

A Streak of Hypocrisy:

Reactions to the Global Financial Crisis
and Generational Debt



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Jeremy Sammut

Papers in Health and Ageing (6)

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Contents

Executive Summary.....	vii
A Streak of Hypocrisy: Reactions to the Global Financial Crisis and Generational Debt	1
No end to handouts.....	1
National saving	2
The importance of thrift.....	5
Two steps back for intergenerational equity.....	6
Generational debt.....	7
Challenges and solutions in health and ageing.....	7
'Health savings' alternatives	8
The case for Medicare opt-outs.....	9
Three lessons for a new era of thrift in health.....	12
Conclusion.....	12

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Executive Summary

This paper examines the policy challenges associated with the ageing of the Australian population through the prism of the global financial crisis. The paper observes that much of the commentary prompted by the financial crisis has featured a reaction against credit-driven consumption—the so-called ‘debt binge’ that has plunged household savings into the red in recent years—and a shift in sentiment that favours traditional values such as thrift.

There is a streak of hypocrisy about the reaction to the financial crisis because of what isn’t being said about the most important issues concerning the national saving culture or lack thereof. These issues, which identify the failure to put the principle of thrift into practice in a crucial policy area, and which illustrate the way Australia is currently going backwards in dealing with intergenerational challenges, are:

- The traditional reasons societies promote thrift as a core social value is that saving to cover future needs encourages personal responsibility, discourages dependence on government, and reduces burdens on future generations of taxpayers.
- The growth of the welfare state has weakened incentives for saving and self-provision, especially for old age retirement and health costs, and has created a culture that is anti-thrift. National savings have fallen from 12% of GDP in the 1960s to around 5% today.
- The negative household saving ratio of recent years is linked to the significant growth in government handouts to targeted groups of voters. The Howard government’s squandering of the windfall revenues of the now vanishing boom on bigger family and pension payments discouraged saving and encouraged the taking on of debt, even by those approaching retirement age.
- Rather than reining in the unsustainable handouts, the Rudd government’s economic stimulus package has handed out billions of dollars of bonus payments to the elderly as a down payment on a permanent pension increase.
- Both the Howard and Rudd governments have pork-barrelled the ‘grey vote,’ paid lip service to intergenerational issues, and undermined the principles of the pension and superannuation systems that encourage self-funded retirement.
- The key issue concerning the causes and consequences of the national failure to save is generational debt, or the inequitable expenditure and tax pressures the ageing of the baby boomers will impose on Generations X and Y.
- Generational debt is incurred when preceding generations fail to specifically save to pre-fund their own retirement and health costs, and instead depend on governments to provide pay-as-you-go (PAYG) taxpayer-funded pensions and healthcare. These costs are transferred onto future generations, who are forced to pay unduly high taxes to meet these unfunded liabilities.
- Despite repeated warnings concerning the unsustainability of Medicare and the potential for conflict between the generations over higher taxes or cuts to public health services in coming decades, this serious policy failure has prompted no structural reform in the politically sensitive area of healthcare financing.
- Reducing generational debt requires enabling people to save across the course of their lives and to pre-fund their health costs. The key intergenerational reform question is whether younger generations should pay for their healthcare, and for the healthcare of a much larger elderly population, primarily through the tax and public health systems.
- As an alternative to Medicare, self-funded Health Savings Accounts (HSAs) are the sustainable and cost-effective solution for the intergenerational challenges facing the Australian health system. This is a politically feasible path to health reform because unlike older generations, the individualistic and self-reliant Generations X and Y have little affinity with the health policy

ideology of earlier eras, and are therefore more likely to support a savings-based approach to health reform.

- A new era of thrift in health is overdue, and continuing to run the bulk of health spending through the inefficient public health system is the antithesis of thrift. Had HSAs existed during the last seventeen years of economic prosperity, individuals could have saved billions of wasted health dollars to cover their future health costs, and this would have reduced projected government health spending and the future tax burden on Generations X and Y.

A Streak of Hypocrisy: Reactions to the Global Financial Crisis and Generational Debt

No end to handouts

In early October 2008, in response to the global financial crisis and the resultant turmoil on world markets, the federal government appeared to signal that the free lunch was over. Facing a potential recession and a certain fall in tax revenues, Prime Minister Rudd backtracked on a commitment to increase the old age pension.¹ This was unusual, because for a decade very few politically influential groups in the community have heard a politician say no to demands for more government assistance.

During its eleven years in office, the Howard government governed like social democrats and established an array of new welfare payments, including the Baby Bonus, the First Home Owner Grant, and generous family payments and pensioner allowances. Lucky to govern in an unprecedented era of prosperity, the Coalition was able to hand out larger and larger amounts of taxpayer's money to targeted groups of voters because the booming economy and rising commodity prices produced record tax receipts and large budget surpluses. Seventeen years of unbroken economic growth meant tax rates did not need to rise to fund the handout spree (hence the 'free lunch').²

Paradoxically, the massive expansion of transfer payments and the creation of a huge tax and welfare 'churn' meant dependence on government increased in an era of rising national income.³ Rather than invest the temporary revenue windfalls on infrastructure development to boost long-term productivity, and instead of using the good economic times to implement structural reform and address key issues of intergenerational inequity in areas such as healthcare financing, many of the spoils of the now-vanishing boom were squandered on populist election bribes,⁴ and expensive politically-motivated spending was built into the structure of the federal budget.⁵

But by mid-October 2008, the government had come under heavy political pressure from pensioner lobby groups and the Opposition, and had backtracked again.⁶ A \$10 billion economic stimulus package—half the projected budget surplus—was announced to pump-prime the economy. The First Home Owner Grant was doubled and tripled (for new home builders), and lower-income 'working families' received additional family payments. But the most remarkable aspect of the stimulus was the extent to which the government's package stimulated the hip-pocket nerve of the 'grey vote.'⁷

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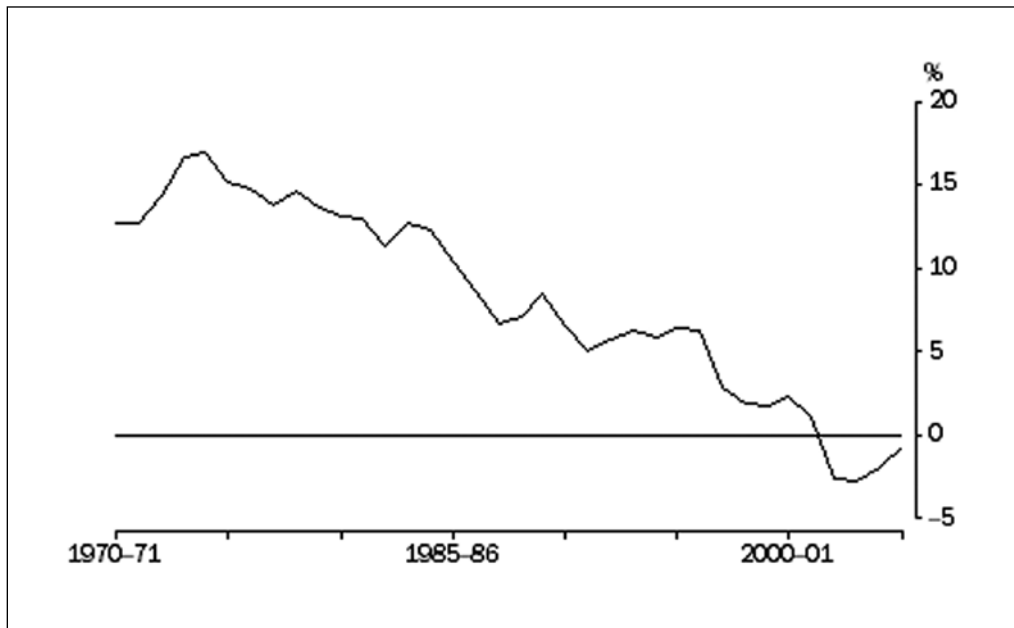
Billions of dollars of 'Christmas bonus' payments have been handed out to pensioners in early December—\$1400 to single pensioners and \$2300 to pensioner couples—as well as to self-funded retirees who qualify for the Commonwealth Seniors' Health Card. This year's Christmas lunch for retired couples with an annual adjusted income of up to \$80,000 will be at taxpayers' expense—especially young taxpayers and others without dependent children.⁸ A penitent prime minister has also confirmed that the bonus payment is not just a one-off, but a 'down payment' on a permanent and very expensive \$30-per-week increase in the rate of the pension in next year's federal budget.⁹

In the wake of the global meltdown, it had been expected that dampening expectations and clawing back some of the taken-for-granted handouts would top the Rudd government's post-crisis agenda.¹⁰ But instead of reining in the unsustainable handouts, the government has allowed political calculation to trump economic reality and fiscal responsibility, ratcheted up expectations, and fuelled the appetite of elderly voters in particular for larger handouts and more.¹¹

National saving

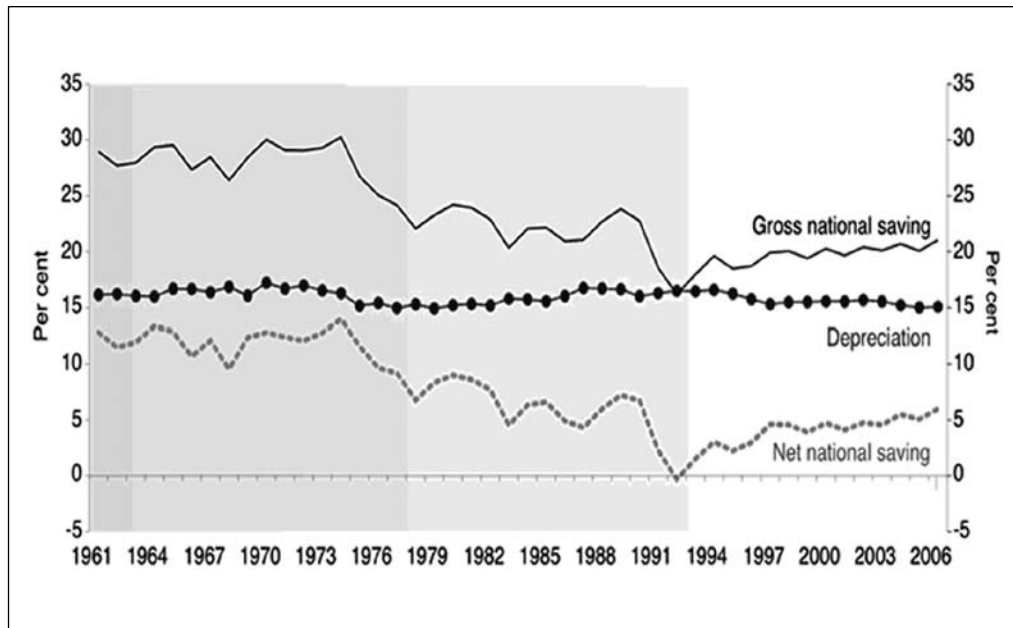
Though the stimulus-cum-pension- increase is a case of more of the same, it is ironic that the federal government is handing out more welfare at this time, especially welfare that, as we will see, discourages saving. In keeping with the tendency to turn to traditional values in troubled times, the global financial crisis has prompted much commentary, in Australia and overseas, that has featured a reaction against the easy credit—product innovation by financial institutions along with more flexible borrowing standards—that partly fuelled the economic boom. It has also featured a shift in sentiment in favour of traditional values such as thrift.¹²

Figure 1. The long fall: Australian household savings ratios 1970–71 to 2005–06



Source: Australian Bureau of Statistics (ABS)¹³

In Australia, social democratic commentators have been quick to note that during the last decade of high income growth, additional consumption has been fuelled by household debt.¹⁴ High borrowing to purchase housing at inflated prices, and credit-driven consumption in excess of current incomes, have contributed to the plunging of the national household savings ratio (the net measure of household savings relative to disposable income) into the red for the first time ever between 2002 and 2006. While the household savings ratio for the June quarter of 2008 recovered to 0.5%, the long-term trend is a continuing decline in the ratio, down from 15% in the early 1970s, to a level comparable only with the United States among English-speaking countries (see figure 1). Gross national saving has been lower in each decade since the 1960s, down from 28% to 20% currently, which is below the OECD average. Net national saving has fallen from 12% of GDP in the 1960s to around 5% today, and much of the recent fall is accounted for by negative household savings since 2002 (see figure 2).¹⁵ This has led Clive Hamilton and John Quiggin, among others, to welcome the global crisis as an opportunity to reject ‘the culture of excessive and ostentatious consumption that has characterized the boom,’ and as an opportunity for thrift to come to the fore and cure the nation of ‘affluenza.’¹⁶

Figure 2. The slow decline: Gross and net national saving 1961–2006 (% of GDP)

Source: Allen Consulting Group¹⁷

The decline in national saving is associated with falling household saving and the gearing up of households.¹⁸ Yet the story about debt and savings is more complex than simply a binge on debt to fuel consumption. Growth in indebtedness in recent years has been driven by increased borrowing to purchase more expensive housing. The propensity to take on debt also reflected strong growth in wage and salary income, the increased ability to service those debts, and rising wealth through the accumulation of housing and other financial assets. In some cases, debt has been used as a substitute for saving. For example, people in their 40s and 50s who previously had low levels of debt have taken on debt to purchase better houses or investment properties, or have taken on debt by using the equity in their homes to finance the purchase of shares and other financial assets.¹⁹

Yet while net household wealth has increased significantly in the last decade due to the housing boom, the concern (somewhat justified given recent plunges on world stock markets) has been that inflated equity and real estate prices would prove unsustainable. Home ownership remains the preferred saving vehicle for the majority of Australians. The rapid appreciation of home values and the impact of rising superannuation balances (the so-called 'wealth effect') has also appeared to have encouraged 'passive' rather than 'active' saving, as in putting aside part of current income for future needs. The long-term issue is that while reverse mortgages are becoming more common, many people find it difficult to liquidise the wealth locked up in (possibly overvalued) residential homes to access funds for their retirements.²⁰

Analysis of the national accounts by the Australian Bureau of Statistics (ABS) shows that since the beginning of the long boom in 1991, debt to finance home mortgages has grown at double (15%) the annual average rate of debt to finance personal loans and credit cards (7%). It also shows that mortgage loans as a proportion of household liabilities have increased, personal loans have decreased, and credit card debt has not changed. However, the 'proportional decrease in other personal loans and loans to unincorporated businesses may reflect both increased borrowing for housing and product innovation, whereby households were able to combine smaller personal loans into larger mortgage to benefit from lower interest rates.'²¹ The concern, as a 2007 report on the state of national saving by the Allen Consulting Group concluded, is that:

saving by households out of current income has been *negative* on a net basis for most of this decade, and households have been incurring debt rapidly. Some this has debt has been used to acquire assets, mainly houses, but a significant part of it has been

financing consumption spending ... in excess of [what they could afford out of] current net disposable incomes.²²

Hence, in the wake of the financial crisis, the governor of the Reserve Bank of Australia (RBA), Glenn Stevens, has recently suggested that the current cycle may be coming to an end and that households will 'grow their consumption spending at a pace closer to income, and perhaps look to save more of their current income than in the recent past.'²³

The problem with analysis by Hamilton and Quiggin is that it focuses on criticising consumerist consumption.

The collapse of household saving during a time of record growth (when savings usually pick up) is symptomatic of the long-run trend. There are good reasons to be concerned about the decline in national saving, especially in the context of an ageing population, and it is important to discover the reasons that many Australians have a propensity to spend and not save.²⁴ Intergenerational reform is all about the need to save—about individuals self-funding and

pre-funding their own retirement and health costs, instead of depending on taxpayer-funded government pension and health systems that can't be expected to cope with the much larger and longer-living elderly populations of the twenty-first century, and which will impose a huge generational debt on younger generations due to the failure of older generations to save for their old age.

The problem with analysis by Hamilton and Quiggin of the so-called debt binge is that it focuses on criticising consumerist consumption (or the supposed need for people to repent for purchasing plasma TVs).²⁵ This is typical of the way many commentators have interpreted the crisis as a morality play or as proof, among other things, that debt is bad, that 'usury' is worse, and that people should start living within their means. However, only indirect attention has been paid to the national saving culture, or lack thereof, while the causes and implications of this, and the traditional importance of thrift as a social value, have barely been discussed. For example, there is the neglected fact that 'saving rates have tended to fall, rather than rise, in the past decade at the time when boomers were supposed to be seeking rapidly to build their net worth.'²⁶ The critical issues this raises, such as the impact of the welfare state—which is, after all, a gigantic system of living beyond one's means—on attitudes towards saving, and the failure to start a transition to a 'superannuation-style' self-funded health system to address the unsustainability of the existing taxpayer-funded arrangements, have drawn virtually no comment. In this light, there is a streak of hypocrisy—especially coming from social democrats—about the reaction to the global financial crisis, because of what isn't being said about the national failure to save.

The aim of this paper is to fill in the silence about the following issues, which identify various failures to put the principle of thrift into practice in crucial policy areas, and illustrate the way in which Australia is currently going backwards in dealing with intergenerational challenges such as the following:

- The way the growth of the welfare state has undermined thrift by weakening incentives for saving to cover old age retirement and health needs, and the how the growth of the handout culture in the last decade has discouraged saving and encouraged the taking on of debt, even among those approaching retirement age.
- How the federal government's stimulus package has undermined the principles behind two decades of Australian retirement income policy, which encouraged self-funded retirement, and how this will increase generational debt, or the inequitable and unsustainable expenditure and tax pressures the ageing of the baby boomers will impose on Generations X and Y.
- The long-term implications of the rising cost of Medicare for generational debt, intergenerational equity, and the future of the health system, and the need for the introduction of a sustainable and cost-effective system of self-funded Health Savings Accounts (HSAs) to enable younger generations to save and pre-fund their health costs.

The importance of thrift

The traditional reason that societies have promoted thrift as a core social value is that saving for current and future needs encourages personal responsibility. Traditionally, as we shall see concerning the pension and superannuation systems, Australian society has encouraged private saving and self-provision to reduce dependence on government and to contain burdens placed on future taxpayers.²⁷

The classic account of Australian dependence on government is W. K. Hancock's *Australia*, published in 1930. Hancock described the late-nineteenth- and early-twentieth-century Australian state as a vast public utility whose goal was to increase the happiness of the greatest number of people. Governments attempted to fulfil this task chiefly by facilitating economic development, by building public infrastructure such as railways, and by over-regulating the terms and conditions on which capital employed labour. Yet for most of the twentieth century, the role of government was prescribed, to the chagrin of social democrats, well short of providing universal welfare benefits.²⁸ The explanation for this is cultural, and is accounted for by what were once the widely accepted social beliefs of Australian society.

Due to the legacy of the English Poor Law, which divided those considered to deserving of temporary assistance through no fault of their own from the undeserving poor whose position was judged to be owing to their recklessness or irresponsibility, state aid in late-nineteenth- and early-twentieth-century Australia retained the stigma of charity. Receipt of the type of unconditional welfare payments favoured by social democrats, which are often taken for granted today, was felt to be beneath the dignity of respectable working- and middle-class people, whose status as such depended upon their willingness to work and support themselves and their families. These beliefs had a real impact on the character of Australian social policies. For example, to promote self-reliance and lest unconditional welfare otherwise encouraged permanent dependence on government support, dole-style unemployment benefits were rejected in Australia until well into the mid-twentieth century in favour of government provision of relief work, for which the temporarily unemployed were paid wages or rations.²⁹

When the Commonwealth of Australia's *Invalid and Old-age Pensions Act* was passed in 1908, the same principles were embedded in the legislation, lest work and thrift be undermined. This first pension act therefore included specific provisions (a means test plus a 'good character' test) designed to encourage thrift and prevent those deemed undeserving from receiving a pension. A measure of how strong was the presumption that people ought to be self-reliant is that despite the effort taken to exclude the undeserving, the pension acquired the taint of charity and therefore led to unsuccessful efforts to convert the pension into a pre-funded contributory scheme in the 1930s and 1940s.³⁰

Australia's exceptionalism in relation to self-reliance, has not lasted.

Unfortunately, Australia's exceptionalism in relation to self-reliance, and the expectation that all those who can take care of themselves ought to do so—as compared to the 'cradle to grave' welfare states—has not lasted. Since the 1970s, the continued growth of the welfare state, and of the rights-based welfare ethic that has underpinned it, has undermined the once-strong expectation that people should be thrifty and take responsibility for their own needs.³¹ This is the world social democrats have made. Yet, ironically, it is social democrats who complain loudest about the consequences.

As many observers of the development of the welfare state point out, the expansion of the role of government into key areas of people's lives that once were the preserve of the individual, has gradually diminished self-reliance and diluted incentives for saving and self-provision. These were the prospective reasons liberals opposed the creation of the welfare state in the first place. As Peter Saunders has argued, government programs like Medicare have created a higher-taxing and lower-saving nation. Once the government promises to provide taxpayer-funded pensions and 'free' healthcare, there is less need for individuals to defer spending and to save to pay their

own way. The culture that this and other welfare payments have created is anti-thrift. Why sacrifice and save your own deposit when the government hands out grants to help you buy your first home? Why save to start a family when there is a baby bonus, family payments, and potentially paid maternity leave to be had? Why put money aside to cover old-age healthcare costs when Medicare and younger taxpayers are forced to foot the bill? And if you believe, as many people now do, that you are entitled to the old-age pension as a 'right,' why bother saving for old age. Why not, even, blow your super, especially when politicians keep vying to increase the pension's value?³²

The decline in household saving is linked to the significant growth in government handouts.

Not surprisingly, the decline in household saving in recent years is linked to the significant growth in government handouts, and the way government-sponsored living beyond our means has increasingly become part of the national way of life.³³ The expansion of payments to families and retirees has discouraged saving and disposed people to take on more debt, which they feel more confident servicing.³⁴ Increasing numbers of baby boomers have not only chosen not to save, as was expected as their retirements approached, they have

also taken on debt they intend to repay using their superannuation, or have double-dipped by taking early retirement safe in the knowledge they can then go onto the increasingly valuable old-age pension.³⁵

Two steps back for intergenerational equity

Unfortunately, the stimulus package continues the trend that has seen the current and previous federal governments consistently expand the entitlement programs that, as the population ages, will make the federal budget even more unsustainable at current tax levels.³⁶ It is another example of the willingness of the Howard government, and now the Rudd government, to pork-barrel elderly voters while paying lip service to the unprecedented challenges associated with the ageing of the baby boomers. At a time when wealth disparities between the baby-boomer and younger generations have significantly increased on the back of the housing boom,³⁷ both the Howard and Rudd governments have implemented pension and other policies that disproportionately benefit older Australians.³⁸ They have done so heedless of the damage this continues to do to pension and superannuation policy setting, which hitherto earned international acclaim for partly addressing intergenerational challenges, as compared to other OECD countries.³⁹

Australia is relatively better placed to cope with the financial impact of population ageing due to the two key but ever diminishing advantages of our retirement incomes setup, which have helped hold down the future cost of the pension. The first advantage is the transition that has begun from a taxpayer-funded pension system to a pre-funded superannuation system. Established in 1992, the compulsory superannuation system—which requires all employers to contribute an additional 9% of an employee's gross salary to a fund intended to provide for their retirement—promotes private saving and intergenerational equity by spreading the financial burden of ageing between the generations. The scheme was specifically introduced to avoid leaving younger generations with an unmanageable bill for the pensions of the elderly.

The second advantage is Australia's means-tested rather than a universal pension. Since its inception in 1909, the old-age pension—which is currently set at a record level of 25% of indexed average male weekly earnings—has been designed to act as a safety net, not to replace the income people forgo when they retire. To uphold work, self-reliance, and thrift as the social norm, the pension has been designed since 1909 to alleviate poverty and provide those who have not provided for their old age with a modest income. The expectation, in other words, has been that people should save and invest during their working lives to provide for their retirements.

The full transition from the pension to superannuation-funded retirement will take a long time to complete.⁴⁰ This is partly because the full impact of superannuation won't be felt until people who have spent their full working lives under the new system start to retire, and partly because the present level of compulsory contributions is too low to guarantee an adequate retirement income.⁴¹ By the 2040s, three-quarters of elderly Australians will still receive either a full or part pension.⁴²

A \$30 pension rise will therefore increase the already considerable future cost of the system. The stimulus is a double step backwards for intergenerational equity because increasing the value of the pension alters the incentives in the pension and superannuation systems that encourage self-funded retirement. The higher the pension, the more incentive retirees will have to blow their super on holidays, new cars, and home renovations, and arrange their financial affairs to qualify for the more valuable pension—as is already happening.⁴³ The more the government signals that retirees will be provided with increasingly valuable pensions, the more this undermines two decades of retirement incomes policy. The more that the elderly depend on government payments, the more they will transfer the cost of their retirements to younger taxpayers. And the more this happens, the more this will blow out the size of the debt that Generations X and Y will have to shoulder.⁴⁴

Generational debt

Generational debt is incurred when preceding generations fail to specifically save to pre-fund their own retirements and healthcare costs, and instead depend on governments to provide PAYG-taxpayer-funded pensions and healthcare. These costs are transferred onto future generations, which are forced to pay unduly high taxes to meet these unfunded liabilities.⁴⁵

Except for the very first generation to receive the old age pension or 'free' public healthcare, each generation has had a debt passed on by the preceding generation. The social contract, which has obliged each generation to pay for the social costs of the elderly, was manageable when the size of the working-age population kept growing compared to the retired population.⁴⁶ Today, there are around five people of working age to each person over sixty-five. In the 2040s, there will be one elderly person for every two and half of working age. Generations X and Y are therefore set to inherit an unmanageable debt, and a far bigger tax burden, to pay for the pensions and healthcare of a much larger elderly population.⁴⁷

The more the government signals that retirees will be provided with increasingly valuable pensions, the more this will blow out the size of the debt that Generations X and Y will have to shoulder.

The cost of the pension alone is projected to rise from 2.5% to 4.4% of GDP as the size of elderly population more than doubles from 12% to 25% of the total population over the next forty years. Due to the 'retirement savings gap' (or under-provision by current generations) the generational debt just for the old age pension is 1.9% of GDP, up from a projection of 1.7% five years ago, and this is without taking into account the additional billions of dollars in debt the forthcoming pension rises will rack up.⁴⁸

Challenges and solutions in health and ageing

Total federal generational debt is currently estimated at 4.75% of GDP, which is the amount commonwealth spending is projected to rise by 2046–47 due to the impact of ageing on the budget.⁴⁹ By far the biggest slice of the debt will be generated by the rising cost of Medicare (see box 1).

Box 1: Health and Ageing Cost Summary

<ul style="list-style-type: none"> • As a person's demand for healthcare naturally increases with age, the cost of providing healthcare to much larger elderly populations could see government health expenditure expand to over 10% of GDP by the 2040s.⁵⁰
<ul style="list-style-type: none"> • The generational debt incurred for old-age health costs is likely to be significantly higher due to the interaction between ageing and new medical technology, which will increase government expenditure far beyond existing projections.⁵¹
<ul style="list-style-type: none"> • As the population ages, the increasing dependency ratio of working-age to retired people will slow economic growth while increasing real health spending faster than growth in GDP per capita.⁵²
<ul style="list-style-type: none"> • Based on current trends alone, the tax burden would need to increase by around 5% of GDP to finance the 'fiscal gap' between government expenditure and revenue.⁵³
<ul style="list-style-type: none"> • Without adjustments to existing health policy arrangements or undesirable cuts to public health services, to fund the ageing-fuelled cost of Medicare a smaller base of working-age taxpayers will face as much as a 40% increase in income tax over what is paid by current generations.⁵⁴
<ul style="list-style-type: none"> • In a globalised economy, there will be limits to how high taxes can be increased because of the impact on the wider economy and the implications for work incentives, economic growth, and international competitiveness.⁵⁵
<ul style="list-style-type: none"> • How best to address the rising cost of Medicare marks a dividing line between those who wish to reduce tax and the size of government in the decades ahead,⁵⁶ and the those who want 'big government' to get even bigger and to continue raising taxes to pay for Medicare.⁵⁷

'Free and universal' health systems like Medicare are twentieth-century social policies, and were never designed to cope with the demographic realities of the twenty-first century that stem from remarkable increases in longevity.⁵⁸ It is estimated, for instance, that at current rates of growth, by 2033 health spending will consume the entire the NSW state budget.⁵⁹ The unsustainability of Medicare is therefore under increasing scrutiny, based in part on concerns that Generations X and Y will be 'saddled with unduly heavy tax burdens.'⁶⁰

This has led the occupants of Australia's three most senior economic posts—the former federal Treasurer, the former Reserve Bank governor, and the Treasury secretary—to all issue warnings about the future cost of Medicare and the potential for conflict between the generations over higher taxes or cuts to public health services in coming decades.⁶¹ The issue isn't just about tax and spending, but about the sustainability and quality of the health system of tomorrow, and the fact that without change, governments may have to ration services more strictly. This could mean Australians will receive fewer of the new drugs and high-tech procedures they have become accustomed to.⁶² But despite these warnings (and despite the fact public hospitals around the country are already failing to cope with the demands of an ageing population) this serious policy failure has prompted no structural reform in the politically sensitive area of healthcare financing.

'Health savings' alternatives

Inevitably younger generations will have to pay, in some form, for the healthcare of a growing elderly population, especially of those who haven't been expected to save to pay for their own. The key intergenerational reform question is whether they should do so primarily through the tax and public health systems, or, instead of depending on Medicare, pursue private and self-funded alternatives that enable people to save to pre-fund their own healthcare.

Box 2: Health Group Strategies Proposal for Health Savings Accounts (HSAs)

<ul style="list-style-type: none"> • a mandatory high deductible, minimum coverage health insurance plan that allows new incentives (including no-claim bonuses) to reduce risk factors and trivial claims;
<ul style="list-style-type: none"> • at the insuree’s informed choice, an optional catastrophic plan that covers high-cost care at a lower premium than today’s insurance;
<ul style="list-style-type: none"> • the insuree’s choice to meet co-payments imposed at the point of service from the HSA.
<ul style="list-style-type: none"> • the individual or household with a personal HSA would receive each year a risk-rated income–based subsidy from the government, applicable only to health insurance coverage;
<ul style="list-style-type: none"> • using much the same calculation proposed by advocates of the Health Reform Commission the subsidy would be the cashed-out value of all government subsidies for Medicare, PBS and private health insurance, indexed for inflation;
<ul style="list-style-type: none"> • low income groups would have the same subsidy, but there would be a need to consider safety nets;
<ul style="list-style-type: none"> • any HSA balance at the end of the year would be rolled over and would be tax-exempt. Any HSA balance at death would pass to the estate of the deceased;
<ul style="list-style-type: none"> • as in some US HSA’s, healthy behaviour would entitle the insure [sic] to a higher interest rate on the HSA balance if they maintained weight loss or stopped smoking for 2 years in a row, or they would receive lower private health insurance premiums in year 3;
<ul style="list-style-type: none"> • individuals could opt for care at public or private hospitals, and all hospitals would be paid by today’s casemix method but weighted higher for hospitals submitting data on their safety, efficiency and clinical quality;
<ul style="list-style-type: none"> • the market for transparent quality and safety, supported by health insurers and state governments advertising agreed performance data, would allow consumers to see what they are buying; and
<ul style="list-style-type: none"> • the HSA would pay 100 per cent for all preventive care, offer discounted weight reduction products and pay bonus interest rates on the HSA balances, all embedded in US and South African HSA models. This is an economic incentive that will appeal to the young, as the take-up rates of the new New Zealand accounts suggest.

Source: House of Representatives Standing Committee on Health and Ageing.⁶³

The truth that is yet to be faced in the current health debate is that the Australian health system remains heavily exposed to intergenerational challenges because, unlike in the area of retirement incomes, there is yet to be a ‘superannuation-style’ transition from a taxpayer-funded system to a self-funded system, despite growing support from health and aged-care providers for the kind of workable ‘health savings’ models (see box 2), that have been proposed.⁶⁴

- *The Fitzgerald model.* This model would adapt the existing superannuation system and require people to make contributions out of their incomes into a separate Health Savings Account (HSA) within their superannuation accounts. (An HSA is a long-term savings vehicle and just like a normal savings or superannuation account, except that deposits can only be withdrawn to pay for specified healthcare services.) Under this model, accumulated funds could be accessed after the age of sixty-five to cover old-age health and aged care expenses.⁶⁵
- *The CIS voluntary Medicare opt-out model.* A more far-reaching proposal, this is designed to uncouple as much future health spending as possible from the tax and public health system, for those who choose to take personal responsibility for their own healthcare. Under an opt-out system, adults who voluntarily opt to ‘cash out’ their entitlement to Medicare-funded medical treatment would receive a tax credit to fund a tax-advantaged HSA. They would use their

health savings to pay for their day-to-day medical expenses, and take out mandatory private health insurance to cover serious illnesses and expensive hospital care and other treatments. The balance in the HSA accumulated over the course of a person's working life would be available in retirement to cover the inevitably higher health costs of old age.⁶⁶

The case for Medicare opt-outs

Proposing that people opt out of Medicare seems a big step. Health reform is difficult to achieve because many view change as a threat to their entitlements rather than a necessity and an opportunity. However, the size of the generational debt that will confront Generations X and Y means that change is essential to create a sustainable system. The alternative is to face the following issues squarely and admit that younger generations, who have been left holding the short straw, will have to start saving today to reduce their dependence on government and pay for the healthcare of tomorrow:

- *Generational debt.* The way to reduce generational debt, and create a better system based on choice and competition, is to enable people to save over the course of their lives, especially while young and healthy, and to pre-fund the high cost of their old-age health costs.⁶⁷ In the long-term, these costs are 'smoothed' across the generations, instead of being dumped as debt on future generations.⁶⁸
- *Sustainability.* Intergenerational challenges will not solve themselves, and 'the ability to pay for good healthcare sustainably in the future—and in an intergenerationally fair way—would be enhanced if supplementary, non-budget sources of funding for health were built up.'⁶⁹ Countries such as Singapore, which have established a health savings system, have created a new, significant, and sustainable source of future healthcare funding, plus a health system far more effective at controlling costs without affecting health outcomes). These countries have set themselves up to cope much better with the impact of population ageing.⁷⁰

The size of the generational debt means that change is essential.

The full case for a 'health savings' or opt-out approach to health reform, in which the government starts giving people their taxes back so they can put thrift into practice and start saving for their own healthcare, cannot be explored here. But without change, the quality of healthcare received in the future will depend on the uncertain ability of government to increase taxes cover costs to close the gap between health expenditure and revenue, or on the need to limit services if younger

taxpayers decide to default on the unfunded liabilities they have inherited. The benefit of health savings, as opposed to letting governments and taxpayers pay for us through a welfarist model, is that individuals will get out of the system what they contribute as savings. There is a precedent here in the current setup of the private health insurance system, which has had the contributory principle incorporated into its design. Following the introduction of 'Lifetime Cover' in 2000, those who take out private health insurance have had to pay a 2% penalty on their premiums for every year they have not had private cover since the age of thirty. The idea is to deter people from only joining up later in life when they are more likely to need and use private hospitals, and if they do, require them to contribute adequately to the sustainability of their health funds. Now, what you will get out of private health insurance depends on what you put in.⁷¹

There are other arguments in favour, and the advantages of, making the transition to a self-funded system founded upon the principle of thrift, whose time has come again. These include:

- *Political feasibility.* The difficulty with switching from a taxpayer-funded to a self-funded system is that one generation has to save to fund their retirements and health costs while still paying tax to finance the healthcare and pensions of the elderly. Making this transition is politically feasible, and Australia is well placed in this respect to deal with intergenerational challenges, for two interrelated reasons: (1) the generational differences in social outlook that have emerged between younger and older generations as a result of (2) realistic Generations X and Y having faced up to generational debt and already 'paying twice' for their retirements through the superannuation system and by their taxes funding the pensions of the elderly.

- *Generational differences.* It is always difficult to generalise about whole generations of people. But those who have studied the characteristics of Generations X and Y have concluded that compared to the baby boomers, younger generations tend not to depend on government or look to collective action to satisfy their diverse needs and wants. Instead, they have ‘internalised the values of individualism.’⁷²
- *The impact of superannuation.* Superannuation has helped foster a self-reliant attitude among younger generations. A 2005 House of Representatives inquiry found that unlike older generations and the baby boomers, Generations X and Y ‘[believe] in the concept of self-funded retirement.’⁷³ This is to say that younger generations have abandoned the idea they have a ‘right’ to receive the old age pension. Superannuation, in effect, has inculcated in young people the expectation that they should provide for their retirement, and has encouraged a shift back towards personal responsibility.⁷⁴ Individualistic younger generations—who are already predisposed towards saving for their future needs—are more likely to support self-funding their own healthcare. The politicians who give the young their taxes back to save for their own healthcare will be the first to ride a generational political wave.⁷⁵
- *Non-ideological temper.* Younger generations are also unlikely to have much affinity with the health policy ideology of earlier eras. (A recent report by the National Health and Hospitals Reform Commission, for example, asserts that Medicare—an impersonal, bureaucratic, big government program—‘is important to our identity as Australians.’)⁷⁶ The defenders of the status quo frequently claim that a ‘free and universal’ system promotes social cohesion, and is a symbol of social solidarity between the young and the old.⁷⁷ These sentiments will become increasingly hollow owing to the enormous generational debt baby boomers have left Generations X and Y.⁷⁸
- *It’s about tax plus more.* Without change, younger generations will pay far higher taxes to fund Medicare. But the case for opting-out rests on both the significant drawbacks of current policies and the significant advantages of a self-funded system. Younger generations have much more to gain, because the alternative to higher tax is making the transition to a more efficient and cost-effective system.
- *End ‘churning’ and waste in health.* The criticism of the modern welfare state is that governments collect tax and then ‘churn’ this money back—minus the high cost of administration—as public goods and services which the majority of taxpayers are perfectly capable and able to afford purchasing on their own behalf.⁷⁹ What is worse in the area of health is that the hospital services governments are ill equipped to provide are high-cost and often of questionable quality. Taxpayers end up receiving less for their health dollars than the amount of tax they pay to support the public system warrants, especially when over 40% of people are already paying twice, having entered the private health insurance system to access care in private hospitals. In the public system, plenty is spent, nothing is saved, and plenty is wasted.⁸⁰
- *Private is better, ‘public is not best.’* This has been graphically illustrated by recent events. Real government spending on public hospitals has increased by 64% over the last ten years.⁸¹ Over this period, the ‘hospital crisis’ has intensified. Longer waiting times have been experienced not only for elective surgery but also for emergency treatment due to two decades of cuts to bed numbers, which have left hospitals with insufficient beds to provide timely care for patients.⁸² Despite the demonstrated inability of the public health system to efficiently allocate resources and control costs,⁸³ and despite the private hospital sector’s providing the same treatment at ‘significantly lower prices ... than in the public sector,’⁸⁴ governments are set to continue throwing billions of dollars at public hospitals.
- *Efficiency and cost-effectiveness.* An opt-out system, which would shift the financing and delivery of health and especially hospital care away from the public system and into the far more efficient private sector, would be better value for money.⁸⁵ It is timely to note that the privatising of the purchasing and provision of healthcare in the Netherlands in 2006 reduced total costs by 5% in the first year alone, thanks to the benefits of choice and competition.⁸⁶

- *Put thrift into practice in healthcare.* Under Medicare, there is little incentive to restrict the use of predominantly 'free' services. Creating a savings-based system would encourage consumers to be thrifty and cost-conscious users of healthcare, to maximise their savings. Greater choice and competition would also give providers the incentive to compete on quality and price to attract customers. The result would be a thriftier and a more cost-effective health system, which would deliver more and better healthcare.⁸⁷

Three lessons for a new era of thrift in health

The best time to make the transition from a taxpayer system funding to a self-funded health savings system is during a period of economic growth and rising real incomes. The last seventeen years of unprecedented and unlikely to be repeated economic prosperity will be looked back on as a squandered opportunity to address intergenerational challenges and to thriftily put aside some of the proceeds of the good economic times to meet future needs. In the aftermath of the global crisis and the inevitable end of the boom, this is the first lesson that should be learned.

The second lesson is that the superannuation system was created following the recession of the early 1990s. Tougher economic times, which put pressure on government budgets, tend to stimulate structural reform. Structural reform and a new era of thrift and self-funding in health are overdue, and continuing to run the bulk of health spending through Medicare is the antithesis of thrift. If HSAs had existed as an alternative to Medicare during the last decade or so, billions of health dollars wasted in the bureaucratic and inefficient public health system could have been saved by individuals to cover their future health costs, and this would have reduced projected government health spending and the future tax burden on Generations X and Y.⁸⁸

This is the third lesson—it is time to put thrift into practice to reduce generational debt, and to start going forwards in intergenerational reform.

Conclusion

The commonwealth old-age pension marks its centenary in 2009. It was the first welfare payment established by the federal government, and it is worth reflecting on how far backwards the nation has gone away from personal responsibility since then. So concerned were founders of the pension system about encouraging work and thrift, and so determined were they to discourage improvident behaviour and thriftlessness, that they included a character test in the original act. To prevent the undeserving from becoming a burden on the public purse, only those judged of good character (those who had led a temperate and reputable life) were to be granted a pension. A magistrate was authorised to administer the test and determine whether an applicant was 'deserving' of a pension.⁸⁹

In 2009, welfare has lost the stigma of charity, and thrift and self-reliance are no longer cherished as a key community standard and social expectation. This has proceeded to the point that many people who are currently retired or nearing retirement believe what social democrats have told them and think of themselves as having a 'right' to receive the pension. As this paper has argued, the expansion of the welfare state has discouraged saving and self-provision at a time when demographic realities mean taxpayers will find it increasingly difficult to sustain pension and health entitlements. This is especially the case concerning 'free and universal' Medicare-funded health care, given the numbers of elderly people who will depend upon government provision by the middle of this century. For the reasons outlined here, continuing to chalk up the cost for future generations, and not saving to cover future health needs, is no longer a viable option for Generations X and Y.

The federal government has commissioned a wide-ranging review of Australia's complex and inefficient tax system, which is widely criticised for discouraging saving in many ways. As the goal of the review—which will deliver its final report at the end of 2009—is to create a new system for the twenty-first century, it offers a timely opportunity to mark the centenary of the pension by starting again, incorporating HSAs into a new tax and health system. Why not kill two birds with one stone, by creating a health system that encourages thrift and is appropriate for new generations and for the twenty-first century?⁹⁰

Endnotes

- 1 Malcolm Farr, 'PM Puts Pension Increase On Hold,' *Daily Telegraph* (10 October 2008). For months, the federal government had been under heavy political pressure to help 'struggling' pensioners who, it turns out, have never been more generously treated. The federal government's own pension review found that the real value of the pension has increased by 20% over the last decade, and by over 200% compared to 1970. In other words, this generation of taxpayers is far more generous to a much larger elderly population than the now-elderly were when they were paying tax to support a much smaller elderly population. Jeff Harmer, *Pension Review Background Paper* (Canberra: Department of Families, Housing, Community Services, and Indigenous Affairs, 2008).
- 2 Andrew Norton, 'The Rise of Big Government Conservatism,' *Policy* 22:4 (Summer 2006–07), 15–24.
- 3 Peter Saunders, *The Government Giveth and the Government Taketh Away: Tax-welfare Churning and the Case for Welfare-state Opt-outs* (CIS: Sydney, 2007).
- 4 A partial and possible exception is the Australian Government Future Fund: the federal government established the Future Fund in 2004 to meet the commonwealth's unfunded public service and defence superannuation liabilities. See the Australian Government Future Fund homepage at www.futurefund.gov.au. The question is whether future cash-strapped governments will preserve the accumulated balance for this purpose, or will at some point 'raid' the fund to finance public infrastructure projects or other government expenditures.
- 5 Michael Stutchbury, 'Tanner Needs to Sharpen His Razor Gang to Stay in Surplus,' *The Australian* (7 November 2008).
- 6 'National Seniors Australia chief Michael O'Neill ... warned that Australia's huge grey army would mobilise if the first thing to go from the government's "to do" list was pension relief. "We have 280,000 members across the country," he said. "We are capable of activating a visit to every MP, making phone calls to every MP." ' Kerry-Anne Walsh, 'Rudd Faces Grey Fury if Pensions Ignored,' *The Sydney Morning Herald* (12 October 2008).
- 7 The decision to increase the First Home Owner Grant does not, as some might believe, balance the generational ledger. As well as being the equivalent of encouraging more cheap and easy credit, it will almost certainly turn out to be another handout to the elderly. Based on past experience, the overwhelming effect of increasing the grant will be to increase or sustain house prices that were tipped to fall following the global crisis, or, in other words, to prop up the value of the assets of older housing-haves at the expense of younger housing have-nots, who will be forced to go deeper into debt to enter the more expensive property market. Though the ostensible purpose is to help young people with home affordability, the overwhelming effect of the First Home Owner Grant is to increase the number of purchasers and the amount of money they can spend on a home. The value of the grant ends up going to existing home owners.
- 8 Centrelink, 'Commonwealth Seniors Health Card' (1 September 2008), www.centrelink.gov.au/Internet/Internet.Nsf/payments/conc_cards_cshc.htm#do.
- 9 The enormous cost has been dismissed—the Prime Minister previously noted that every \$10 increase in the pension puts \$2 billion on the budget bottom line—especially in light of the fact that an estimated 80% of retirees will continue to rely on either a full or part pension into the middle of the century. Sarah Elks, 'Most Need Pension to Survive,' *The Australian* (16 July 2007).
- 10 Jeremy Sammut and Gaurav Sodhi, 'Political Handout Culture Mugged by Global Reality,' *The Australian Financial Review* (15 October 2008); George Megalogenis, 'We Will All Have to Learn to Save,' *The Australian* (13 October 2008).
- 11 Michael Stutchbury, 'Bad Politics,' *The Australian* (21 October 2008).
- 12 A Google search for 'global financial crisis' and 'living within our means' registered 14,500 on 20 November 2008; a search for 'global financial crisis' and 'thrif' registered 9,930 hits.
- 13 ABS (Australian Bureau of Statistics), *Spotlight on National Accounts, 2007*, Cat. No. 5202.0 (Canberra: ABS, 2007), www.abs.gov.au/AUSSTATS/abs@.nsf/mf/5202.0?OpenDocument.
- 14 Clive Hamilton, 'Recovery from Affluenza: Stay In, Watch Flat-screen,' *The Sydney Morning Herald* (30 October 2008).
- 15 Vince FitzGerald, *Australia's National Saving Revisited: Where Do We Stand Now?* (Melbourne: Allen Consulting Group, 2007), 1, 4, 16–18, 20.
- 16 John Quiggin, 'The "Crisis" and Climate Change,' *GetUp! Blogs* (16 October 2008), www.getup.org.au/blogs/view.php?id=1537.
- 17 Vince FitzGerald, *Australia's National Saving Revisited*, 1.
- 18 Malcolm Eddy and Luke Gower, 'National Savings: Trends and Policy' in *The Australian Economy in the 1990s, Proceedings of a Conference Held at the H. C. Coombs Centre for Financial Studies, Kirribilli*

- on 24–25 July 2000, ed. David Gruen and Sona Shrestha (Sydney: Economics Group, Reserve Bank of Australia, 2000), 277–311, 278–279, 282.
- 19 Ric Battellino, 'An Update on Household Finances' (address to 7th ITSA Bankruptcy Congress, Sydney, 30 October 2008), www.rba.gov.au/Speeches/2008/sp_dg_301008.html; ABS, *Australian System of National Accounts, 2005–06*, Cat. No. 5204.0 (Canberra: ABS, 2006), www.abs.gov.au/AUSSTATS/abs@.nsf/Previousproducts/5204.0Feature%20Article1.12005-06?opendocument&tabname=Summary&prodno=5204.0&issue=2005-06&num=&view.
 - 20 Vince FitzGerald, *Australia's National Saving Revisited*, 2, 6; ABS, *Spotlight on National Accounts, 2007*.
 - 21 ABS, *Australian System of National Accounts, 2005–06*.
 - 22 Vince FitzGerald, *Australia's National Saving Revisited*, 11, 20, emphasis in original. The report goes on to say that 'quite clearly debt is also being used to finance spending on things that do not produce an economically measurable future flow of services, e. g. popular consumer durables (such as plasma TVs) and consumption spending generally' (13).
 - 23 Glenn Stevens, 'The Directors' Cut: Four Important Long-run Themes' (address to the Australian Institute of Company Directors Luncheon, Sydney, 17 September 2008), www.rba.gov.au/PublicationsAndResearch/Bulletin/bu_oct08/Pdf/bu_1008_2.pdf.
 - 24 For example, national savings are important in the context of the need for increased investment to offset the economic and fiscal impacts of population ageing, and this was one of the original justifications for compulsory superannuation. A. Borowski and D. Olsberg, 'Retirement Income Policy for a Long-Lived Society,' in *Longevity and Social Change in Australia*, ed. A. Borowski, S. Encel, and E. Ozanne, (Sydney: UNSW Press, 2007), 210.
 - 25 For a critique of Hamilton's 'affluenza' thesis, see Peter Saunders, 'Why Capitalism is Good for the Soul,' *Policy* 23:4 (Summer 2007–08), 3–9.
 - 26 Glenn Stevens, 'Finance and the Ageing Population,' (address to the Financial Planning Association of Australia Limited, FPA National Conference, November 2005), www.rba.gov.au/Speeches/2005/sp_dg_161105.html#t4.
 - 27 As Peter Saunders has also pointed, the history of friendly societies in Britain and Australia in the late-nineteenth and early-twentieth centuries makes clear that even working people with rudimentary educations were once capable of looking after their long-term interests without the state having to do it for them. Peter Saunders, *Six Arguments in Favour of Self-funding*, CIS Issue Analysis 61 (Sydney: CIS, 2005), 5.
 - 28 W. K. Hancock, *Australia* (London: Ernest Benn, 1930).
 - 29 For the classic historical exposition of these themes, see John Hirst, 'Keeping Colonial History Colonial: The Hartz Thesis Revisited,' *Historical Studies* 21:82 (April 1984), 85–104 and 'Egalitarianism,' *Australian Cultural History* 3 (1984), 12–31.
 - 30 See note 45.
 - 31 What leader of a federal political party would dare say in an election speech today, as Robert Menzies did in 1949: 'The best people in this community are not those who "leave it to the other fellow," but those who by thrift and self-sacrifice establish homes and bring up families and add to the national pool of savings and hope some day to sit "under their own vine and fig-tree," owing nothing to anybody.' Extract from 1949 election speech, reproduced in Robert Menzies, *Afternoon Light: Some Memoirs of Men and Events* (Melbourne: Penguin Books, 1969), 296.
 - 32 This discussion draws on the ideas raised in Peter Saunders, *Six Arguments In Favour of Self-Funding*.
 - 33 One measure of the extent to which the handout culture has thrived is that four in ten families, and 55% of families with dependent children, will receive more in government benefits than they pay in tax in 2008–09. Hielke Buddelmeyer, Nicolas Hérault, and Guyonne Kalb, *'Churn' within the Australian Tax and Transfer Systems of 2003/04 to 2008/09* (Melbourne: Melbourne Institute of Applied Economic and Social Research, 2008).
 - 34 Vince FitzGerald, *Australia's National Saving Revisited*, 33.
 - 35 Simon Kelly and Matthew Toohey, *Who are Australia's Best Savers?* (Canberra: NATSEM, 2002). See also Vince FitzGerald, *Australia's National Saving Revisited*, 33; and Malcolm Eddy and Luke Gower, 'National Savings: Trends and Policy,' 296–297.
 - 36 Stephen Kirchner, 'Future Fund or Future Eater? The Opportunity Cost of Commonwealth Revenue Hoarding,' *Policy* 22:3 (Spring 2006), 28–31, 29.
 - 37 Research conducted by the National Centre for Social and Economic Modelling (NATSEM) in 2003 has shown that there has been a huge shift in wealth, driven by housing prices, in favour of boomers, while every age group under forty-five has experienced a wealth loss. NATSEM found that the share of total wealth held by those aged 25–39 had declined from 27% in 1986 to 19% in 2003. Ann Harding, Simon Kelly, and Anthea Bill, 'Generation Xcluded,' AMP NATSEM Income

- and Wealth Report 6 (November 2003), www.amp.com.au/dafiles/AU%20Retail/AU%20Retail/Files/StaticFiles/183338_natsem_issue6_generation_exclu.pdf. The share of wealth held by people aged 45–59 has risen from 38% to 45%, and fallen for people aged 30–44, from 29% to 21%. John Kehoe, 'Older Get More of the Cake,' *The Australian Financial Review* (15 August 2008). Young people have had to borrow more to buy the cheapest houses, while value of the homes owned by older people has increased much faster. Mark Coultan, 'Pain in the Assets: Generations Lost Years,' *The Sydney Morning Herald* (5 November 2007). By 2030, almost half of family wealth is forecast to be held by people aged over sixty-five,
- up from one-quarter at present. Fiona Tyndall, 'Consolidation on the Cards in Aged-care Sector,' *The Australian Financial Review* (29 January 2008).
- 38 For example, to fulfil an election promise, this year's federal budget increased the Utilities Allowance for pensioners from \$100 to \$500, and pensioners also received a \$500 bonus with another \$500 slated for next year. The pension asset test threshold went from \$531,000 to \$839,500 for couples and from \$343,750 to \$529,250 for singles in September 2007. And, early this year, the federal government specifically excluded the generous superannuation concessions the Howard government handed-out to baby boomers in May 2006 (including the tax-free treatment of superannuation payments for people aged over sixty) from the eighteen-month review of the tax and transfer payments system it commissioned from the federal Treasury. Patricia Karvelas, 'Free Pass for Super and GST Slammed,' *The Australian* (12 May 2008). As Ross Guest has also pointed out, younger generations are also the first generation forced to bear a higher tax burden to prepay public infrastructure projects through the Future Fund, the Building Australia Fund, and the Higher Education Endowment Fund. Ross Guest, 'Gen X to Bear Unjust Fiscal Burden,' *The Australian Financial Review* (17 April 2008).
- 39 Paul Johnson, 'Ageing in the Twenty-first Century: Implications for Public Policy,' in Productivity Commission and Melbourne Institute of Applied Economic and Social Research, *Policy Implications of the Ageing of Australia's Population*, conference proceedings (Canberra: AusInfo, 1999), 11–33, 23.
- 40 Leslie Nielson, *An Adequate Superannuation-based Retirement Income?* Parliamentary Library Research Brief 2005–06 12 (Canberra: Parliamentary Library, 2006), 12.
- 41 Despite this, there has been no move to use the strong recent growth in real wages to increase compulsory superannuation contributions to 15%, to close the retirement savings gap and ensure more employees have adequate self-funded retirement incomes. Simon Kelly and Ann Harding, 'Funding the Retirement of Baby Boomers,' *Agenda* 11:2 (2004), 99–112. Updated research by NATSEM has again shown that, despite recent changes to superannuation laws, retirement incomes for many Australians are likely to prove inadequate unless they increase their own superannuation contributions. Thomas Morrison and Simon Kelly, *Superannuation: The Right Balance?* report prepared for CPA Australia (Canberra: NATSEM, 2008). 'In order to fully fund their retirement savings gap, some estimates suggest that baby boomers (those above 55 years of age) would need to contribute an additional 6.4 to 16.6 per cent of their preretirement income and Generation X and Y would need to contribute an additional 2.4 to 9.5 per cent of their pre-retirement income to superannuation.' Vince FitzGerald, *Australia's National Saving Revisited*, 7.
- 42 Modelling performed for the Commonwealth Government in 2005 indicated that even by 2050—after forty-eight years of the full operation of the 9% Superannuation Guarantee—75% of the elderly population will still receive a full or partial pension. This is down from 80% currently, with the proportion receiving partial pension rising from 28% to approximately 50%. H. Lim-Applegate, P. McLean, P. Lindenmayer, and B. Wallace, 'New Age Pensioners: Trends in Wealth' (paper prepared for the Australian Social Policy Conference, Sydney, 20–22 July 2005), 5.
- 43 Paul Keating has pointed this out. Ashley Midalia, 'Keating Shows 'em in Song and Dance at Both Sides,' *The Australian Financial Review* (7 August 2008).
- 44 Jeremy Sammut, 'Let the Pension Rate Be,' *The Australian* (15 August 2008).
- 45 There is a myth that since World War II Australia has had a contributory pension scheme paid for out of accumulated funds due to the establishment by the Chifley government of the National Welfare Fund, funded by a 7.5% personal income tax levy. But following legislative changes in the 1950s, the levy was collected but paid directly into consolidated revenue. By the time the fund was abolished in the 1980s, it had long been recognised as just an accounting device. Leslie Nielson and Barbara Harris, 'Chronology of Superannuation and Retirement Income in Australia,' Parliamentary Library Background Note (3 July 2008), www.aph.gov.au/Library/pubs/BN/2008-09/Chron_Superannuation.htm.
- In other words, the levy was not used to pre-fund future pension costs, but to pay for the current cost of government and public goods and services. Another way to look at this is that the community gave itself a tax-break while passing the future cost of the pension onto later generations.

- 46 Peter Saunders, *Six Arguments in Favour of Self-funding*, 7.
- 47 Commonwealth of Australia, *Intergenerational Report 2007* (Canberra: Commonwealth of Australia, 2007), 17.
- 48 Commonwealth of Australia, *Intergenerational Report 2007*, vii, 58–59; Peter Saunders, *Six Arguments in Favour of Self-funding*, 8.
- 49 Vince FitzGerald, *Australia's National Saving Revisited*, 8.
- 50 Productivity Commission, *Economic Implications of an Ageing Australia*, Productivity Commission, Research Report, (Canberra: Commonwealth of Australia, 2005), 172.
- 51 Jeremy Sammut, *The Coming Crisis of Medicare*, CIS Policy Monograph 79 (Sydney: CIS, 2007). On the 'enigma of healthcare spending projections,' particularly the problem of forecasting technology-related cost increases that are yet to occur, see also David Gruen and Jim Thomson, 'Conceptual Challenges on the Road to the Second Intergenerational Report,' address to the Conference of Economists, Hobart, 25 September 2007), 17–21.
- 52 Productivity Commission, *Economic Implications of an Ageing Australia*, 173, 314.
- 53 V. W. Fitzgerald and W. Haebich, 'The Future Costs of Health and Aged Care in Australia' (paper presented at 'The Australian Healthcare System: Directions for Reform,' a Health Reform Discussion Group Forum, Melbourne Business School, 19 September 2002), 18–21.
- 54 Des Moore, 'Plug the Generation Gap now,' *Australian Financial Review* (12 June 2002). The increase could also come as a 16% tax rise across the board: Gary Banks, 'Health Costs and Policy in an Ageing Australia' (Health Policy Oration 2008, Menzies Centre for Health Policy, John Curtin School of Medical Research, ANU, Canberra, 26 June 2008), 14. Or the GST rate could have to rise to 22.5%, to keep the current income-tax-to-GDP ratio: Alan Wood, 'Lower Taxes the Key to Future Stability,' *The Australian* (21 May 2002).
- 55 Greg Coombs and Brian Dollery, *The Ageing of Australia: Fiscal Sustainability, Intergenerational Equity, and Inter-temporal Fiscal Balance*, Working Paper Series in Economics 2004-1 (Armidale, NSW: University of New England School of Economics, 2004), 15; Commonwealth of Australia, *Australia's Demographic Challenges* (Canberra: Commonwealth of Australia, 2004), 25.
- 56 John Humphreys, 'Declaring Independence' in Peter Saunders and others, *Declaring Dependence, Declaring Independence: Three Essays on the Future of the Welfare State*, CIS Occasional Paper 111 (Sydney: CIS, 2008), 27.
- 57 See Phil Mullan, 'Ageing: The Future is Affordable,' *Spiked Essays* (15 October 2004), www.spiked-online.com/Articles/0000000CA4E3.htm.
- 58 Brian F. Oldenburg and Todd A. Harper, 'Investing in the Future: Prevention a Priority at Last,' *Medical Journal of Australia* 189:5 (2008), 267–268.
- 59 Auditor General's Performance Audit, *Delivering Health Care Out of Hospitals*, (Sydney: New South Wales Audit Office, 2008), 2.
- 60 Vince FitzGerald, *Australia's National Saving Revisited*, 1.
- 61 Peter Costello warned of the need for policy action to ensure 'future generations of taxpayers do not face an unmanageable bill for government services provided to the current generations.' Peter Costello, 'Intergenerational Report 2: Frameworks for the Future,' (address to the National Press Club, 2 April 2007), www.treasurer.gov.au/tsr/content/speeches/2007/003.asp. The former governor of the Reserve Bank of Australia, Ian Macfarlane, warned that debt-laden younger generations, 'may resent the tax burden imposed on them to pay for the pension and health expenditure of the old.' Ian Macfarlane, 'Old People, New Problems,' *The Australian* (14 November 2003). The current secretary to the Treasury, Ken Henry, has also warned of intergenerational conflict, since 'our children will experience a slower rate of GDP per capita growth than we have enjoyed, yet our generation has shown considerable resistance to increasing tax burdens? Why should our children be any different?' Ken Henry, 'The Economic Impact of Australia's Ageing Population,' *SAIS Review* 25:2 (Summer–Fall 2004), 81–92.
- 62 Jeremy Sammut, *The Coming Crisis of Medicare*.
- 63 House of Representatives Standing Committee on Health and Ageing, *The Blame Game: Report on the Inquiry into Health Funding* (Canberra: Commonwealth of Australia, 2006), 191.
- 64 Both the Australian Private Hospital Association and Catholic Health Australia have supported a health savings approach. Mark Metherell, 'Aged Homes Push for Big Fee Increases,' *The Sydney Morning Herald* (10 November 2008). It is significant that providers are seeking consumer-centred funding alternatives to existing government- and insurance-funding arrangements.
- 65 These expenses could include both residential and community-nursing aged care, 'gaps' and out-of-pocket charges, and either or both of the payment of the Medicare Levy and private health insurance premiums. A second proposed option would be to allow Health Savings Accounts to be accessed

- immediately, as a potential path to enabling upfront charges to be introduced into the public system. Allen Consulting Group, *Medical Savings Accounts: A Discussion Paper* (Melbourne: Allen Consulting Group, 2004), 9–10.
- 66 Peter Saunders, *A Welfare State for Those Who Want One, Opt-outs for Those Who Don't*, CIS Issue Analysis 79 (Sydney: CIS, 2007).
- 67 Peter Saunders, *Twenty Million Future Funds*, CIS Issue Analysis 66 (Sydney: CIS, 2005).
- 68 In the US context, John Goodman has estimated that by mid-century pre-funding could hold the taxpayer burden on government health expenditure at the same percentage of national income as today. John C. Goodman, 'A Framework for Medicare Reform,' National Centre for Policy Analysis Policy Report 315 (September 2008), www.ncpa.org/pub/st/st315/st315.pdf
- 69 Allen Consulting Group, *Medical Savings Accounts*, vi.
- 70 As above, 10, 17.
- 71 I am indebted to Stephen Kirchner for drawing my attention to this point.
- 72 According to social researcher Mark McCrindle, 'you're not going to have intergenerational war; you're not going to have a group of people who've internalised the value of individualism and diversity mobilising on a generational basis to push against another generation.' Nigel Bowen, 'The Generation Snap,' *Sydney Morning Herald* (14 June 2008).
- 73 Vince FitzGerald, *Australia's National Savings Revisited*, 59.
- 74 Nevertheless, the present compulsory contributions alone are still too low to guarantee Generations X and Y a sufficient retirement income. See Vince FitzGerald, *Australia's National Saving Revisited*, 59.
- 75 Another way to put this is that younger generations are the are the natural constituency for a 'health savings' approach to health reform: the Business Council of Australia (BCA) recently noted the lack of 'broad community understanding of the extent or nature of the challenges facing Australia's health system,' and the need 'to build strong support for change among the community.' BCA, *Health is Everybody's Business: The BCA's Role in Australia's Health Discussion* (Melbourne: BCA, 2008), 8.
- 76 National Health and Hospital Reform Commission, *Beyond the Blame Game: Accountability and Performance Benchmarks for the Next Australian Health Agreements* (Canberra: Commonwealth of Australia, 2008), 8–9.
- 77 Peter Saunders, *Six Arguments In Favour of Self-funding*, 12.
- 78 Jeremy Sammut, *The Coming Crisis of Medicare*, 11.
- 79 For the case against 'churning,' see Saunders, *The Government Giveth and the Government Taketh Away*.
- 80 For example, in a recent report the National Reform Agenda, the Productivity Commission found evidence of sizeable productivity gap between state public hospitals systems: a 35% difference in the average cost of treating patients in public hospitals between the most and least efficient states. Productivity Commission, *Potential Benefits of the National Reform Agenda* Productivity Commission Research Paper (Canberra: Productivity Commission, 2006). The average cost weights date compiled by the Australian Institute of Health and Welfare (AIHW) is consistently and considerably higher for public than for private hospitals. AIHW, *Australian Hospital Statistics 2006–07*, Health and Welfare Expenditure Series 35, Cat. No. HWE 42 (Canberra: AIHW, 2008), 20.
- 81 AIHW, *Health Expenditure Australia 2006–07*, 45–47.
- 82 ACEM (Australasian College of Emergency Medicine), *Access Block and Overcrowding in Emergency Departments* (Melbourne: ACEM, 2004).
- 83 As per Gammon's law, and as the last decade in Australia demonstrates, 'in any bureaucratic system as government funding increases, productivity declines.' On this point, the recent experience in the British National Health Service (NHS)—the failure for funding increases to produce a proportionate increase in services—speaks volumes. See, for example, Commission on Reform of Public Services, *A Better Way*, (London: Reform, 2003), 26; Reform, *Why the NHS Needs Real Reform* (London: Reform, 2003).
- 84 This was demonstrated by a recent analysis performed by the Department of Veterans' Affairs (DVA), referred to in evidence before the House of Representatives Committee of Inquiry into Health Funding in 2006. The DVA, using funding entirely provided by the Commonwealth Government, purchases hospital services for the veteran community from both public and private hospitals by contract and tender. While the private sector is paid at close to market rates, the public sector is remunerated on a cost-recovery basis. The analysis performed by the DVA compared the cost differential for equivalent services and treatment, and showed that the department paid 'significantly lower prices in the private sector than in the public sector.' *House of Representatives Committee on Health and Ageing* (4 September 2006), HA 11.

- 85 For example, a 2002 study which compared the performance of the Californian Health Maintenance Organisation (HMO) Kaiser Permanente and the British NHS found that Kaiser delivered much more health service for a lower cost than the NHS. R. G. A. Feachem and others, 'Getting More for their Dollar: A Comparison of the NHS with California's Kaiser Permanente,' *British Medical Journal* 324:7330 (19 January 2002), 135. For an Australian proposal for an opt-out system plus an HMO-style model, see Vern Hughes, 'A Cure for Healthcare,' *Policy* 20:1 (Autumn 2004), 22–27.
- 86 Siobhain Ryan, 'Funds in Grab for Health Cover,' *The Australian* (11 November 2008). This calculation of cost reductions is based on premiums being set by the market at 5% lower than the price predicted by government. In the first two years of operation, costs of healthcare have risen by 1.5% compared to a predicted rise of 5%. Claire Daley and James Grubb, *Health Reform in the Netherlands* (London: CIVITAS Institute for Study of Civil Society, 2007), 6.
- 87 Peter Saunders, *Twenty Million Future Funds*, 10.
- 88 This is if, for example, Peter Saunders' proposal for 'Personal Future Funds' and Medicare opt-outs had been adopted. See Saunders, *Twenty Million Future Funds*.
- 89 T. H. Kewley, *Social Security in Australia 1900–1972* (Sydney: Sydney University Press, 1973), 75–76.
- 90 Paul Gross, 'Australia's Health System Needs a Total Rethink,' *The Australian Financial Review* (11 October 2008).

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