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— Opinion

MYEFO charts no return to surplus this decade or the next

We really need to wake up now and start getting our fiscal house in order. Projections say we are surely living beyond our means.

Stephen Anthony *Contributor*

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Treasurer Josh Frydenberg yesterday revealed a modest improvement in the May budget over the four-year outlook by a razor-thin $2.3 billion.

But the Treasurer can be commended for restraint in terms of including so little pre-election pork in the estimates. Based on our tally there can only be $2 billion to $3 billion each year hidden from view for election promises.

Some bank economists and consultants had expected a little more Christmas cheer in the federal midyear update. But apparently they had missed the memo from the Parliamentary Budget Officer detailing the parlous path of the NDIS and other social spending.

Sadly, the mid-year economic and fiscal outlook charts no feasible path back to surpluses this decade, and perhaps the next, based on the following:

- A structural deficit of about 3 per cent of GDP.
- A growing trillion-dollar debt burden just as we face higher global interest rates and debt servicing charges, with about half the debt held by foreigners.
- We are moving into the high-cost phases of population ageing, defence procurement and zero carbonisation.
- Our capacity to maintain strong and stable growth has been diminished after 20 years of *economic deform* benefiting big business and vested interests. Daniel "Dictator Dan" Andrews is a case in point. The Victorian Premier appears to be running a protection racket for the construction sector and property council. This only continues the state's addiction to property taxes and the population Ponzi scheme, kicking the reform can down that very long toll road.

- It appears that most observers have missed that China is beginning a GFC-style property collapse, although the MYEFO says the sector is "delicately poised". Australia may now pay the price for relying so heavily on China, given our own unwillingness to reform.

Macroeconomic Analysis has modelled the fiscal path for the Australian government over the next 50 years in forthcoming analysis for the Taxpayers Research Foundation journal. We find similar-sized deficits over the outlook, but widening deficits out to the end of the decade.

Our idea is to redirect existing resources to enable households to better fund their own retirement living and care needs.

Those deficits do not narrow in dollar terms over the first two decades of the projection. So, the nation's debt-to-GDP ratio keeps expanding into the 2040s. Pile onto this the projected unfunded liabilities of federal government and total consolidated debt of state governments, and you can look forward to spending cuts of Arthur Fadden or Peter Walsh proportions in the mid to late 2020s.

What to do? Our idea is to redirect existing budget and household resources to enable households to better fund their own retirement living and care needs, rather than relying on the public purse, which must be funded by future taxpayers.

Some estimates say it will take $12 billion annually to improve aged care quality up to basic community standards.Then there is the $26 billion blowout in the National Disability Insurance Scheme spend over the forward estimates.

One obvious funding source is to allow the sale of family homes on a *no-disadvantage basis*, provided that the proceeds are set aside to manage retirement living or to provide for a dependant with a significant disability.

So reform the means tests to allow retirees to use sale proceeds to fund their own retirement living and aged care costs without any financial penalties. The proceeds from the sale of the home would then be available to fund any right-sized accommodation, and the remaining proceeds should then be allocated to a special purpose retirement living superannuation account.

Single default super scheme

The reform would be popular and allow governments to avoid solutions in residential aged care such as reverse mortgages, which have high transaction costs.

In 2021-22 the Australian government will spend up to $40 billion subsidising superannuation saving, but this never seems to lower age pension eligibility and costs.

So back in a single fund (or very few specialist funds) to manage superannuation balances in the retirement phase.

The idea is to remind super funds that their job begins and not ends with a member's retirement. Their job is not to maximise the lump sum they hand over to members, but the income stream they generate for retirement. Right now many members just spend their lump sum and live off the public purse. Meanwhile, other members have been allowed to accumulate massive subsidised hoards in superannuation accounts. Again, no connection to retirement living.

A single national default scheme could ensure the efficient conversion of lump sums to annuities, avoiding duplication and the investing of dollars in ways that better matches overall system asset and liability structures and so raising overall risk-adjusted returns.

The specialist retirement fund would effectively act as an agent of government selling annuities to prospective retirees – that is, selling a top-up to the age pension. An upper limit could be placed on the top annuity for sale to ensure members are targeting adequate retirement and that the public is not subsidising other motives.

Currently, $70 billion spent annually subsidising the demand for existing residential buildings via a plethora of tax concessions and direct outlays. Wouldn't it make more sense to limit the subsidies paid on residential property purchases and redirecting the savings to building affordable and disability homes?

It is imperative that we make sensible fiscal choices now, to avoid hard decisions later. To begin, we should make it easier for individuals to provide for themselves and their dependents in retirement living and disability care. We really need to wake up now and start getting our fiscal house in order. Projections say we are surely living beyond our means.

Stephen Anthony is chief economist at Macroeconomics.