 35 year old 20 years ago? So those are the kinds of questions we’ve been looking at and there have been some interesting patterns that have emerged.

Firstly, in terms of income pretty much all groups over the age of 25 are a lot better off than they were 20 years ago. That’s not surprising; we’ve had very substantial economic growth. It is maybe a little surprising that it’s actually from an age perspective quite nicely distributed. So we’ve seen good jumps in income across the age groups. The big exception is people under the age of 25 precisely
because we’ve seen a big jump in tertiary participation and one of the things that happens when you go to university is you tend to earn a lot less in that period between the age of 20 and 25, and so we’re not seeing a big jump in income in that cohort but I think that’s probably something we’d all be pretty relaxed about so long as incomes are going up after that. So you see that for middle income men, you see it for high income men, you see it for all women both high, middle and low incomes. You don’t see it for low income men, so they’re more or less on the same sort of incomes that they were even 30 years ago. The difference of course is that on average they’re part of households that have substantially greater incomes because there’s much more in the way of second incomes and, as I’ve said, even low income women have seen their incomes go up a lot.

So that’s the income picture and then there’s also a wealth picture, and here you get much bigger differences. We’ve seen really big increases in wealth over the last 12 years for people over the age of 55 and, indeed, quite big increases for people over the age of 45, but we’ve seen much smaller increases, indeed in some cases almost flat, for people between 25 and 45. That’s the big pattern we can see in Australia and I guess, given some of the trends we can see overseas, we’d be worried if it got any worse.

CASSANDRA GOLDIE: And is that we’d be worried because it’s unfair or because we’re not therefore laying down the foundations for economic independence for the bulk of the population?

JOHN DALEY: I think the primary argument is fundamentally one of unfairness and you can either put it ethically or you can put it rhetorically, and either way you can frame it as there’s a chance we will wind up with a generation worse off than its parents. Now, why might that be fair ethically? That turns out to be a more difficult question than you might think, but I think the best argument is it’s quite ethically problematic to say, “I am going to make a series of choices from a policy perspective which I can control as somebody who’s part of the electorate today and that will mean that someone who doesn’t get a say in those choices, somebody who’s a child today, as a result of the choices I’m making today that child will be worse off than I am”. There’s a real agency problem about me choosing to make myself better off at the expense of someone who has no ability to participate in that decision.

CASSANDRA GOLDIE: From the analysis, because we’ve talked sort of wealth generally, can we just hone in for a moment on the housing part of that because one of the areas for ACOSOS of deepening consternation is the picture we see of fewer and fewer people getting into the position where they’re going to have secure housing. And obviously that has economic implications, but I think what’s in some ways arguably as concerning is the human dignity that comes from control over your home in that sort of very visceral sense; the higher levels of anxiety associated with never knowing whether you’ll get the notice next week, that you could be out the door; and there’s something really core to the human condition about not having that sense of security. And I think that’s why we do an annual survey of our community services around the country and consistently when we ask, “What’s your biggest concern in the policy environment?” they come back with housing because they see the corrosive impact that it has on people of just looking into the future and knowing you’ll never get there and the fear that comes from that. And, of course, it also throws up those big debates about how we treat the equity that gets tied up in a principal home in our retirement income system, and I think there are two sides to that story that are very hard to resolve.

JOHN DALEY: Yes. So in terms of this overall wealth story that we’re seeing there are a couple of things that are driving it, but probably the largest of them is the shift in house prices and the patterns in house prices and home ownership over the last 15/20 years. So if you look at the ratio of
disposable incomes to house prices, that ratio was reasonably stable up until about 1997 and then there was a big divergence, so house prices went up much faster than disposable incomes. Now what that meant was that for anyone who bought their house before about 2000 they did very nicely out of that, thank you very much, so they wound up with wealth much greater than their income. For anyone who bought their house after that big jump in prices – and really that jump happened only over about a two or three year period – they had to borrow a lot more to get a house and so they’ve wound up essentially sinking a lot more of their income into paying off that asset, and therefore their net wealth didn’t go up nearly as fast.

Now of course what that’s also done is meant that if you’re looking at getting into the housing market today the value of the house relative to your income is a lot higher, and then what we’ve seen is big shifts in home ownership rates. So home ownership rates for those over the age of 65 today are almost exactly where they were 20 years ago. Home ownership rates for those who are between 25 and 35, they’ve been falling like a stone for a long time, that’s not surprising; households are being formed later, people are forming permanent relationships later, they’re having children later, so it’s not surprising that they’re buying houses a little bit later in life. But what is very concerning is that we’re now seeing a clear pattern of home ownership rates falling amongst 35 to 45 year olds and the reality is most people if they’re going to get on the partnering and children treadmill have well and truly done that by the age of 40 – and I might add I’m on that treadmill and I’m enjoying it immensely. But nevertheless, those are the typical ages and if you’re seeing home ownership falling then you can’t explain that away as being essentially lifestyle shifts; you’ve got to say that something real is going on here.

And then when you split it by income by age you get a really dramatic picture and that is that people who are between 35 and 35 on low incomes, their home ownership rates have fallen by about 50 percentage points over the last two decades. So essentially we’ve gone from having reasonable levels of home ownership amongst low income people even when they were young, 25 to 34, quite reasonable rates to the point where essentially in that bottom quintile very unusual for them to be in the property market at all. And you’re getting a similarish pattern between 35 and 44 year olds, that’s dropped by almost 30 percentage points. My suspicion is that as the cohorts roll through, so as the current 25 to 34 year old low income groups turn 35 to 44, we’ll see that home ownership rate amongst that low income group fall even further.

And so we’ve gone from a country in which 30 years ago really home ownership rates were pretty similar irrespective of your income, to a world in which home ownership rates are now highly divided by income. Essentially, reasonably high income people are pretty likely to own their home, low income people almost no chance at all.

CASSANDRA GOLDIE: We’ve been obviously very engaged and sometimes agitated around the framing of this next discussion on tax reform. You see it coming. We seem to at the moment have a message from the Federal Government that obviously we’re getting a Whitepaper done, but we’ve got the Prime Minister out now saying, “Well, open to having a discussion of the GST” - gee thanks, gee, that’s a surprise - but that the purpose of it would be to pursue personal income tax cuts. Now, that’s not where we are. We see that the decline in overall revenue base, the falling off of the tax base particularly post the GFC, is becoming chronic and also the clear emerging of significant gaps in the expenditure we’ve got available for core education, health. The picture is we’re not grim now, but we are going to be increasingly in a really difficult position. One of the arguments we’re making is that I think that if you are going to really get decent tax reform we’re going to need to have a good explanation for us about why we’re doing it. I think there’s a real risk and possibly a reality if the
current position of the Prime Minister is where we end up, although we’re told it’s still early days and everything’s on the table, is that we will essentially see it looking like and in reality arguably redistributing the tax burden and the risk associated with that to people on low and modest incomes and, again, providing breaks for people who have a reasonable income and higher income. Why would we do that?

And this issue of housing affordability seems to us to be such a chronic time bomb for us ensuring we’ve got at least decent stable environments for the population into the future that there’s a strong case for having that as a core purpose of part of what we might do with the tax system. Now we’ve got this lovely debate out there again on negative gearing, about does it inflate housing prices/does it not – well, we have a view about that – and is it politically feasible? I think it’s interesting that right now in the political environment we don’t have any major leader ruling it out. Now that’s a shift because certainly the debate’s out there.

So do you think that we have got enough of a case emerging around the tax arrangements on property to frame that as an affordability agenda or not? Do you think that is something, in your view from Grattan – we’ve got a view about it, could we partner on that?

JOHN DALEY: Yes. I think that there is a very clear view emerging that housing affordability is not where it should be. It is tough to believe that negative gearing is helping and it’s certainly providing a tax break to inherently people who are not in the bottom 20%; not that many people in the bottom 20% are negatively gearing a house because you don’t have any income to write it off against. So there are clearly some good reasons for looking long and hard at that tax break. You only give tax breaks to people because you think that they serve some kind of substantial social purpose. At the point we’re saying, “Look, the best available evidence suggests that negative gearing, if anything, reduces housing affordability”. In other words, it’s actually a negative from a social policy perspective and that’s an overwhelming argument for getting rid of it because the onus of proof lies on those who are claiming that negative gearing should stay. They have to produce an iron clad case that this really does improve the supply and affordability of housing and I think that they are nowhere close to discharging that onus of proof and indeed, if anything, the balance of probability slides somewhere else. You can tell there are two lawyers, or at least lapsed lawyers, on the stage.

The balance of probability is that it’s probably not helping. I think it actually does lead to a much bigger question around if we’re serious about housing affordability, what are the big leaders? And my view is negative gearing is not helping, we should get rid of it and, by the way, that will help our Treasury and that will help a quite clear budgetary problem that we’ve got. But if you’re really serious about housing affordability, far and away the big lever is around planning policy. Far and away the big leader is about the extent to which it is reasonably easy to subdivide plots of land into smaller houses. There’s been some very elegant work done in the United States showing that in cities that are growing reasonably fast – and all of the Australian major capital cities are growing quite fast in population terms – the major driver of inequality in those cities is fundamentally zoning policy, planning policy.

If you make it very difficult to subdivide Glen Iris then essentially all the existing home owners in Glen Iris will do very nicely, the value of their property will go up very fast, it will be a lovely suburb to live in, but all of those who are new into the city or new onto the property ladder will wind up in a much worse position. There’s a technical name for that, but I won’t go into that. They wind up facing these ever-escalating housing values, being pushed out to the edge where the cost of living is effectively
much higher because of transport costs and those places tend to have much less in the way of infrastructure.

CASSANDRA GOLDIE: I don’t think we can ignore – and obviously I think we absolutely agree with you that a major part of us making sure that not only do we have affordable housing, but we have affordable housing where we need it.

JOHN DALEY: Yes.

CASSANDRA GOLDIE: This is this terrible situation and choice that is placed on people on low incomes about trying to find somewhere affordable to live and being able to travel to where you can get a job. So it’s very important from a social point of view and also from an economic point of view. I think obviously also there are big problems with the relationship between land tax and also the role of stamp duty. So I think this is a package of reform and it’s one of the reasons why in looking at the way the Federal Government has framed up its next phase of reform on federation – I don’t know whether we’re looking at reform there, but we’re having a discussion again about it – and the tax papers. From our information, we will not have any serious look at local government which seems to us to be a big gap. One the one hand, if we’re looking at these issues around planning and decision making around key elements of service delivery with a rising population, and also in terms of revenue raising because we have some small but encouraging examples of where the arrangements on rates and the role of local government in raising revenue is being recognised as an appropriate one.

So I think it’s something we should definitely continue to discuss because I don’t think we’re hearing anything at the moment from the Federal Government about a key role for local government in this area generally.

JOHN DALEY: I’m not sure it’s actually necessarily a local government role. Historically of course municipal rates have been collected by local government, but there is no constitutional reason why they are a local government tax. There is nothing to stop a state government levying a tax on property that is equivalent to the municipal rates base and, indeed, the Victorian Government has already done that; the Fire Services Levy is precisely that. It’s taken the existing municipal rates base and said, “On top of whatever you are paying to your local council, we are going to levy a state tax and that will pay for the fire services”.

Now, because it’s only paying for the fire service it’s not very big, but there is no reason why that tax could not be a great deal larger and, of course, there are reasons why economists love land taxes. Inherently, they are extremely difficult to avoid, they’re very cheap to collect, they have relatively little impact on economic activity because the one thing you can’t do with land is move it anywhere else, and also they have the merit of being, if anything, progressive. Essentially, rich people tend to own a lot more land than poor people. So I think there’s a lot to be said for that and, indeed, we would certainly encourage state governments to think about whether they want to gradually increase “state services levies”, if you want to call them that.

CASSANDRA GOLDIE: Why don’t we try “infrastructure levies”?

JOHN DALEY: Or “health services levy”. “Health services levy” is very attractive. As we know, something like 25% of state government budgets go into health. What I’d like to reassure the state Treasuries of is it doesn’t matter how much you hypothecate to health, it’s not going to pay for the entirety of state spending on health so you’re not really giving anything away. I think there’s a real
opportunity for a state services levy on the municipal rates base and one of the attractions of that is that the existing state-based property taxes are horrible. By and large, land tax is full of exemptions, full of ways you can avoid them by putting property into different peoples’ names. By and large, it doesn’t cover owner-occupied dwellings. Often it doesn’t even cover second houses that people have. It’s really a very, very poor tax base with far too many exemptions and there are two ways we can solve that problem.

We can either try and go through and unpick every single exemption. That’ll be really hard work because every time you unpick an exemption, by definition there’s a special interest group that pops its head over the parapet and gives you 15 reasons why they’re in fact special. Alternatively, you can simply ramp up the municipal rates base which is general. In places like Victoria it’s on improved value rather than unimproved value. The economists would doubtless say that as a matter of purity you’d rather have it on unimproved value. I’d probably suggest yes, you’re almost certainly right as a matter of economic purity, but I’ll settle for a very, very good second best and essentially a general property tax on improved value is a great deal better than, for example, levying income taxes.

CASSANDRA GOLDIE: And yet this is why I think many, including ACOSS in our chats in the office, have a healthy scepticism about the framing up of the next round of tax reform, because certainly the most visible advocates on tax reform jump to talk about the GST. And yet it’s kicking and screaming to get particularly the financial papers to tackle any of these other bases and to really get up a cheer squad behind these sorts of reforms, because there will always be screaming on the way through and we have to make some coherent solid case for it and try and avoid one side of politics being forced to rule it out because we’re going to need some bipartisan support on it, so these areas of negative gearing, of land tax, of trusts and company structures that enable you to avoid your exposure to the personal income tax system, because a real blow-out is in our tax expenditures and, of course, that throws into this frame the discussion around the rise in equality.

Have we done what we should be doing with either these exemptions and tax expenditures with the existing environment and have we put down a decent discussion on some of these others bases like land tax where, as you say, you don’t have to spend too much time making out the case for why we should probably be looking at it from a fairness point of view, from a sustainable revenue base point of view because it is captured, but I’ve barely seen it out there?

JOHN DALEY: Yes and I think there’s two additional bases you can put it on. One is around a federalism thing. One of the problems is that if you’re going to allegedly solve the mismatch between how much states collect and how much they spend through GST you are essentially assuming that the Commonwealth is going to continue to hand over the GST revenue. Now, having just watched the Treasurer at the stroke of a pen say, “We were going to give you states an extra $12billion a year to pay for hospitals and schools and indeed we had signed an agreement as the Commonwealth, as an entity, but we’re just basically going to rip that up”. You can understand why some people are incapable of saying “Commonwealth” without saying “perfidious” first. It does have a track record of tearing up agreements to basically get itself out of budgetary holes when that’s convenient.

And so there is some reason why a state government, if they were really thinking about this hard and were genuinely serious about solving vertical fiscal imbalance - and they may well not be that serious, but if they were they’d be much more attracted to this kind of health services levy on municipal rates because inherently that is a genuine state tax; it’s not something that they’re dependent on the Commonwealth continuing to play for.
CASSANDRA GOLDIE: It does seem to me too that the politics on both negative gearing and land taxes should be shifting, it should be shifting. I think for middle Australia there is a growing concern for their children coming through, and I think also because we have seen this remarkable growth in the value of property that there is a strong case for saying it’s probably time for us to claw some of that back because it is essentially a windfall to a particular cohort that others are not getting benefit from at all.

JOHN DALEY: I think that’s right and I was going to say that the second big reason for looking at these sorts of property taxes, at capital gains tax, at negative gearing, is that in a very subtle way they are actually age-based taxes as well. So capital gains tax, about half the benefit of capital gains tax exemptions or the concession that you only essentially pay tax on 50% of your capital gain, about half of that tax concession goes to the top 2% of income earners. So it’s incredibly badly targeted.

CASSANDRA GOLDIE: That's a very polite of putting it isn't it, “badly targeted”?

JOHN DALEY: And then when you ask okay, so who is it that’s got lots of assets that they’re busy selling for substantial gains? The answer, to be really blunt, is older people. People aged 35 by and large don’t have substantial assets to make capital gains on. So when you ask where is all the wealth in Australian society? The answer is 30% of it these days is with people who are over the age of 65. So not only is it a horizontal unfairness issue between those who are rich and those who are poor, there’s also this vertical unfairness between those who are old and those who are young. And then of course the other big one in this context is the way that the superannuation tax concessions are working, and essentially because once you’re over the age of 60 you can start to recycle income directly through superannuation and, what’s more, once you’ve managed to get your assets into superannuation you pay no tax on the earnings.

I might add, I was talking to a very senior former Victoria Government Minister who I think it would be fair to say is no policy ignoramus and we were talking about superannuation and he’s not quite 60 yet. He said, “Sorry, just run that by me again. Are you saying that I pay no tax on the earnings of my superannuation fund once I’m 60?” and I said, “Well, so long as you have a halfway competent financial planner that is exactly right”. And he said, “You cannot be serious?” and I said, “No, I’m completely serious”. He said, “You must do really complicated things to do this?” I said, “No, it’s called ‘transition to retirement’, it was deliberately designed that way”.

CASSANDRA GOLDIE: The promos are out there, “Come and see us, we’ll sort you out and we’ll get you a part-pension on the way through”.

JOHN DALEY: Indeed. And when you look at that essentially what it means is that people over the age of 60 for a given income and definitely for a given asset base wind up paying much less tax than everybody under the age of 60.

CASSANDRA GOLDIE: I don’t know whether in this room we’ll get a lot of people arguing over whether we need to change the concessionary arrangements on superannuation because they are so stunningly badly targeted. But I think as I’ve gone around the traps a bit talking about jobs growth and the new economies and industry policy and where we’re getting our new investments that it seems to me that part of what we should be trying to do out of tax reform is on the one hand obviously to get the right base, get the right mix so that we are getting a fair spread of burden or joy and contributing to the greater good of the general revenue for the country. But also tax policy is about how it influences behaviour, including investment behaviour and we’ve got to the point now in the Australian
context where when you accumulate wealth two of the most tax effective ways to deal with it is either to throw it into speculative investment in property - and what's that doing for new industry and business and jobs growth - or you throw it into your superannuation fund because they are so tax effective for you.

JOHN DALEY: Which, to be slightly fair, does then by and large then invest in Australian companies and hopefully therefore does contribute.

CASSANDRA GOLDIE: But a certain kind of Australian company. This is one of the problems as we see it with the wealth accumulation, so preferencing superannuation funds, is that they have a certain risk profile to them, that it is about what is solid and what is good right now. That is the risk profile, that's the obligation of directors around that boardroom table, and what we need is more speculative investment in new industries. That's one of the reasons why we’re not getting the kind of investment out of the super funds that we want to see in terms of some of the affordable housing initiatives.

Now there's ongoing debate about how we get that going and we should give up on that, but it seems to me this is a third arm to the case around saying is it a good thing for us to be encouraging people who are wealthy to put their potential investment into those particular structures?

JOHN DALEY: I would love to spend lots of time debating that, but I think we’ve had far too much of a good time already and we should throw to a few questions.

AUDIENCE: I’d like to ask Cassandra how a person that's on Newstart that has to pay a commercial rent ever gets round to eating?

CASSANDRA GOLDIE: Well, of course this is why it is such an appalling policy position we’ve got now from both sides of politics, to allow the Newstart allowance to have become so low in real terms that you really can't live on it with any level of dignity. Anglicare does its annual snapshot of rental affordability for people living on income support and the last snapshot it did - so it goes to the newspaper, looks at the properties that are up for rent and does the maths and says, “Could you afford to rent if you were living on the unemployment payment?” Nowhere. Nowhere. There were no properties available at all that were affordable. So what we know from our community organisations who are on the ground is that people are bunking up, people are living on balconies. You know, it’s that kind of creative getting by and living on bad food.

So it is a serious indictment and I was up at the National Carers’ Conference earlier this week where we talked a lot about the problem with the structure on the payment system where for a range of sometimes very terrible circumstances, you no longer are a carer and you come off the carers’ payment, you go onto the unemployment payment or the widow’s allowance, which is not much more, and that is an absolute indictment. We’re still waiting for the McClure Review. Mr McClure was on the panel with me and I think we’re shaping up to have some serious differences with what should be done with the welfare reform. And I was very concerned because Mr McClure said then, “Well, when I did this job the first time I agreed that we should get to have a single base payment and have something more adequate, but right now the gap between pensions and the unemployment payment is so big that it’s pragmatically not feasible” and for me, that’s a stunning justification for us not raising that basic safety net up to a level of decency.

And so this for us will continue to be the acid test on whether or not tax reform is worth it for the right reason. We’re not just privately obsessed with the unemployment payment because we can’t think of
another policy to talk about, because it is the single simplest measure; it is literally changing a figure effectively, you know, you don’t have to introduce a whole new system to reduce the level of poverty in Australia, there’s no question, and that it’s affordable. It is affordable. The government’s just put through a range of changes to social security that we’d pay for it right now.

AUDIENCE: Could I go back to your earlier comments John about equality? You talked about equality of opportunity and equality of outcome, and it seems to me that they’re really complementary; you want both there. You can think of people who are well-educated, they get sick, their job turns over bad, they get divorced, whatever. You can think of other people in high income families where mum and dad don’t look after the kids, they drink the booze, whatever. So it seems to me you need to run both of these systems. The balance I agree is a bit of a debate, but it’s not one or the other.

JOHN DALEY: I think it depends on exactly how you construe opportunity. So I think if you define opportunity as being the opportunity not only to get an education, but to have social connections, to live in relationships that are worth living and so on, you can go through the list. If you construe opportunity a bit more broadly like that you wind up in a very similar place. I think that the reason that the Right in particular tends to get very nervous about approaches that aim to maximise equality of outcomes is that inherently they require much more in the way of government intervention and inherently they downplay much more the role of individual agency, which of course those from the Right tend to think of as much more important.

And so I think that for those two reasons that’s why it’s a much harder argument to win. I don’t think it’s impossible, but I think it is a very difficult argument to win whereas I think that the arguments around equality of opportunity are much easier arguments to win almost irrespective of your political original position. And I think therefore that, if you like, the optimal rhetorical strategy is one that talks about maximising equality of opportunity albeit one that defines opportunity reasonably broadly. There are of course places where this doesn’t matter. One of the most horrific talked about recently was someone who did a piece of work showing that essentially child mortality amongst children born to very poor parents is, particularly in the United States, extremely high and as they pointed out in a somewhat macabre posting, “Not quite sure whether this is equality of opportunity or equality of outcomes, but either way it doesn’t seem to be a great outcome”.

CASSANDRA GOLDIE: And I think, just like talking about the Left and the Right, you run the risk of oversimplifying some of the positions that are being taken. My referee for this job was asked whether or not I’d continue to be a human rights tragic in this job and that might not be very useful in the ACOSS role, but I do think and Barak Obama talked about human rights and inherent dignity -

JOHN DALEY: Must be true then.

CASSANDRA GOLDIE: Yes. That the principles that are embedded within that kind of approach are pretty useful in getting this balance between this idea that what the Left’s talking about is everybody should earn exactly the same and you never get rewarded for effort, which is of course the extreme position that gets put to shut you down, and on the other side certain will say that all the Right wants is you’re on your own. They’re really quite extreme positions. From a human rights analysis, what we want to see is that government has a responsibility to ensure that every single person does have an adequate standard of living, that there are some equal outcomes that the government has a responsibility to ensure. Very few of them are absolute, some of them are about the government using to the maximum of its available resources, and so that’s where our tax base and the tax discussion becomes really important because if we were seriously broke you could have a decent discussion.
about whether or not within the available resources we can do anything with the unemployment payment. But when you look at the tax expenditures and the way in which we’ve got the superannuation concessions costing us $44billion heading towards – yes, I know.

JOHN DALEY: Well, they might not be quite that much.

CASSANDRA GOLDIE: I know, but let us not use that like an argument about whether poverty exists because we can’t quite agree on exactly what size it is. It becomes a compelling obligation to say the government must act because that group of people are not enjoying an adequate standard of living. So I think absolutely we should continue to assert that in these core areas of health, education and basic income that there is an equal outcome we want to ensure, at least.

AUDIENCE: I just want to pursue this issue about what kinds of inequality and why we worry about it, because I don’t think we talk about it enough. You raised it a bit John and you made some comments and a previous question extended it. We often talk about figures about inequality, but it seems to me that there are at least three reasons why you might worry about inequality. One is suffering that’s caused by people who don’t have enough, another one is lack of opportunity, and another one is the social cohesion argument. You sort of did mention the social cohesion and so if you worry about social cohesion you might worry about those at the top. Now, I take your point that we haven’t had the huge growth of the incomes of those at the top at the expense of everyone else’s in America, but there has been some.

So I just think that we need to think about what the impacts might be and debate them more, what are we prepared to tolerate? We don’t do that enough, so I commend you for doing that, but I think it’s a richer, more nuanced debate than we’ve been able to have tonight and that includes the fact that even at the bottom – now we did this report on disadvantage and we pointed out precisely what you said John, that while relative poverty had grown so had also the incomes of those at the bottom very strongly. But that doesn’t necessarily mean that you wouldn’t worry about relative poverty and we have to think about does it matter if those at the bottom don’t grow as fast as those at the median over an extended period of time? Are there relational issues here? And, of course, Adam Smith said one of the issues of relative poverty was that the person not being able to afford a linen shirt because that was the standard of the common person was. Now the person’s income might have grown.

So I think it is a very nuanced debate, that’s all, and I think we should be careful about absolute comments about it and have a rich debate.

CASSANDRA GOLDIE: Yes. Bettina Cass did some really great social research around the experience of what would be described as relative poverty amongst young people in schools through their voices of the impact of not being able to afford to go on the sports trip or just to have one of those things that every kid kind of had and they obviously felt the feeling of being so different to the others, and their voice was that feeling of the unfairness of it, not being able to just feel like everybody else. It wasn’t about wanting more and the mental health impacts of that and the social isolation that came out of that, the shame associated with that experience of the really, really bad shoes.

Now, we’re not 100 years ago, we just aren’t. We are where we are in terms of social conditions and in other contexts I’ve certainly talked about the social cohesion side of it and having now had two young kids there is something really wired into us about that “It’s not fair, they’ve got more than me” and there’s no rational basis for it. There’s something really deep within us about that is not okay and some sense of fairness is really crucial to our sense of self-worth, how we get value by others. We are
social beings and I think that we can’t underestimate that and how over time if we don’t get this balance right the impact on our political system and democratic environment.

JOHN DALEY: And I think there’s another issue this raises which is when you do get these large and constant disparities, and particularly when you wind up with low levels of social mobility, you wind up with often a majority of the population which simply has no idea about the concerns and way of life of another material part of the population. I think that was one of the points at least that you were getting to, and I think it’s a subtle but extremely important consideration. Clearly we don’t have time to explore that in detail tonight, but I think it’s a great point and it definitely deserves much more careful thought than it gets a lot of the time.

I think this might be the point at which we need to wrap up. Can I thank a few people for tonight, firstly to the State Library, as always it’s a lovely and incredibly pleasant venue to run this kind of discussion and, as always, State Library are fantastic partners to work with. I’d like to add my thoughts to those at the State Library who’ve lost a colleague this week, Mark was a great bloke and he’s a loss. So our thoughts are with them and obviously with his family.

I’d like to thank obviously the Grattan people who make this all possible behind the scenes, particularly Alex and Andrew. I’d like to thank the Grattan team who’ve been doing a lot of this work with me, particularly Danny and Cam who are here in the front row, thank you for all of your work, and then of course to thank Cassandra. Cassandra is one of those people it’s always fantastic to have a conversation with. Unfortunately she is so busy the way I get to have the longest conversations with her is to lure her into doing public talks like this one, but, as I think tonight’s conversation has demonstrated, she is a thoughtful, passionate and very insightful commentator on a whole range of issues that make an enormous difference to our society and it’s been a pleasure having you here.

So can I thank you all very much for coming and thank Cassandra for your contribution, it’s been great to have you here.

END OF RECORDING