



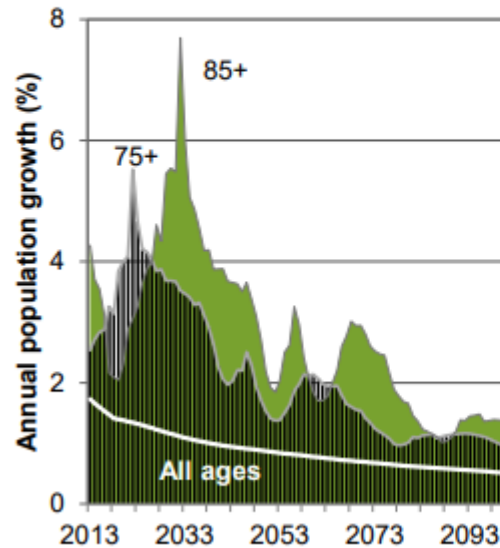
Sustainable budgets: underwriting Australia's social compact

CEDA 12 March 2019

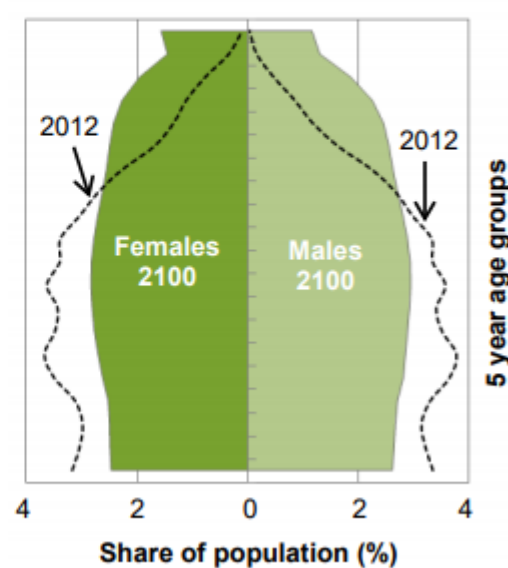
Burning platform 1 – ageing means fewer workers supporting more dependents

Figure 4 Population ageing until the 22nd century

Growth rates of the oldest is set to dramatically increase over the next 20 years

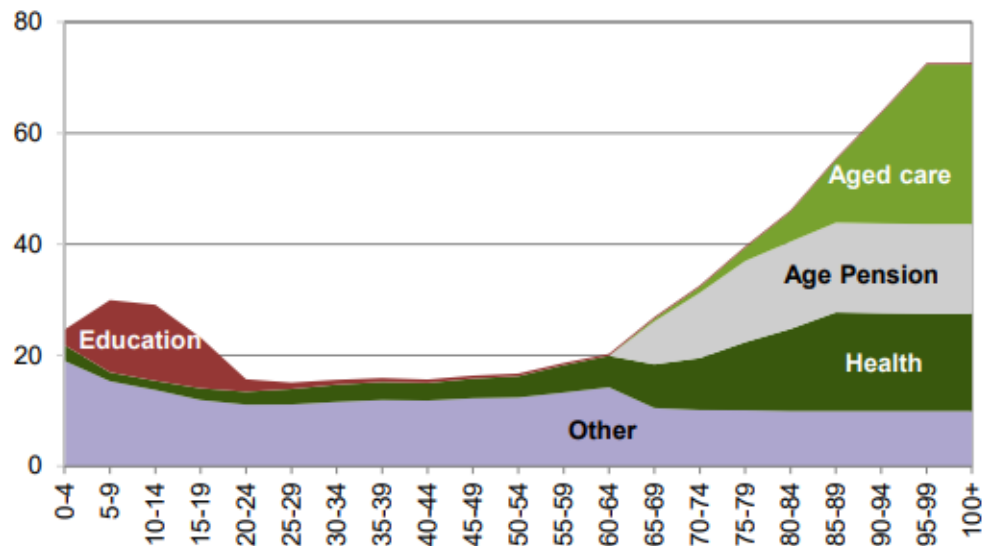


The age structure becomes more uniformly distributed across ages



And growing demand for government funded services

Figure 8 **Age-related government spending**
All governments, \$'000 per person, 2011-12



Productivity Commission 2013, An ageing Australia, preparing for the future

Burning platform 2 - populism

The rising tide has slowed down:

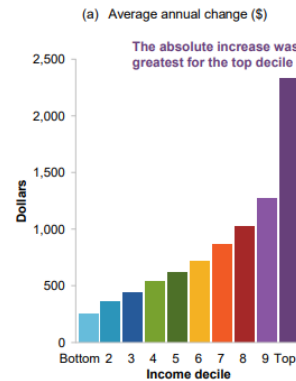
- Slower productivity growth means slower income growth
- For Australia, the terms of trade have supported real income growth – but continued strength is uncertain
- Passed peak workforce as a share of the population in 2012

The rising tide has not lifted all boats equally:

- Widening wage dispersion
- Real wage and income stagnation
- Concentration of ownership of capital

There is a perception that the system is unfair:

- House price inflation and the concentration of housing wealth – low income and young people priced out
- Growing share of underemployment, and more income volatility



(c) Age group shares of total employment

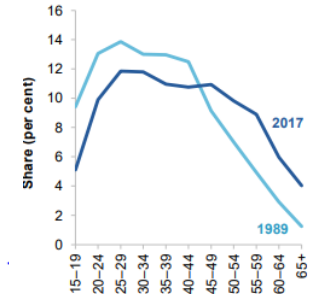
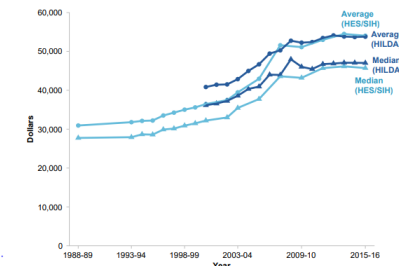
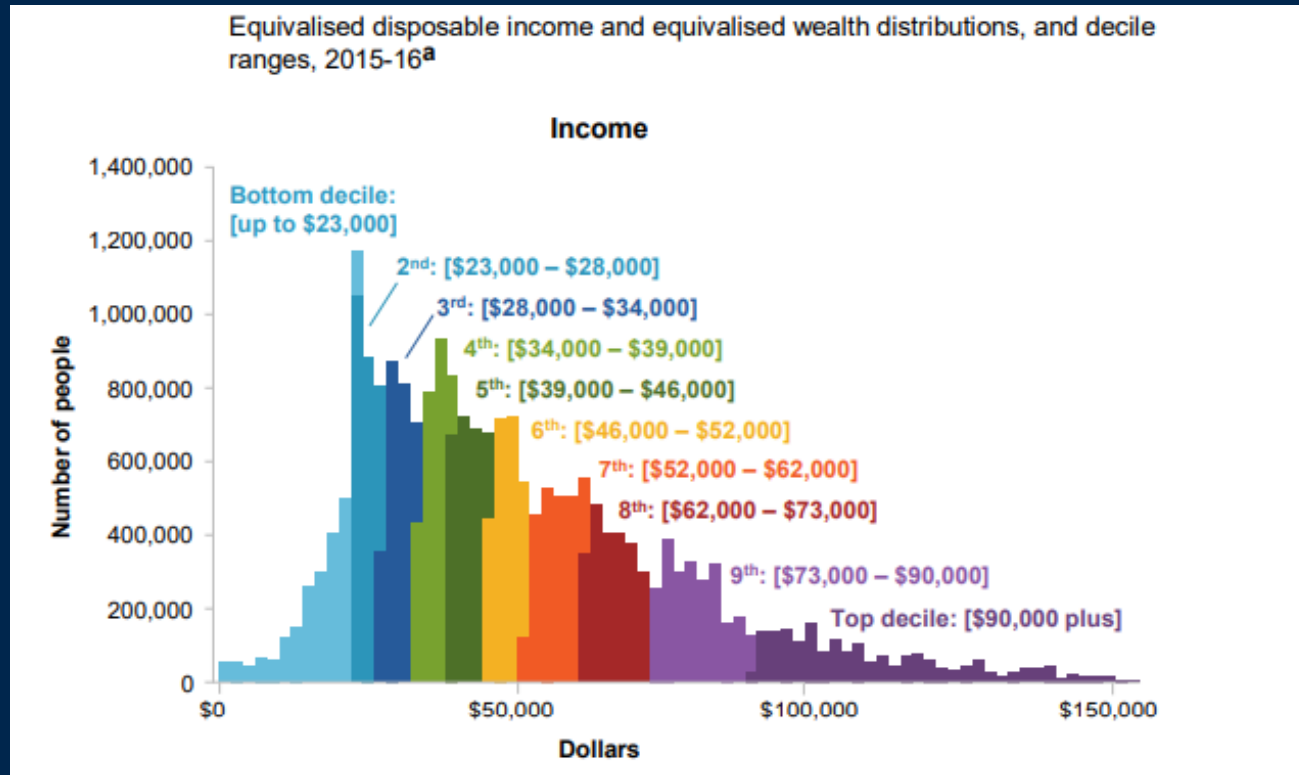


Figure 3.1 The pace of rising real incomes has slowed
Average and median equivalised disposable income, HES/SHI and HILDA*

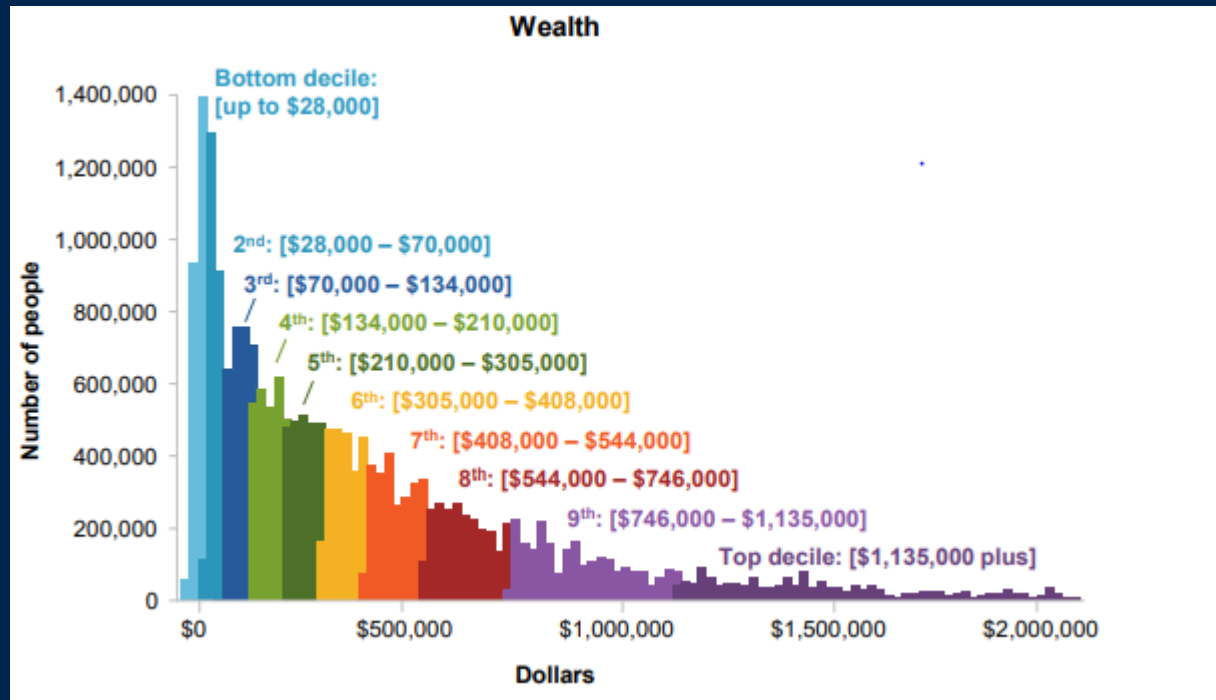


Many households don't feel the system is looking after them



Productivity Commission 2018, Rising inequality? A stocktake of the evidence, Figure 2.6

And that they don't have a secure future



Productivity Commission 2018, Rising inequality? A stocktake of the evidence, Figure 2.6

The social compact matters

The opportunity to work for a 'living wage'

Equal access to essential human services that shape opportunities

- Health care
- Education

Affordable infrastructure services

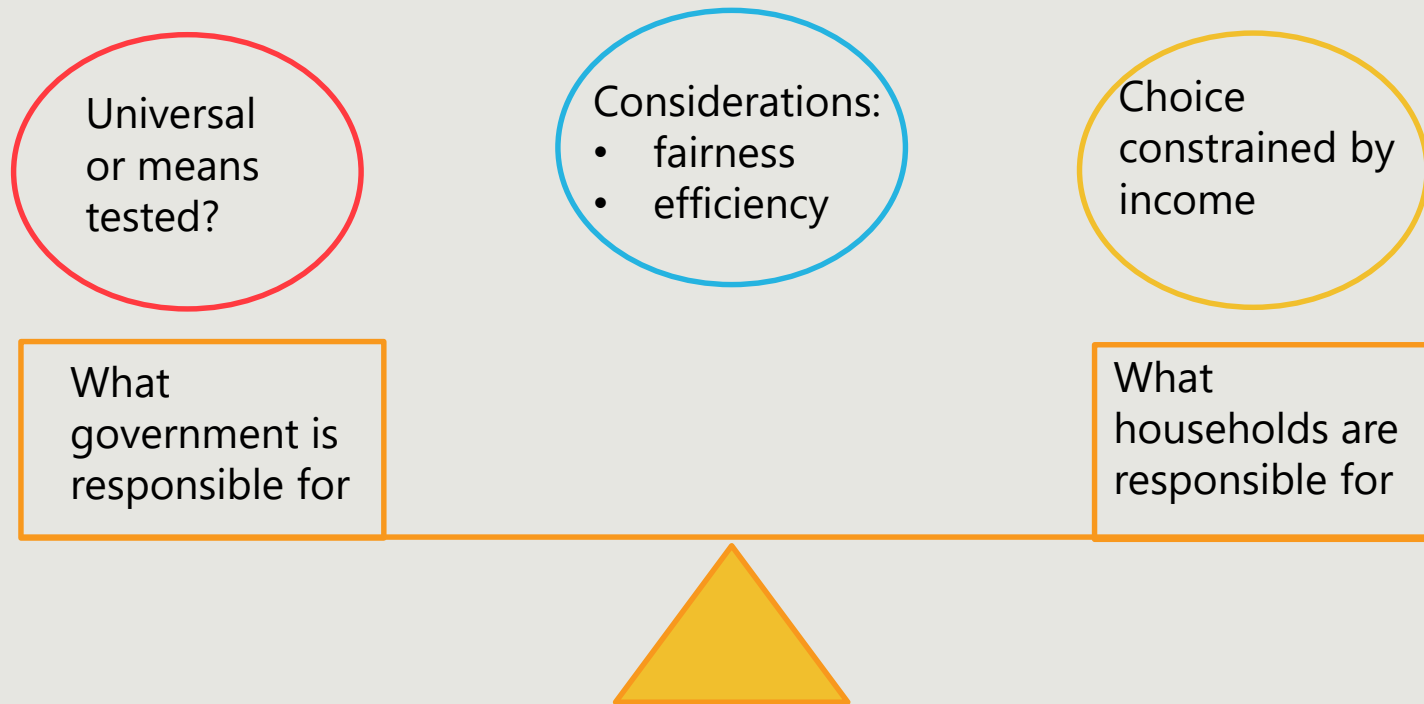
- Utilities
- Transport
- Housing

Social insurance:

- Health emergency and natural disaster cover
- Unemployment insurance
- Age and disability

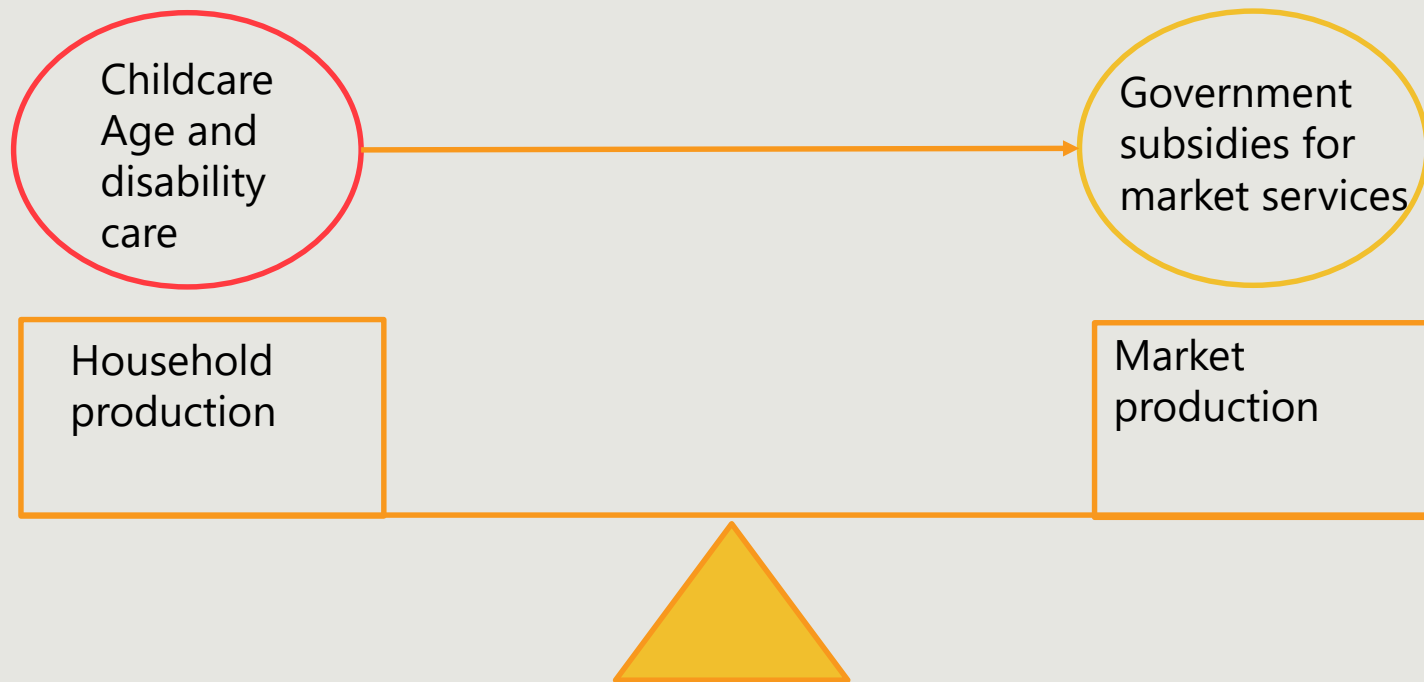
The size of government is a matter of balance

Is 24.5% the right size of the Commonwealth government? What about the states?

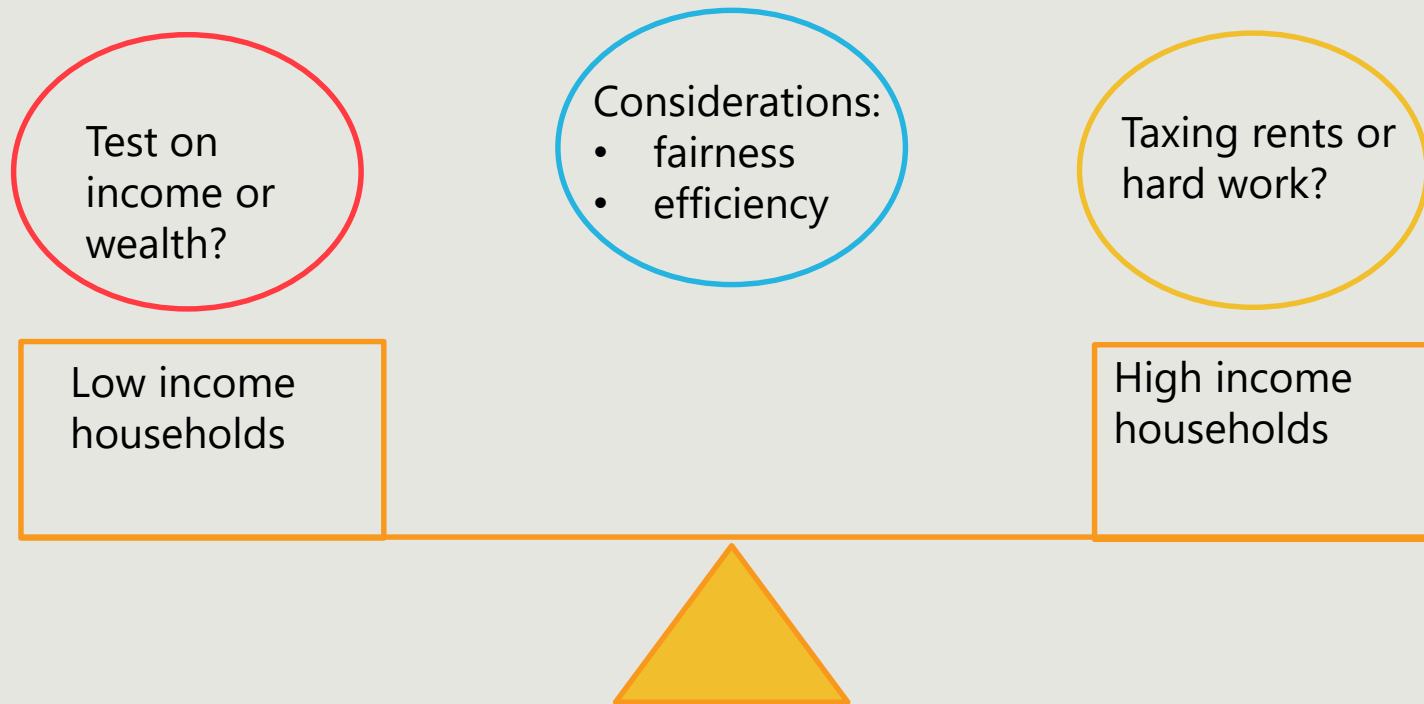


We have been shifting services to the formal economy

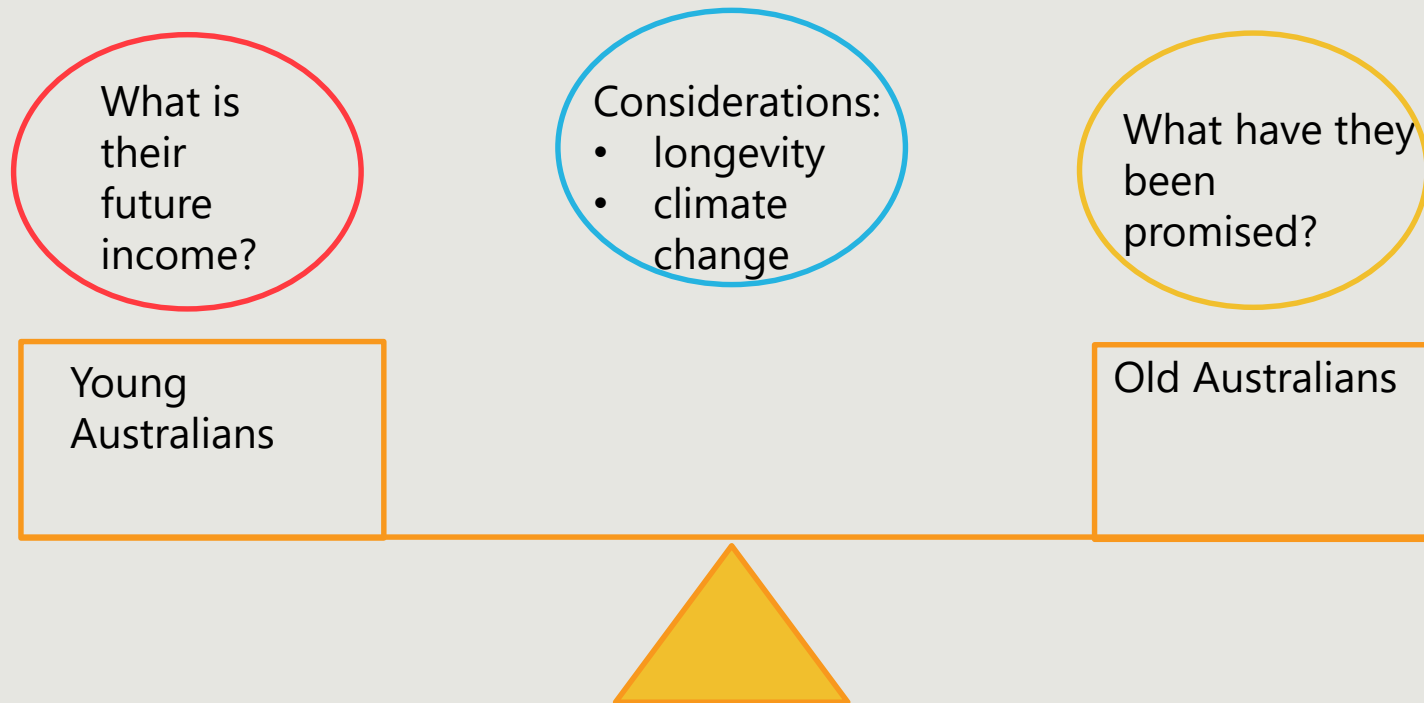
Most are subsidised by government



How much should government redistribute consumption across households?



How much should government redistribute across generations?



We need a conversation about the social compact:

Why this CEDA report is important

Where does the population want the balance?

Is democracy going to get this right if we don't have an honest discussion about the budget balance?

There are things government can be doing now to get a bigger 'bang for buck'

What special interests stand in the way? How can these barriers be negotiated?

Evidence does matter

But how can complex trade-offs be explained so that people understand them?

Capitalism needs a social compact to survive

- Capitalism as a system is not about owning capital but the gains to trade that markets deliver
- This needs open markets, and free movement of people, capital, and goods and services
- In a democracy it is the people that give permission for an explicit and implicit set of rules