



X AND Y WILL PAY FOR AGEING POPULATION

Tax reform is the key to tackling the problem

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KEVIN Rudd used his first set speech of 2010 to warn Australians about the dangers of an ageing population.

Those dangers are in essence fiscal — the cost burden the large cohort of baby boomers hitting retirement age will be on the budget bottom line.

There has been a lot of talk in recent years, as the first of the baby boomers hit the retirement age of 65, about population ageing. The baby boomers represent a population bubble, which means we are moving into a policy phase where a greater percentage of the population are in retirement rather than the workforce. It is one of the reasons the government has committed to increasing the retirement age to 67, but that won't take effect until 2023.

But being 65 today is not the same as it used to be. With increased life expectancy and improved medical care and healthy living campaigns, the new age at which senior citizens' health and caring costs become a serious drain on the budget coffers is closer to 75 years of age.

That means we will have to wait a few more years before the dangers Rudd is warning us about really begin to be felt. It means we have time to prepare the ground work for what to do to meet the ageing population's costs, but the window for doing so is a small one. The single most important thing that can be done is to reform the taxation system so that it gives governments the revenue they need to assist the ageing population without stifling business investment and incentives for hard

work among individuals in the process.

Much of the talk about exactly what will be contained in the Henry review of taxation, which the government has in its hands and should be released for public consumption shortly, focuses on whether the recommendations will call for changes to income tax rates, company tax rates, taxes on housing and development or a new compact between the commonwealth and the states. Fine-tuning of the consumption tax is unlikely as the government has ruled out increasing the GST for base political reasons.

The real danger is not which path is taken on tax reforms, but that the government squibs and doesn't embrace any of the options. Yesterday's Newspoll will have underlined the government's fear that the change of opposition leader to Tony Abbott will increase its degree of difficulty at securing a comfortable win at the next election.

While Labor remains well ahead on the two-party vote (54 to 46 per cent), and while Rudd is still overwhelmingly the preferred prime minister (57 to 25 per cent), both of these comparisons have narrowed from what they were at when Malcolm Turnbull was Liberal leader. Add to that the egg that has been splattered all over the Prime Minister's face following the Copenhagen climate change conference debacle, and we have a new election climate.

Previously, Labor insiders were focused on winning a big majority at the next election, in order to secure the election after that (and

maybe even use the large majority for some serious reform). While that might still happen, the focus is now one of consolidation, maintaining their majority on the newly distributed electoral boundaries.

From a policy perspective, this carries the risk that the government won't push as hard on taxation reform as it might otherwise have, and even if it wins the election with a smaller margin than it otherwise would have, it might again squib politically sensitive reforms in the three-year term that followed.

We all know tax reform is usually not popular. Even if it includes tax cuts, there are always commensurate tax hikes somewhere in the system. And even if voters and business are better off under the new tax distribution, the opportunity is there for the opposition to highlight that by lowering the tax burden the government is risking cost-cutting or a build up in government debt.

That would be more debt on the back of stimulus package debt. In short, tax reform is complicated, and complication and politics mix like oil and water.

But the pressures of the ageing population are real, and they will be acute in the years ahead, not only because the baby boomers are such a large bubble in the population now hitting retirement, but because costs associated with the youth end of the population spectrum in the years to come are also going to be significant.

In recent years, we have been encouraged to have more children to combat ageing. The problem



with that is that it takes a good 20 years before the new born become contributors to the tax take. In the meantime they are a fiscal burden, as uncharitable as that sort of terminology might sound.

So it is generation X (and to a lesser extent Y) that will be in their 30s, 40s and 50s, carrying the taxation can for the rest of the populace in the years to come, unless major tax reform does something

about income tax rates.

Rudd wants higher productivity. He wants to aim for productivity at levels seen in the 1990s. But that was an era of high productivity coupled with high unemployment. It isn't hard to raise productivity when unemployment is up because by definition the least productive workers are not part of the workforce.

Achieving the double goal of

higher productivity and low unemployment requires tax reform that makes it worthwhile for businesses to hire and for employees to work harder. Let's hope the Henry review addresses these needs and the government has the political courage to follow up on the recommendations. The ageing population needs it.



Kevin Rudd