Opinion

Here are four big ideas for Australia to consider in 2022

There are win-win reform gains to be had in industry policy, taxation, social spending and super. Why don't we take them?

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Maybe in 2022, in an election year, the Lucky Country will reward those intrepid politicians who seek to play positive sum policy reform games. This approach means embracing reforms that encourage voluntary exchanges between parties that incorporate mutually beneficial trade gains.

Done rightly, successful trades (unlike contracts that restrain trade) benefit third parties by increasing their opportunities for exchanges. Win-win contracts leave not only their immediate parties, but the rest of the world better off too. With lower transaction costs, overall human happiness is advanced. A leading proponent of this reform approach is the contract lawyer and eminent legal scholar Professor Richard Epstein from New York University.

Selling the family home to fund retirement should be free of means testing. **Michele Mossop**

The positive sum reform approach directs activity towards productive exchanges and away from coercive loss-making transfers.

This neglected approach contrasts favourably with the one-sided policy thinking (and deliberate political opportunism) over the last decade in Australia. It has led to declining per-capita GDP growth, falling productivity, and a massive erosion in housing affordability. This was fuelled by uber-easy monetary policy whose gratuitous uncertainty erodes capital stocks, both public and private.

Another example of the new interventionism is the endless diversity and sensitivity policies now entering every workplace and school in Australia and often called stakeholder engagement. Early days, but it is doubtful our firms or schools are either more meritorious or moral places because of being forced-fed these ideals. Indeed, quite the opposite, they are certainly more costly to operate, and less productive.
There is an old saying that the best of us are always enslaved to the worst of us.

The only way to reverse this downward cycle is to revert to the basic premises of our original paragraph.

Far too dependent on property

Our favourite policy prescriptions to a better future are as follows:

First, industry policy. Australia’s well-being is far too dependent on property and pits (extraction of iron ore, coal and now liquefied natural gas) as a foundation of its economic advance.

This risky and cyclical approach, driven from the centre, may end in tears. An obvious way forward is an aggressive strategy to reward value-adding and job creation across our existing commodity-based exports by calibrating prudential risk weights including favouring small and medium-sized business loans.

This would be good for jobs and financial stability as it would motivate the big four banks to recalibrate their loan books away from 70 per cent residential home loans (around half of which are made to investors) towards value-adding business sectors.

Of course, if this diversification does not occur gradually and soon, our nation is staring down the greatest property bust in its history.

Control social spending programs by seeing them as one single interconnected leaky bucket, and plugging the holes one at a time.

Second, tax reform. Tax reform can also be used to reward private entrepreneurs who want to spur greenfield investment to build the industries and create the jobs of the future.

We should look at Andrew Stone's far-sighted, revenue-sharing proposal where states can share the federal income tax take (perhaps both PAYG and company) if they are prepared to hand back their grant funding. The kicker is the more long-term private sector employment that a state creates, the bigger the tax wedge it collects. This would reward the stronger managers and curb states that are poor managers.

Third, controlling social spending growth by seeing these programs as one single interconnected, leaky bucket and plugging the holes one at a time.

For example, unsustainable spending in aged care, retirement living, affordable housing, disability care, the aged pension and superannuation concessions are all connected. Right now these transfers account for half the federal budget and most of the projected spending growth. Meanwhile, the states too pile resources into each of these programs. How to fix this?

Selling the family home

A better idea is to redirect existing budget and household resources to enable households to better prefund their own retirement living and care needs, rather than relying on the public purse and inevitably upon future taxpayers to fund.

Top of the tree idea here is to allow the tax and means-test, consequence-free sale of the family home to fund retirement housing. One obvious funding source for the future "living and ageing" needs of families 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 dependent 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 reform would be popular, and it would allow governments to avoid solutions in residential age care such as reverse mortgages, which have high transaction costs.

Next cab off the rank is a single national default scheme for superannuation in retirement phase. We should have a single fund (or very few specialist funds) to manage superannuation balances in retirement phase.

The idea is to remind those lazy super fund trustees and execs 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 that can be generated from it. If you can't offer anything innovative in this space, then you really shouldn't stand in the way. The specialist retirement fund would effectively act as an agent of government, selling annuities to prospective retirees, effectively as a top-up to the age pension.

Certainly, a single national default scheme could ensure the most 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, thereby raising overall risk-adjusted returns.

Privately, fund chief investment officers will concede a single fund structure is inevitable because it is the structure needed to take personal investment risk out of retirement. The case for the single fund structure will become more obvious during the next sustained bear market.

Let's take the necessary policy steps we need now to make for a brighter 2030s and 2040s. Let that be our national New Year's resolution for 2022.

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