The Policy Pitch – *Why every generation feels entitled*

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Both older and younger generations of Australians argue about whether government is treating them fairly. Many seniors have done it tougher than the generations coming after them. On this view, they've paid higher taxes and the government is paying for family benefits and childcare they never got. They believe they've borne the brunt of budget cuts over the last few years. And to the extent that they've accumulated wealth, they believe they paid higher mortgages rates and saved harder to get there.

Many younger people have a different take. Fewer of them can afford to buy a house. University debts hang around their necks. Secure employment is harder to find. And they're acutely aware that someone will have to pay for recurrent budget deficits, and "someone" is likely to be them. In order to get the federal budget back to balance at least one generation is going to have to pay more tax or get fewer benefits. In working out what government should do, it's unproductive if generations just talk past each other. But it wouldn't be the first time.

In this *Policy Pitch* event at the State Library Victoria, Caitlin Fitzsimmons, Money editor, Sydney Morning Herald and The Age, Peter Switzer, Founder, Switzer Financial Group and Grattan CEO John Daley discussed why each generation feels entitled. They aimed to provide a bigger picture of the taxes and government support for each generation, and how policy ought to change.

Moderator: John Daley, CEO, Grattan Institute

Speakers: Caitlin Fitzsimmons, Editor of Money, Sydney Morning Herald & The Age
Peter Switzer, Founder & Publisher of Switzer Super Report

JOHN DALEY: Thank you very much Sarah and thank you once again to the State Library of Victoria and *The Policy Pitch* series, it is a great pleasure to be here. And thank you all very much for coming. These events wouldn't work if there wasn't somebody here, so thank you. For those of you who are desperate to follow us on Twitter our handle is @GrattanInst. I am very privileged to be joined here by two of Australia's leading financial journalists, so if you stay behind afterwards they might give you some investment tips, not that they're allowed to. They're two people who know a huge amount about both how our money works but also, as it were, what we deserve, what we're entitled to, and that's of course where we're going tonight.

So on my right I have Caitlin Fitzsimmons, she's been a journalist for nearly two decades, she's been the Deputy Editor of the BRW covering entrepreneurship and innovation, she's now the Editor of the Money section of the Sydney Moring Herald (SMH) and The Age and she writes a weekly column on the psychology of money and a fortnightly column about our lives at work. Then on my left I have Peter Switzer, he's a successful businessman in his own right with businesses around media and publishing, non-commission financial planning, home loans, managed funds and a coaching business, so he doesn't just talk about money, he actually makes some money as well. He's also an award-winning broadcaster, he's twice been runner-up for the Best Current Affairs Commentator Award for

Radio, he's host of the TV show *Switzer* on the Sky News Business channel, hosts *Switzer Money* on 2UE, is a weekly columnist for Yahoo!7 Finance and, back a little while ago I suspect, he was a lecturer in economics at the University of New South Wales. He also has the distinguished position of writing far and away the most cogent article explaining why we were wrong in terms of what we wrote in a publication we put out late last year called *The Age of Entitlement: Age-Based Tax Breaks* which of course, like all Grattan publications, you can download from the web.

What that report said was that we have a number of provisions in our tax and welfare schemes that are essentially age-based. So if you are over the age of 65, under the Seniors & Pensioners Tax Offset (SAPTO) you pay less tax for a given income than someone under the age of 65; if you are over the age of 65 you have a higher Medicare levy threshold than a younger person, so that means that if you have the same income, again, you will pay less tax than a younger person; and finally, if you're over the of 65 you also have a higher private health insurance rebate, so if you have taken out private health insurance you will get more of that back for a given income than a younger person taking out the same private health insurance. So of course what underlay that report was an assumption, and I'll be upfront and say yes, it was an assumption, that there was no reason why people over the age of 65 should get higher tax breaks than younger people on the same income. Of course, there are very good reasons why people should pay less tax if they've got lower incomes, but that's not what we're talking about; we're talking about people who are on similar incomes but because they're of different ages they pay different amounts of tax.

Now there was slightly cheekiness to the title of this report. *The Age of Entitlement* of course was a phrase popularised by Joe Hockey in talking about welfare in Australia and I guess what was slightly cheeky about it was pointing out that if you're really looking for an age of entitlement it was over the age of 65. But, as I said, we essentially assumed that that was unfair, that there was no reason why people over the age of 65 should pay less tax on a given income. Peter, as I said, wrote the most cogent piece I saw arguing that we were wrong. Peter, why were we wrong?

PETER SWITZER: Well, I'm going to play a devil in two camps here. As an economist, I think the work was very good and I didn't see any great flaws in your economic analysis but, as you've pointed out, it was resting on assumptions and your prime assumption was that you somehow think all Australians are equal. I would argue no, we're not, we're not equal. I think we see in lots of areas of Australia that we think some people deserve greater assistance than others, in the area of disability we try to make up for maybe a genetic or unfair inequality by helping, but I also think that one of the greatest problems we have with superannuation in this country is that governments always want to change it and you are basically making a proposition that substantial changes should be made. So one of those would be that the 15% tax concession should change to 30% - I can't remember precisely what you said, but that was one of the standing points. So I started to think well okay, I can see the economic reasons for it because I have to admit I made a great mistake as a young man, I did become an economist. I think I'm over that now. So I tried to think about why we might be nicer to over 60s or 65s and this is what I came up with, in case you didn't get to read it on Switzer.com.au, which is a great place to go every morning because I do write something every morning.

I'll start with the highly emotional one first, they could be returned service people so therefore we should be nicer to them. They really saved hard to build their super with little exposure to compulsory super, which started in small measure in 1992. They created businesses, employed a lot of people, trained them and cared about them. 40 year olds have had 20 years of compulsory super. 40 year olds have lived through sensational real estate gains if they got in early. 40 year olds are enjoying the lowest interest rates in history. Retirees live longer nowadays and will pay GST, which retirees pre-2000 never had to pay. Over 60s have lived through tax rates of over 60%. They've lived through interest rates over 17% in the late 1980s. They lived through the recession of 1990 and the 10+% unemployment rate. They drove second-hand cars for most of their lives. They lived most of their lives without air conditioning. Women were told they had to retire when they became pregnant when they were young. Women did not have the access to the education and employment opportunities that younger Australians have today. Let me throw this in, a lot of younger women I don't think respect some of the hard work that a lot of older women did in the feminist movement, but that's something I'm throwing in there just to try and get the feminists on-side. They didn't have maternity leave. Men and women didn't have stress leave, paternity leave and all the other services that budgets now pay. They are also parents who still could be helping their 30- and 40-something children who won't leave home.

I could add to that, in fact I've got an avalanche of stuff from other retirees who thought they were entitled to a better treatment, at the core of it I think there's a lot of 60-somethings and their superannuation balances are extraordinarily low. The bottom line I think is that a lot of really hard-working people and I think of schoolteachers I know, who played the game and the rules were outlined by successive governments that if they wanted to be comfortable in retirement they had to basically give up in their 50s where a lot of 50 year olds were living the life of Riley and spending their money, and the end result was they don't have much superannuation and are heavily dependent on the tax system or the Treasury coffers. These people played the rules and are now being stung at all levels; we know with the $1.6 million cap on superannuation. So that's where I came from. As an economist John I understood what you were coming at, but I think that some generations are entitled to more and I think that generation in particular deserves a better treatment.

CAITLIN FITZSIMMONS: You mentioned 40 year olds a few times, which would be me.

PETER SWITZER: I was picking on you Caitlin. I thought you've lived the life of Riley your whole life.

CAITLIN FITZSIMMONS: I know, right?

PETER SWITZER: She went overseas on cheap airfares, she's lived in CBDs. She drinks coffee and eats smashed avocado and all that sort of stuff.

CAITLIN FITZSIMMONS: Today's 40 year olds could also be returned services people and we also create businesses. We've lived through sensational real estates *if* you got in early, as you said.

PETER SWITZER: If you didn't you weren't really trying, you were out there living the life of Riley, but go on.

CAITLIN FITZSIMMONS: Well, there are an awful lot of people my age who don't own a home or got in a few years ago and have very, very high mortgages which they're combining with bringing up children and trying to work and everything else.

PETER SWITZER: They obviously don't ready your *Money* section. They should because they'd be in a much better position.

CAITLIN FITZSIMMONS: Most of us drive second-hand cars, don't have air conditioning at home, and that early '90s recession you referred to, that's when we graduated and were trying to find entry-level jobs. I mean, I'm not saying that we should pick on older people.

PETER SWITZER: Like John was.

CAITLIN FITZSIMMONS: No, but I would agree with John that a level playing field in terms of tax on the same income sounds kind of fair to me actually.

JOHN DALEY: I might add that if you go to Peter's website you actually get the full experience; you get the violin playing in the background. There's also the SMH and The Age which you don't get the violins from, but otherwise you get Caitlin's columns and all of the people she edits on a very regular basis.

So what we're going to do for the rest of tonight is try and unpick a lot of these arguments, because one of the things that we certainly notice at Grattan Institute, I don't think we've ever had something where the response was so raw and from both sides of the debate. One of the things that really struck me about that debate was that people from all generations, whether they're Millennials or whether they're Gen X or whether they're Baby Boomers or some other cohort, all had these little facts that they pushed for their point of view, and what we wanted to do was tease them out so we could try and get generations to, as it were, talk to each other rather than talking past each other. So what we're going to do tonight is go through a number of these different areas. We're going to talking about housing and mortgages. We're going to talk about savings rates. We're going to talk about taxes and who pays and who is paying and who has paid how much in the way of tax. We're going to talk about welfare payments and family payments and childcare payments, which you may or may not classify in the same way. Then we're going to talk about a range of other issues that have affected different cohorts, people born at different times, in different ways, and hopefully at least understand why all the other generations feel entitled, even if you can't decide which of them is in fact entitled.

So Caitlin, you've already raised affordability. It's clearly a big deal. Why is it that a younger generation is struggling to pay for houses, even though they're not paying those 18% mortgage interest rates?

CAITLIN FITZSIMMONS: The advertised rates on home loans went up to 17% for about five minutes - well, okay, for ten months in 1989 and 1990 and interest rates were quite high throughout most of the '80s, this is true. But I think it is better to be paying high interest rates on a lower debt than it is to be paying low interest rates on a higher debt and the reason is this: the interest rates don't stay where they are; a mortgage lasts 25 to 30 years and over that time you're going to have high interest rates and you're going to have low interest rates. If you've got a high debt you're always going to have a high debt. If you've got a high debt and you're paying low rates the only way for the rates to go is up, but you're still going to have a high debt. If you have high interest rates on a low debt what happens is - and this is in fact what did happen - eventually, and in the case of the '80s it was after the '90s recession, interest rates returned to a lower average and suddenly everyone's got a bit more cash. What happened was that people didn't pocket that money and go and spend it or enjoy it or save it, they upgraded their houses or they bought investment houses and collectively bid up the value of property.

So anyone by definition who was paying 17% in 1989 and survived paying 17% benefited from that. They then saw the biggest capital gains in history and that's fine, I'm not trying to take that away from anyone, but it's not a deserved earned outcome, it's a windfall, so we just need to recognise that for what it is. You guys were very lucky if you did that and if it was your family home it's not something you've ever paid tax on or will, so I think there's been a lot of benefit from that. I think the other thing that happened in the '80s was that while interest rates were going up the whole time, so was inflation and so were wages, so household's ability to pay those high interest rates went up along with it. And that's not the world we live in today either; wages are very, very static.

JOHN DALEY: Is that right Peter, are people paying more on their mortgages today? Does that outweigh the fact that interest rates happened to be at 18% at one stage?

PETER SWITZER: I saw your analysis and it showed that the actual payments are higher now than it was then. I was wondering whether there were some flaws in some of the assumptions in that model, and I'll get you to talk to those, but as I listen to Caitlin it seems to me that it's a very retrospective analysis. Like you said, they went up for only five minutes and it was actually ten months, you wisely corrected that because a lot of us who lived through it, you don't know what it's like to wake up once every two or three months, and it was the Treasurer in those days, and hear that the Treasurer has raised interest rates. I was a schoolteacher at Waverley College in Sydney, a good school, and I was on a reasonable salary. I sold a $200 car and started going to work on the bus and that was an unbelievable kick in the guts. It wasn't as simple as you think. When unemployment went to 10%, at that time I was Triple M's business commentator over in the country, I was still working at university and eventually I retired from university. Triple M then revealed that it was in shocking debt, the banks basically closed them down and my programme director said to me, "Peter, we love your work but we can't afford to pay you" so I said I'd work for nothing on the basis that I'd be able to get a sponsor pretty quickly. It took me six months to get a sponsor, and fortunately it was the Finn Review, as a matter of fact, who became my sponsor, but for a period there we lived on $900 a week with kids at private school and stuff like that.

So that recession was a really tough recession and unemployment went over 10%, but businesses were really struggling over that period of time. You say that we got an enormous windfall, but there was a substantial investment before that and the reality is we look at, say, Sydney house prices and it's an average of prices. If you go to other suburbs in Sydney there are more houses that are accessible. Similarly in Melbourne, there are places in Melbourne which are quite accessible in terms of price but the younger generation doesn't want to live there. They want to live where we're living and I've read some articles, even in your newspaper, where the underlying implication was these old people are staying in their house and stopping us from buying them *and* they're living longer, the so-and-sos. There is this kind of feeling. When I moved into Paddington in Sydney, which is now an unbelievable suburb, my father-in-law walked in, looked at his daughter and said, "Darling, he's made a big mistake. You want to sell this as soon as you can" because it was an urban blight area when we moved into it.

So I think there are some generalisations that the retirees we're talking about will look back and say, "Hang on, we did go through a lot of tough times" and it's not as simple as you think.

JOHN DALEY: The way that we looked at this, and it's not a model Peter, it's actually just the numbers that come out of the economy at the moment in terms of how much of people's disposable income, so that's their income after tax, are they spending on paying the mortgage. At the height of that interest rate peak they were paying about 6% of their disposable income, this is across the entire population so obviously some people are paying nothing, some people are paying a lot more than 6%, but on average it was 6%. Today it's 7% and in fact it peaked in about 2008 at around about 11%. So I think what it illustrates is that yes, there was a lot of volatility - and no doubt for those people who suddenly woke up and saw the Treasurer putting the interest rate up 2% that was a pretty unpleasant morning - but in the medium it didn't look too bad. The other thing, that as you point out Caitlin, that makes a big difference in the medium run is that sure, your interest rates were very high, but if your income was increasing very quickly, as it was back then because inflation was very high relative to today, then the amount that you were paying the bank as a proportion of your salary started to fall quite quickly.

PETER SWITZER: John, there's one thing that just occurred to me when I was listening to you which is that most of us had to get a 30% deposit or even more before we got a loan. So that also partly explains the 6% number because we didn't borrow so much, but we had to actually save before we could get a loan and a lot of younger generations until a few years ago were able to borrow 100% of the value of a home.

JOHN DALEY: Yes, but of course the homes as a percentage of incomes were much lower, so the price-to-income ratio was a lot lower and that's why we're seeing increasing numbers of young people struggle to get into the housing market at all. We see that in terms of falling rates of home ownership amongst younger generations, which is doubtless something you hear about every day.

PETER SWITZER: But the thing is, it was really hard to save and we actually saved.

CAITLIN FITZSIMMONS: Well, it's still really hard to save.

PETER SWITZER: It's hard to save and you aren't saving because younger people go out to drinks on Saturday night and spend $12 –

CAITLIN FITZSIMMONS: And eat smashed avocado.

PETER SWITZER: Alright, okay.

CAITLIN FITZSIMMONS: So it's true, I don't know what it's like to wake up every couple of months and find that the Treasurer's put up interest rates. But I do know what it's like to be saving very hard for a home and to be house-hunting and to find that properties are going up 10% a year, so every six months that it takes for you to find a place and get your finance together and then suddenly what you were looking at is now out of your price range and you're now looking at something else. I know what it's like to go to auctions every weekend for six months and then lose out to people my parent's age who seem to be buying it as a second home or for their self-managed super fund (SMSF). I do know what that's like and there is a human element on both sides of the equation. I think that in terms of people moving out of their homes and so on I can see both sides there because, on the one hand, it's someone's home, it's very precious and personal to them, you don't want to force someone to move from where they have put down roots and have a community and grown a garden and whatever else. I understand that side of things.

I think you're both economists, you'd both agree though that housing is also a commodity in the economy and it's not the most efficient use of that resource if four bedroom homes close to existing schools and CBDs that employ people are occupied by one person.

JOHN DALEY: Yes, and I think that's a really important part of this debate Peter which is that 30 years ago if you were buying a "cheap house" in, say, Paddington you were buying a cheap house relative to your salary, relative to everything else, and it would have pretty good access to jobs. One of the problems we've got today is that yes, there is relatively affordable housing, but it's pretty much all right on the edge of the city and the reality is that very few people in fact commute from the edge of the city into the centre because it's just too far. On the other hand, we know that over the last five years that we've got data that over half of the nett growth in jobs in our big capital cities, Sydney and Melbourne, were being created right in the centre. So go back 30 years, yes, you could buy a not very nice house in Paddington, but at least it had access to a place where you had a fighting chance of getting employed. Today if you buy a cheap house you're often getting locked into somewhere you don't have a very good chance of getting employed, and that's I think one of the big trade-offs that younger people are facing today that they didn't going backwards.

I'd also like to take issue with you on savings rates. The data doesn't go back all that far, it only goes back about 10 or 15 years, but the data we do have suggests that savings rates of households of all ages have gone up, and in particular this idea that there are 25 to 30 year old households that are fecklessly spending every cent they've got just doesn't emerge in the data. Again, of course there is variation, there are some households that spend every dollar they've got and no doubt there are some 65 year olds who are spending all of the assets they've accumulated so they can get onto a full age pension as fast as they can, but I don't think that that's the general case. You can certainly see on the averages that young people are saving much harder today than they were, say, 15 years ago.

Why don't we move on from spending and saving and talk about taxes, which are my favourite subject. I used to think that taxation was really boring and then I discovered it was, in many ways, one of the most conceptually interesting areas in public policy. So Peter, an older generation paid its taxes, as we are perpetually told -

PETER SWITZER: I've never actually said that.

JOHN DALEY: Other people have definitely said that - with a top rate of 60%. Does that entitle them to pay less tax today than other people on the same income?

PETER SWITZER: No, but what's happened is that governments of all shapes and sizes, from Labor to Coalition Governments, have actually decided that - remember, there was a time when every Australian thought they were going to get a pension and then Paul Keating and Bob Hawke changed that and said, "No, no, older Australians have to prepare for their retirement".

So in 1992 compulsory superannuation came in and it was at a reasonably low level, 3% in the beginning, and some people in this audience would have given up tax cuts and would have committed to superannuation increases and whatever. They were told they'll have to prepare for their own retirement and so they made decisions to save as opposed to spend, and part of the incentive was there were concessional tax rates for giving up the access to money today by going into superannuation. Now if that money had been kept outside superannuation they may well have made even better decisions and bought up even more properties and poor Caitlin would've had a double problem on her hands. At least a lot of their savings were locked up in superannuation. I'm being a bit facetious there, but the reality is people might have made better decisions than some super funds as well, though I'm a great supporter of superannuation.

So once you offer someone an incentive to do something on the basis that their tax rate will be low it's not something you should congratulate when the government decides, "Oh no, we should never have done it in the first place".

JOHN DALEY: Well Peter, there are two issues here though. There's one which is about the tax breaks on superannuation, and we'll doubtless have that argument as we get to it, but there's also an argument about how much tax should you pay on your income, by definition, outside of superannuation.

PETER SWITZER: So are we talking about negative gearing?

JOHN DALEY: No, we're talking about the Seniors & Pensioners Tax Offset (SAPTO). What that says is what a given level of taxable income - which if you're over the age of 60 and you have a competent financial planner means essentially you're not paying at the moment any tax on your super and in the brave new world will be paying a little bit of tax on your super if you've got more than $1.6 million, which most people think is quite a lot of money, but on your taxable income you're paying less tax. And it's not an immaterial difference; it's about $3,000 extra after tax and if you're only earning $35,000, minimum wage, $3,000 extra in the bank would be kind of handy. So Caitlin, what do you think here, either on the SAPTO issue or on the superannuation issue: are we being fair to a younger or older generation?

CAITLIN FITZSIMMONS: I said before that I think people should pay the same tax on the same income, so I'd be with you on the SAPTO. On super, anyone who's contributed into super in the past have already had a tax break by paying 15% on that money instead of whatever their top marginal tax would be, so any changes we'd be talking about now would be on the returns, the investment income from that super, which is future earnings. So I don't think it's changing anything. You could let people take it out if they're not happy with that, but they've already had the benefit of the tax concession when they salary sacrificed into it or however they did it. You mentioned the age pension and once upon a time everyone thought they would get that, and I've seen some interesting numbers which would suggest to me that you could still do that if you were minded, that if you gave the age pension to everyone and didn't means test it the resulting reduction in the bureaucracy required at Centrelink would pay for itself. Then you could even it up and make it a bit fairer by taxing investment earnings on super, but I guess someone like John would have to look into that in a little more detail.

JOHN DALEY: I'd love to. What we can say is that if there were no super tax concessions. One of the great myths is that superannuation is saving the Commonwealth money and buried in the back of a Treasury paper, we only found it quite recently, there's something that shows that the Commonwealth is going backwards on the super system. So if there was no super system and instead it just paid the age pension because people had saved less it would actually have a better budget balance than it does going out all the way to 2050. And in 2050 it's still backwards, it may start to break even around about 2100, but it's got basically 100 years' worth of going backwards to make up so it'll probably more or less cover itself by about 2250. So it has not been a particularly good deal for the

Commonwealth Government if that's the only thing you're trying to do. Now obviously superannuation is about more than just saving the Commonwealth money, but it's worth remembering it hasn't in fact saved it any money.

CAITLIN FITZSIMMONS: Also the other great myth is people calling themselves "self-funded retirees" when what they mean is that they're funded by their superannuation which has enjoyed significant tax breaks. I'm not having a go at them, but it's not truly self-funded, there is taxpayer assistance.

JOHN DALEY: And I think you can see that if you look at the history. Over 65s today are paying less income tax in real terms than they were 15 years ago. Even though their incomes have gone up, participation's gone up and real incomes have gone up, they're still paying less tax. Everyone else is paying more tax, as you'd expect given that real incomes have risen, but over 65s are paying less tax. And here's the really interesting thing, there are fewer over 65s paying tax than there were 20 years ago. So in particular it's these things like SAPTO that have taken a whole series of 65 year olds who used to at least pay some tax out of the tax net. Is that what we should be doing?

PETER SWITZER: Well, I think as an economist I would be totally onside with you, if I could be as dispassionate as an economist can be. But I go back to the initial reasons why people decided to put their money into superannuation, it was because of the fact that when you fully retire and you've made a decision not to spend your money or not to invest outside of super but inside super that you would be taxed at the best tax rate of all, 0%. To me, I understand the equity issue of 65 year olds versus 40 year olds, I understand that, but on the same point what do you do if governments have encouraged people to take an action and then you want to say, "Oh well, we're now going to change the rules"? That is basically unfair. We live with other unfair aspects of our political and economic life, I just think it's a difficult thing and I don't know a government that could easily pull it off.

JOHN DALEY: Caitlin, do you think your readers have gone backwards because they put their money into superannuation?

CAITLIN FITZSIMMONS: No, because we've seen the data from SMSFs, so people have had the opportunity to make their own investment decisions with their super for quite some time, and most SMSFs do worse than industry funds and may be on par with retail funds. So no, people often think that they can make better decisions than the experts and maybe if they'd bought up lots of houses in Paddington then they could've, but generally super returns on average are better when they're done by the professionals.

PETER SWITZER: Yes, industry funds are done better than the retail funds. There are a lot of SMSF people who've actually just played a very safe game. A lot have been thrown into SMSFs by their accountants and they haven't really put an investment strategy in place and they're just basically paid term deposits.

JOHN DALEY: Yes, but I think one of the issues here Peter is would they have done any better if they'd put their money outside of super? Because I think one of the arguments here is if they put their money into super then by definition most of the time they put it in out of their pre-tax income, so they're getting a big kicker there, and then they've only paid tax on their earnings at 15%. There are not a lot of games in town which only tax your earnings at 15%, so unless you went from a very badly invested super fund to an extremely well-invested out of super fund these people did very well.

PETER SWITZER: Yes, I totally agree, but is that a reason to punish them John?

JOHN DALEY: I'm not punishing them; I'm just asking that –

PETER SWITZER: It would be punishing if you took away the tax breaks that they were promised. I think if I was a retiree, and I'm not, but if I'd made plans on the basis that I would retire, I would be in a zero tax regime, I'd be governed by some regulations, namely asked to withdraw a certain percentage each year and effectively draw it out of my super. If you want to change the rules you can but I think most people would argue that for those people they would think they were hard done by if you changed the rules of the game mid-game.

CAITLIN FITZSIMMONS: I don't think you can change rules suddenly and overnight. People do make plans around that and while I make the point that it's about future earnings and they've already had the tax concession, that's not the way it's going to be felt, it is going to feel like a loss. So I think if you were looking at any changes it would have to be gradual and phased in and I completely take your point on that.

PETER SWITZER: Yes. The basic premise that I came with is that the people who are now in that position were made promises and they took action as a consequence of it. If you want to fair up the system it will have a very impact on those people.

JOHN DALEY: Let's move on from tax and talk about welfare and other government payments, as Caitlin reminds me. One of the things we hear a lot in this debate is that we've been cutting back on age pensions and a 65 year old today never got all of the family payments and childcare support that young people are getting today. Is that right Peter?

PETER SWITZER: Well, I don't think I listed that in my gripes.

CAITLIN FITZSIMMONS: I think it was in your comments section. I've got it.

PETER SWITZER: Did I make that comment?

CAITLIN FITZSIMMONS: No, your readers made that comment.

PETER SWITZER: Someone might have written in and said that, I don't think I went back and said, "Well done, I agree totally". No. I think you could easily go back and look at many aspects of different generations to see that they had windfalls that you really shouldn't complain about. Like for example, in 20 or 30 years' time there could be people complaining about your generation living through 3.5% home loan interest rates because interest rates will go back to probably average 7% or 8%. I don't think we'll ever see 17% again. And remember, a lot of the offerings that people have got in terms of welfare have been political offerings and haven't necessarily been well-directed social welfare, but I've got no argument with that sort of thing.

CAITLIN FITZSIMMONS: I have seen people, and I appreciate not you, refer to childcare subsidies as welfare. I disagree with that and there are a few reasons why. Firstly, let's preface it by saying that it's not very much. It's $7,500 per year per child and I think the stats show that most families run out of it halfway through the financial year and then it's completely out-of-pocket out of that. In Melbourne and in Sydney, in more urban areas where childcare prices are very high, if you're paying $150 a day, which is not that uncommon, and you've got them in full-time you'll run out after ten weeks. So it's not a lot. I don't see it as welfare because the government actually does better out of it because children need looking after and if it enables both parents to work the tax that they get from that second income is much more than $7,500 a year.

I also think the thing that gets lost in the debate is education. I'm a big believer in public education and I think that that should start, as they do in some other countries, from the age of two, not compulsory but offered. I don't think you could truly claim that childcare for six month olds is educational, I'm not delusional, but I think for early childhood education there is so much evidence for it and there is so much evidence for showing that a well-educated population is vital to Australia's economic success and wellbeing and these are the people who are going to be the taxpayers of the future when I'm 65 and feeling entitled.

PETER SWITZER: Caitlin, do you ever think that maybe what we're doing with all this debate about taxing older people to make it fairer on younger people, negative gearing, capital gains tax and all these sorts of things, we're continually thinking inside the square and we think the way we sort it out is by simply rationing the level of tax on one group and changing it on another, when things like a GST on all goods and services would bring something like $42.5 billion in a year which could actually even help childcare issues and things like that because our politicians can't sell something. We know that the Kiwis can survive and their economy is actually doing quite well with a 15% GST on just about all goods and services. Maybe we have to start thinking outside the square. When we go back to the housing problem, why can't we increase the supply of apartments in the band between the 10km from the CBD out to the 20km, where there are jobs? Sure, as Australians we'd have to change our attitude towards where we bring up our children, but of course in New York they've Manhattanised, they lived in apartments because the quarter acre blocks just aren't available. Do we need to start thinking outside the square rather than pointing fingers at intergenerational disputes?

CAITLIN FITZSIMMONS: I don't think pointing fingers is healthy. I think I was thinking outside the square when I was suggesting we could make the age pension universal again, that's fairly left field.

PETER SWITZER: By the way, the Kiwis still pay the pension, no matter whether you're wealthy or not, everyone gets a pension.

CAITLIN FITZSIMMONS: I don't think we should be taxing older people any more than we are younger people.

PETER SWITZER: A GST would get even with the older people for you because they're all out there spending nowadays.

CAITLIN FITZSIMMONS: I think the problem with a GST is that it's regressive, that you then end up having to kind of even up the score and give subsidies or welfare to people to make up for it, whether that's worth it or not you could certainly explore it in more detail. But I don't really think raising an existing tax from 10% to 15% is thinking outside the square.

PETER SWITZER: Well it is in the sense that we talk about it, but we never achieve it. The think outside the square, it brings with it income tax cuts as well, you don't just raise the GST. Part of the reason why Howard was able to sell a 10% GST was that the actual income tax cuts were quite substantial and that's the way he was able to get that across the line. I don't think it's led to a material deterioration of the Australian economy or society.

JOHN DALEY: Although he was in the luxurious position of he had a budget surplus or was very close to one in the time, those were back in the days when if you projected a budget surplus it did actually happen. So it was budget negative and that's how they could sell it. I think one of the things that's not well understood is that if you design the package the right way, so in terms of the exact way that you structure the tax cuts so that they're disproportionately towards the bottom end so that there is an increase in welfare, you can have a package which is overall progressive. It's not very hard and, indeed, the people who really pay for a substantial increase in the GST are, ironically, self-funded retirees. That's the kind of dirty secret because in effect it's a 5% wealth tax, just don't tell anyone that.

PETER SWITZER: Yes, we'll keep it quiet.

CAITLIN FITZSIMMONS: I had to sign a form saying that this is all on the record.

JOHN DALEY: I think one of the things to think about in this wider welfare space, and I take your point Peter that this is not a point that you made but certainly plenty of other people have, is that if you look at older households the current cost of households over the age of 65 is now about $30,000. So you take the taxes that they do pay on average, you subtract off the welfare payments that they get on average plus the cost of direct government services, so education, that's not all that big for 65 year old households, but health, which is a big deal, and various other bits and pieces. That nett cost of older households, $30,000 today, was only $20,000 a decade ago and it's a very, very big jump. You multiply through by the number of households and it's the better part of $20 billion. So if you're trying to understand why is it that the Commonwealth Government has got itself in the position of a recurrent deficit, that's actually a very big part of the answer, whereas the nett take or contribution of other households, younger households hasn't materially changed. So I think that's one of the reasons why we have been looking at this is that in the overall scheme of things this is big enough to matter.

PETER SWITZER: Yes, most definitely, but I think an area where you guys should be looking at going forward is is there a material benefit from cutting the company tax? We know for a fact that Bill Shorten in 2011 said there was, he said it would result in more jobs and growth and greater productivity. He's not saying that now, but certainly that was his argument in 2011. So that would be a great area for you guys to research because I'd like to know the answer.

CAITLIN FITZSIMMONS: I just was having some thoughts when you were talking about welfare and so on. We were talking earlier about people not moving out of their homes and I think one of the reasons that happens is not always because they want to stay in their homes, but because there's very big tax incentives to stay in the family home - or even to upsize it I've heard some financial planners recommend - because if you downsize to what your actual needs are then you're going to lose pension payments, and when they're looking at how much pension homeowners get versus non-homeowners they're basically assigning a value to the family home of $200,000. Well I would say people who are over 65 and renting should probably get a lot more help than they currently get because the rental market is absolutely nuts and the family home, while I understand it should have certain special tax exemptions, it's worth a bit more than $200,000. So I think that's one of the reasons people don't move.

JOHN DALEY: Thank you. We've written on company tax Peter, there's an article we've got on *The Conversation*, it's also on the website. The short answer is yes, it does help the economy but actually not as much as you might hope and it takes a long time.

One of the big catches with it is you get a big hit to the budget in the short run and that's a negative to national income because the people this really affects are foreign multinationals. Everything else basically goes around in a circle because of dividend imputation, but tax paid by foreign multinationals doesn't go around in a circle, that leaves the country, so it's a negative both to the budget and to the national income, so that's the money in our pockets effectively, in the short run. In the long run, read 10, 15+ years, it should increase national incomes on average by about 0.6% of gross national income. So the short answer is you're going to struggle to find that in amongst all of the noise, and that's Treasury's modelling, that's not our modelling, that's the modelling that Treasury did and it wasn't released on Budget night when we were all in the Budget lockup, they deliberately only released it the following morning so that none of us would talk about it in the Budget lockup I suspect and realised that Treasury's own modelling had effectively changed the rules in terms of what we think about this and showed that it was smaller than many people had previously expected.

PETER SWITZER: I suspect Treasury needs to use the Donald Trump modelling, that's where company tax cuts are huge, phenomenal.

JOHN DALEY: But only in 160 characters. We've spoken lots, so let's go to the audience and see what you can do in 160 characters, or maybe a little bit more.

AUDIENCE: Peter, you said that it would be unfair to change the rules for self-funded superannuation, but the rules have been changed for lower income people on pensions, quite dramatically, on the assets test.

PETER SWITZER: I certainly did not approve of those changes to people on pensions either, so I'm totally with you on that. In fact, if you were able to get to the 2GB Super Show you would have heard me blasting the crap out of the government over that. Can I just throw out one thing with great apologies? I actually did teach Scott Morrison economics as well, so I should actually - he did very well in the coursework, I've got to say.

AUDIENCE: What I find very interesting about these sorts of intergenerational debates about who should bear the cost of this and that is we don't seem to be able to or want to tackle the question of why the costs are increasing. Healthcare is a classic one, we argue about should people pay more out of their pockets or should the government fund more, but we don't seem to want to have a debate about why are healthcare costs, why are education costs, why are housing costs going up. Why do you think we've turned out society into a vehicle for property speculation, who does that benefit?

PETER SWITZER: One part of the problem is we have a supply problem in every state of the country where the development cost, because of taxes at various stages, are anywhere between 30% and 40%. So there is a very high regulatory cost which stops developers actually developing properties. Government got out of the development game quite a long time ago. I've recently bought a place in Albert Park and I've seen something there which explains to me why governments got out of development, because they used to produce terrible products that were I think inhuman to produce. I think governments should get back into it, they should be building low cost high density dwellings, but certainly of a better quality, and they should be able to produce affordable housing within the 10km ring where there are jobs and maybe even going out as far as 20km. But no-one's wanted to actually address the supply problem and, as a consequence, the demand has determined the prices.

CAITLIN FITZSIMMONS: I think it's not as simple as supply. I agree with you that the government should be in the game of building affordable housing, because the only other way to increase supply is more property speculation and at the moment we've probably got a glut of apartments in Sydney and Melbourne about to come onto the market and cause interesting issues.

I think the bigger question about why, you mentioned health costs and education and property all in one. I think there's the aspiration angle. I think health costs are going up because we've got an ageing population and we consume too much and don't walk enough, all of those sorts of things. Education budgets, I don't understand why there's been such a trend to private education in the last few decades. I think the original GONSKI funding was going to be quite expensive because Julia Gillard didn't want to cut any funding to any existing schools, even the ones that are clearly overfunded now. It's because a lot of people either send their children to private schools or would like to be able to or think that they might at some point in the future, but I don't really understand why we don't take more pride and investment in our public school system. I'm not sure that there's one single cause for all of those things you mentioned. I think they're disparate, in my mind.

PETER SWITZER: I think there's also been a lack of leadership at both state and federal government levels. At state levels over the last 30 years I think the Education Ministers have done nothing to support teachers. Teachers I think are some of the greatest professionals in our community, but if you've ever been in a classroom and seen how teachers - well, in fact, the great ABC series, the Chris Lilley programme, that showed you what a lot of teachers have to tolerate on a daily basis. It's insufferable and it's taking away the professionalism of teachers. I know a lot of public school teachers who actually send their kids to private schools, which I think is an outrage, and it's because governments haven't had the courage to stand by the teachers and make the professions actually respected.

JOHN DALEY: Can I suggest I think there might be a couple of things. You're absolutely right Caitlin that there are multiple issues here and multiple causes. I'll leave property to people who have to write more about it than I do.

In terms of education and health, which are the two biggest areas of government spending other than welfare, in fact, if you take welfare, health and education it's more than half of what governments spend money on. In schools we've seen a very substantial increase in funding per student, some of that is because teacher salaries have risen along with everybody else's, but a large part of it is because class sizes fell and, indeed, teacher's salaries haven't kept pace with average wages. Class sizes fell, but of course if class sizes fall you need more teachers and essentially what we've done is paid more teachers per student which turns out to be very expensive. So that's one of the things that's happened and the tragedy in school education is that over a long period it doesn't look as though the outcomes in Australia have got materially better, at least the outcomes we can measure. It may be that lots of other things have got better, but certainly the ones we can measure in terms of literacy and numeracy and so on haven't improved materially.

Then on the health side I think it's a slightly different story. So you're right, there's a part which is about ageing and older people tend to use more health services, but the big driver, as we've shown in a number of pieces that we've put out including *The Wealth of Generations*, is that we're spending more per person of a given age. So over the last 20 years it's doubled how much we spend on a 40 year old. It's also doubled how much we spend on a 60 year old. When you ask what did we get for that it's a bit different from school education, the answer is it certainly looks like we got something for it. So life expectancy has gone up, years of life without a disability has gone up, death from diseases that at least some of the time medical science can cure has fallen. Even self-reported health has got better and, as we know, self-reported anything never gets better. So when self-reported health gets better you know that people are in better health. So we've got something for our money.

Now, whether we got value for money, that's a harder question although I'd note that the increase in Australian health spending per capita is not materially higher than anywhere else in the developed world, in fact if anything it's a little bit less, and our outcomes in terms of life expectancy are pretty much better than anywhere else in the world after you adjust for diet and so on. So one way to think about that is this is a phenomenally good country to get sick in, if you had to pick somewhere this is where I'd be.

PETER SWITZER: That's very comforting John.

JOHN DALEY: So I think that those are some of the things that are going on in terms of what are we paying for.

AUDIENCE: Do you think if the government had restricted overseas investment in the housing market but channelled everything to other markets we would have seen the skewing effect that we have seen so far because of the overseas investment? I thought okay, the prices that we see are skewed because of that, otherwise the economy would have sustained if it is maintained internally. So do you think government shouldn't have had overseas investment in the housing market but should have directed it to other markets?

CAITLIN FITZSIMMONS: I don't think the overseas investment in the housing market has made much difference at all. Most investors in the housing market are Australians and it's Australians buying houses that are materially affecting the housing market, whether they're buying it to live in or to invest in. I think that's borne out in the data and anecdotally. I went to many auctions a couple of years ago and it was never overseas people that I was competing against. So it might be in certain markets, like maybe luxury homes or maybe there are apartments in certain areas that appeal to foreign buyers, but overall for the housing market as a whole I think it's something that people get fixated on that actually doesn't matter at all.

PETER SWITZER: The interesting thing is that in Sydney between 2003 and 2013 house prices went nowhere. That's the thing that staggers me is that we are living through an unusual period which we've seen before and after you get a boom in prices there can be long periods where there aren't these sort of price rises. So someone in your position over the next, maybe, eight years will actually be in a much better position because there will be changes, like we might find that negative gearing will only be applied to new housing rather than existing homes, that will be something that will assist. The level of prices will still be pretty high. I don't expect prices to fall much because historically in Australia house prices have never fallen by much. Even during the 1990 recession house prices actually snuck up a little bit as well. I just believe that this is a particularly tough time and I think at the core of our problems is a) people want to live where everyone else is living and b) we have a supply problem in areas.

I'll give you a classic example, you might not know Sydney very well but on the drive from where the SCG is out to the airport, that was an area that no-one wanted to live in. Harry Triguboff then started building flats, apartments and apartments and apartments, and I really thought he was going to come undone, like most developers. That has actually just been filled in by younger people who decided to live in apartments rather than the quarter acre blocks, and I think that's probably going to be part of the solution.

CAITLIN FITZSIMMONS: One of my friends moved into one of those apartments actually, in Green Square or somewhere around there. They have a child and the apartments are all not designed for families, though many, many families live in them. Their child was five and they rang up to find out where their local school was and they don't have a local school. So I think there's a bit of a –

PETER SWITZER: Harry didn't think of everything.

CAITLIN FITZSIMMONS: Well yes, but the government's job is to think of things like that and instead they're selling off schools. So I think a lot of these apartments are built without the social infrastructure and that's a problem.

JOHN DALEY: Yes, and I think you're right, state governments didn't pick how many families would wind up living in them and it's clearly an issue in both Sydney and Melbourne and they're going to have to, one way or another, find some more schools. We've got time for just one more question and then I'm afraid we will have to call it a night.

AUDIENCE: It's delightful to see how economists know the value of everything and the price of almost nothing and I'd like to introduce the simple concept of opportunity cost: $78 billion of voluntary input put in by the elders, sandwich generation care in both directions, and also, a point that isn't usually made in public, part of the deal with the young is they stop us getting jobs because we're too old and they get that advantage. They should pay for that.

JOHN DALEY: Right.

AUDIENCE: I've suffered it personally for 30 years, I'm 75.

JOHN DALEY: Younger people essentially push older people out of jobs is the allegation. In fact, certainly on the numbers, older age workforce participation is going up and it's certainly something that we at Grattan Institute have been encouraging. Why don't I ask my two fellow panellists to make a final comment and then we should wrap things up for the evening.

CAITLIN FITZSIMMONS: Well, I think that it's often framed as Millennials versus Baby Boomers, but we shouldn't forget about everyone else as well, and I don't just mean by own generation, Gen X, I meant the ones that are to come as well. There are bigger things going on in our country and the world than the price of housing and how much tax you pay on super. Something that I think a lot of people are very concerned about is climate change, I'll live to see the effects of it, my six year old children will live to see the effects of it, and it's something that cuts across all generations. It's something my parents and many Baby Boomers I know are very concerned about too and I think sometimes when we're talking about money and housing and tax and super we can forget about what's really at stake with public policy and our own actions.

PETER SWITZER: I've totally no dispute with any of that. I wrote a book called *The Carbon Crunch* and Kevin Rudd changed the carbon emission scheme so I couldn't sell a copy of it, so I'm right behind you on that one Caitlin. I think the issue I would like to bring to the table, because I loved the Grattan Institute's report as an economist, I thought it was a great piece of analysis, I just think when it comes to economics and politics there is often an equity issue and there are all sorts of equity issues. There are intergenerational equity issues and there are just simple objective equity issues, and I think you guys are arguing for objective equity and I can understand that.

My feeling was, and I may well be biased because a lot of people over the age of 50 watch my television show, listen to my radio show and read my website and are my financial planning clients, I have feelings for them as well. That is the big challenge of politics in this country. We haven't had leaders who could actually bring along various groups which is why we're split and that's why people like Pauline Hanson can take 10% of the population, unfortunately, and win them over. But I think that this is a really important issue and that's why I think the Grattan Institute did a very good job in doing it, but it's never just as simple as saying to people, "Oh well, we've now changed the rules. You've spent 15 years playing by the rules, you've give up a lot of enjoyable parts of your life to be well-off in retirement, but now we're changing the rules". I think we just have to be careful with the way we do that kind of thing. As you pointed out Caitlin, it would take time. When I read John's article it was like "we're right, change it now".

JOHN DALEY: Thank you. I guess if we are going to make progress the one thing we do have to do is understand where different points of view are coming from and I hope that tonight's been a bit of an insight for that. Certainly I've learned a lot from Caitlin and Peter. Please join me in thanking them for their extraordinary contribution tonight.

PETER SWITZER: I've got to say, as an old lefty, my heart goes out to Caitlin. I felt your emotion about going to auctions, so I might write a piece feeling sorry for 40 year olds after that.

CAITLIN FITZSIMMONS: You'll be pleased to know we did get there in the end.

JOHN DALEY: You wouldn't want interest rates to go up too far.

CAITLIN FITZSIMMONS: No and I don't mind if the value of my home doesn't go up, as long as it doesn't go backwards, which I also don't believe it will.

JOHN DALEY: So that just leaves me to thank a few other people for this evening, the State Library, as always, for their co-operation in this series which I think has really brought a whole series of policy debates to life in Melbourne; to the staff of Grattan Institute and the Library who quietly in the background make all of this happen in a way that's very seamless; to you the audience, thank you for coming because otherwise it wouldn't happen; and to those who support Grattan Institute, both the number of affiliates, every report we put out you can see their names on the second page so I won't read them all out, who contribute to Grattan Institute, it does make a difference, and then we have hundreds of friends who are contributing by donating to Grattan. Every little bit helps, unfortunately good public policy work is not cheap and, although Grattan has an endowment, we are eating into the value of that endowment over time and it's the support of those affiliates and friends that means we can keep doing what we're doing.

So thank you to all of them who are ultimately supporting the work and this kind of event, and thank you all for coming tonight. It's been great having you here and we look forward to seeing you at the next *Policy Pitch* event here at the State Library next month. Thank you.

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