

# No Country For Young Voters

11 February 2013

These days superannuation works like a wealth transfer from young working people to baby boomers. If the major parties want the youth vote, they could start by ending super concessions, writes Ian McAuley.

As Ben Eltham wrote last week, for a brief moment we managed to have a debate on superannuation policy, before the Prime Minister squashed the idea of applying a tax on withdrawals from funds with high balances.

The slightest hint of a clawback of the Howard government's generous concessions to "self-funded" retirees (in reality people whose retirement accounts have been significantly funded by tax concessions and windfalls such as inheritances) brought squeals of protest.

The most outrageous protest was from Pauline Vamos, Chief Executive of the Association of Superannuation Funds of Australia, who, on Wednesday morning's ABC Breakfast Program, said "for people to really have a comfortable standard of living throughout their retirement you're looking at least at two and a half million dollars" as the requisite balance.

That figure needs a reality check. Assuming one's retirement balance is to spin out over 30 years from age 65 to 95, and that it generates a real (after inflation) return of 5 per cent a year (a conservative estimate), then plugging those figures into the annuity formula we learned at high school gives the retiree an indexed tax-free pension of \$163,000 a year. That's among a group who generally have no mortgage payments and who do not bear the costs associated with working. To put this figure in perspective, the median after-tax annual income of aged couple households in 2009-10 was around \$34,000.

Yet Vamos, and others who defend the privileged position of those with high superannuation balances, are speaking for a significant constituency. It's a constituency with an inflated sense of entitlement, generally known as the "baby boomers" — that cohort of Australians born in the years after the Second World War, and who are now in or approaching retirement.

Baby boomers have enjoyed extraordinarily good economic fortunes. While their parents had endured the 1930s Depression and the war years, they grew up in an economy with full employment and rapidly rising living standards.

Thanks to Commonwealth scholarships for undergraduate and postgraduate studies there was free university tuition, with generous living allowances for those whose met means tests, paid for by people who had largely missed out on tertiary education. (Menzies, unlike later Liberal Party leaders Howard and Abbott, recognised the value of investing in higher education.)

On graduation baby boomers could pick and choose their employment; these were the days when an unemployment rate above one per cent was regarded as a policy failure.

If they bought a house in the rapidly growing suburbs they paid only for the house and bare land. The cost of local infrastructure (drainage, sewerage, street lighting, street and sidewalk pavements) was met by public expenditure. Now those expenses are paid for by developers, who pass them on to house buyers.

They took on heavy mortgages, but the inflation of the 1970s, which peaked at 18 per cent, rapidly reduced the real burden of their mortgages. That was another transfer from the previous generation who saw their savings largely wiped out.

Then over the last 20 years many borrowed heavily to buy houses and apartments to be rented out. These are highly geared investments, subsidised by tax concessions which allow double counting of expenses against income. The result was a large expansion of private debt, and a strong rise in house prices. For the next generation housing has become increasingly unaffordable and rents have risen in tandem with house prices.

Many baby boomers had jobs in the public service or in large corporations with generous defined-benefit superannuation. As they aged there came the Howard government superannuation tax concessions which allowed many to accumulate large balances.

Having done so well from the taxes and transfers of previous generations, we might have expected the baby boomer generation to display some sense of obligation and show the same generosity to the coming

generation. After all, aren't these the same people who were so socially concerned in the 1960s student movements?

But those who took to the streets in the 1960s to campaign for university funding have raised hardly a whimper as successive governments have introduced student fees and starved universities of funding. As they have prospered themselves and approached retirement they have been happy to pass the tax burden to the younger generation.

They may see themselves as the liberal generation which broke down barriers of race and sex discrimination, and who, during the Vietnam War, mobilised the nation's largest protests. But that's a self-serving interpretation of the past.

As with most movements the true reformers were small, dedicated groups, often working quietly in the background, while most student politics were about establishing positions within the student Labor or Liberal clubs, as stepping stones to political careers.

The main issue in the Vietnam War was not the war itself (something happening to people far away), but the draft (something happening to baby boomers). Only after the Commonwealth introduced conscription in 1964 did the protests swell, as the repeated chant became "hell no, we won't go".

If the baby boomers could be gathered once again in large crowds, that chant may now be "hell no, we won't pay".

Governments (and opposition parties) would do well to ignore baby boomers and push on with reforms to superannuation and other tax breaks. Baby boomers make a lot of noise, but in reality they have dealt themselves out of political power, for they are unlikely to change their votes. Most older voters are close to "rusty on" supporters of the Coalition. Having benefited so much from public revenue, they now throw their support behind the party of low taxation.

In fact, taking a strong move on those with high superannuation balances may be a politically astute move for the Government, if it could present it in terms of rendering the public revenue system less biased against young people and making the most privileged demographic group Australia repay some of their debt to the society. There is a large pool of young people not on the electoral roll whose disillusionment could turn to enthusiasm if they believe Labor really cares about them and their future.

There are opportunities for the Coalition as well, but its displayed hostility to easing electoral enrolment by young people sends a poor signal, and so far, as it develops its policies, it has shown no enthusiasm for funding education.