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| **Ideas and Society Program:**  **The PPE Society Forum** |
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| **Professor Robert Manne** |
| Good evening everyone and welcome. Thank you all so much for coming tonight to discuss crucial challenges that my generation and preceding generations all face. Before we begin I'd like to acknowledge that this important discussion takes place on traditional lands of the Wurundjeri People of the Kulin Nation and I wish to acknowledge them as traditional owners. Tonight we pay our respects to their elders past and present and elders from other communities that may be here today.  My name is Maxine Catchlove and I am Vice President of the Politics, Philosophy and Economics Society here at La Trobe. We're a student organisation and we advocate for interdisciplinary approaches to public discussion. We do this through our own student run tutorials, opinion and analysis pieces in our editorial, and events such as this evening's as well.  Tonight we are here to discuss intergenerational fairness. There are many conflicting ideas about how Australians should be allocating resources and the way in which we make these decisions within generations and across generations. John Rawls provides important insights about what current generations owe to future people. According to Rawls, "We should save resources to the point that we can preserve just institutions over time." Rawls calls this "The Duty of the Just Savings Principle". This duty implies that economic growth over time is a worthy pursuit and yet economic growth is not guaranteed.  In the grand drama of human history, economic growth has been the exception rather than the rule. Since post-war period, Australians have expected that the next generation would be better off than the last, as the Grattan Institute's latest report, 'The Wealth of Generations', points out however, this assumption is sincerely flawed. This is also consistent with concerns from prominent economists in the US Larry Summers and Paul Krugman. They've both been arguing that developed countries are experiencing secular stagnation due to insufficient demand. Alongside the uncertainty in the sustainability of economic accounts, there is significant uncertainty in the sustainability of our environmental accounts. Australian's Clean Energy Policy is political anathema. At a global level environmental agreements are lethargic at best.  There are two dominant ideas about what the future might look like. The first is an optimistic outlook in this future, humankind is triumphant and human ingenuity conquers any adverse issues the world decides to throw at us. Current problems are just problems soon to be solved by waves of innovation. The second outlook is highly pessimistic, a return to the dismal science. The future is one of sustained deficient economic growth over time due to population pressures and a slowing of demand through the economy. It is a future in which we edge nearer and inevitably fall in the precipice, into the abyss of catastrophic climate change. It is a future for which we exploit and degrade our environment, it is a future in which workers go the way of the horse as automation replaces human capital: it is a future where wealth is concentrated in just a small amount of hands.  Tonight our panel is made up of La Trobe Fellows; Miriam Bankovsky, University of Melbourne's Jeff Borland and Gratten Institute's John Daley who's yet to arrive, but it's all under control.  The discussion will be chaired by Robert Manne, La Trobe Vice Chancellor Fellow and Convenor of the Ideas and Society's Program, who have been instrumental in helping us the PPE Society put together tonight's event. So on behalf of the PPE Society, I'd like to thank you all so much for coming, we are very much looking forward to hearing as many ideas as we can about this fascinating topic. Thank you. |
| **Robert Manne** |
| Well, I'd like to thank PPE Society for putting this on. I run something called Ideas and Society Program and it's a great pleasure to be able to work with a student society as vibrant and as serious as PPE Society. I think it's one of the really great student bodies at the University that I know about and it's my pleasure and privilege to be able to help when you put on events like this. I'd also like to thank you for coming, it's great to see so many young people at an event like this about, I think, of my serious topic.  The outline of tonight is there will be three short talks from the three very distinguished speakers, it's a great panel, then there'll be I think some discussion amongst the panel about what the others have said, a short discussion. And then there'll be questions, some from the PPE Society that they've organised and I hope very much, that there'll be questions from you. So can I suggest that as we go along, you think about things you might like to ask? It would be very wrong if there weren't questions from this generation to the experts from, in my case and some of the others, the later generation; in my case very much later.  It is a very distinguished panel, the first speaker will be Miriam Bankovsky who is, or was a colleague of mine: I'm now not formally in the Politics area. Miriam is a very distinguished scholar, has a great record already in the area of, I don't know whether you call yourself a Political Theorist or Political Philosopher, but anyhow?  (applause) … |
| **Miriam Bankovsky** |
| Political Philosopher. |
| **Robert Manne** |
| Political Philosopher, she's going to speak first, she's both a Lecturer in Politics, (is it called a Department now Brenda?), I'll call it the Politics Department, and she's also a DECRA Fellow. So Miriam…. and then I'll briefly introduce Jeff and then John at the right time.  (applause) … |
| **Miriam Bankovsky** |
| Thank you for the introduction. I just wanted to begin too by acknowledging the PPE Society and all the effort and the work they have done to get this up and running tonight. It's an exciting event and I'm really privileged to be here, in particular I'd like to thank (Maleela Julyan and Beni Cakitaki) and also James, these are the three students that I've had most dealing with in getting this off the ground. Ben is a past student, now with the Grattan Institute and the others are current students, so it's really great to see that past students are also really committed to the degree and the strength to the degree. I recognise new faces too from our politics program, and also economics, we've got Tim Thornton here who was a co-ordinator of the degree from 2011 to 2013, so it's great to have a real staff presence and student presence here.  I also want to say that, when I was teaching Political Theory, the PPE Student were really amongst the most vibrant, collegial, committed students: given the opportunity to do group work, they would work together, I really love teaching them and I hope we can keep this going for yourselves and also for us as staff, we really enjoy it. Also because it's a rare skill to speak across these three disciplines, politics, philosophy and economics, you will notice that I struggle, I will struggle today to do so, although I'll do my best. And you'll notice that the economists will also struggle to do so and I think that's very important to remind everybody that economics is a social science. It does have ethical values in it and we need philosophical and political reflection about that as well, so it's a really good degree and a great bunch of students, now to the task ahead.  So what I want to do today is to begin by saying how economists, how I take economists to approach the question of intergenerational fairness, what I see as philosophy's place in relation to economics and public policy and I want to just briefly outline a couple of key ideas in relation to philosophical conceptions and intergenerational justice. If I'm not focusing on the philosophical side it's because I just want to try to get a bridge to the other disciplines which is so hard to do.  So I want to say first, that economists approach this is two ways: we've got what we call positive economics, a selection of a set of facts and the identification of regularities and rules and this is a purportedly objective endeavour, and we'll see later that the two economists here, John Daley for example will compare the distribution of wealth and income between younger and older generations, but we should note that that analysis does not allow him to make any judgement that that distribution itself is unfair, according to the account of positive economics. These values are incorporated from a different discipline, if you like, from the politician or the moralist or from democracy itself and economics is meant to be shielded from this.  Then we've got another account of normative economics if you like, also premised on rejecting value judgements, and I do want to insist on that, it is linked to a tradition of logical positivism where it's attempting to reject interpersonal comparisons of utility, which are merely subjective standards by which one can compare the benefits against the benefits of policy a, let's say the benefits received by certain parties against the cost incurred by others. This is meant to be done in an objective manner that eliminates ethical values for normative economics, for welfare economics, though it does try to, in the tradition of Hicks and Kaldor, etc., eliminate everything that's subjective. Everything that’s merely ethical in nature, following the logical positive distribution of air for example where F is these ethical values are merely expressions of emotion, merely emotive accounts of values. It's like saying, "Hurrah for fairness", rather than something objective about, "Fairness is an objective moral value for everybody", they reject that kind of view. But normative economists still want to salvage policy applicability, they want to say what should be done, and so now we need to consider how they try to deal with this question of intergenerational fairness, because normative economics offers probably, the more promising account from the perspective of economics of how to do this.  So, the philosophical basis of cost benefit analysis is really provided by normative economists. And we find here that we have a minimal idea of wellbeing, that more material goods are better than less, it might be a surprise you, but that's still a moral judgement. We also have an idea of the Pareto Improvement that: 'Producing material benefits for one or more parties without generating material loss for another, is the best one can do in terms of ethics'. Why? Because that means that nobody's losing out. If they were to lose out, we'd have to somehow import ethical values to try to work out whether or not the losses are met, in a substantial sense by the benefits and that requires ethical judgements which normative economists don't want to deal with. But Pareto proves its ok because it doesn't do that, it kind of has minimal morality where everybody's better off and nobody loses. Not necessarily everybody's better off, but nobody loses.  These will be familiar concepts to the students of economics. The other idea Pareto Improvement basically doesn't really allow you to say very much, because most policies do produce benefits at the expense of others, even dealing with externalities will produce costs to some parties, they deployed the idea of Potential Pareto Improvement which is the Kaldor-Hicks idea of Scitovsky: 'That the net benefits of gain must be fully sufficient to compensate the losses of those who lose out'. Again it's drawing the pie, it doesn't really matter if compensation occurs or not, but that's still a good account of what should be done.  How normative economists deal with intergenerational fairness? It's through discounting. I do think there's another aspect to it, but I won't deal with that here, it's a bit complicated, but discounting is the main way they do it. So it's reduced to questions about the discount rate and this is a rate that helps us work out the present dollar value of benefits or costs that accrue to future generations. The idea is that, if I'm going to have to give up $1 today for the benefit of $1 20 years in the future, I'm going to want to make sure that that $1 - 20 years in the future is going to be worth to me, what my present $1 would have been worth to me if I'd invested it in Government bonds, or in the bank or in some other form of investment. So the discount rate is the way that normative economists deal with intergenerational fairness.  And we'll see that selection of a discount rate when I turn briefly to the consideration of Garnauts Review and to whether or not the costs and benefits of climate change mitigation, whether the costs are less than the benefits of climate change mitigation. It all comes down to the discount rate, this is the way intergenerational fairness is conceptualised by normative economists. And we see here that 30 years in the future $1 now, will be worth $4.30 if we have a 5% discount rate. Now if we get to 500 years in the future, look at that, we're going to have to make sure that we get….. I don't even know what that is? Is that, I'll go to read it $2.6 million, and the other one is $39 trillion. So at a 5% rate, discount rate, we're not going to consider at all future generations. They're just not going to factor into our calculations because, a discount rate of 5% we're going to want to make sure that $1 now is going to be worth an absolutely massive proportion in terms of what we get back for that. So the discount rate is very important to normative economists.  So the importance of philosophical reflection then, and as I said, I'm still learning my own economics. I've worked through first year and second year micro and macro, and done reading of the primary texts in welfare economics from the '30's onwards, but that's the kind of extent of my economics at the moment, so I'm also you know, supportive of your endeavours to pursue these sort of reflections.  The importance of philosophical reflections here, well let's take Garnaut's consideration of whether the benefits of meeting climate change exceeds the costs. He states explicitly, he rejects a positive discount rate, this would be measured by long term interest on government debt after adjusting for inflation looking at actual markets, he's more in favour of what he called, "The normative discount rate, what we ought to do", and this is an ethical value, "Judgements about how to value the well-being of future generations compared with the well-being of today's generation", and this constitutes a philosophical argument about our intergenerational obligations and this is why we need to engage in philosophical reflection about what we owe to future generations.  It is included in economic modelling, we need to get accustomed to how it's being used by economists, whether or not we're persuaded by these arguments, what's at stake here and so forth. So for Garnaut the selection of a normative discount rate rests on two further decisions. One is what I see as a philosophical argument about whether we should even be concerned about the well-being of future generations and to what extent. He assumes as I said, that we do value the welfare of people living in the future as highly as the welfare of people living today. And so this accounts for a pure time preference, as he said, "The rate of pure time preference and Rawls would agree". Rawls does not think that we should be discounting future generations at all, it should be a zero discount rate.  But then there's also the effect and Stern would also agree with that in his review. "This is also affected by the risk of future human extinction from something other than climate change", and that's why Stern included and so did Garnaut, an account of a low risk that we're actually going to be extinct and this is for Garnaut one 20th of 1%, so it's very small. Nonetheless it exists. And then there's empirical problem about how much to discount the well-being of future generations because, and this comes down to the question that you guys have set today; which I'm only dealing in directly and I hope the other panellists will deal with more directly, is the issue of stagnation. So, Garnaut selects two different rates to reflect considerable disagreement about whether or not future generations are likely to be richer than us in material terms. So each selection reflects differing expectations about the extent to which future generations will be well off, and he chooses 1.35 and 2.65 showing that modelling worked on both, that the benefits are always going to be outweighed by the costs.  Finally then, I've left myself with very little time to deal with the philosophical sides of the arguments, but that's not important to me today, all I want to show to you is why these reflections are important to deal with. We've already had a presentation of John Rawls' account which will serve me, well I won't discuss that here except to say that the idea is also that we decide this behind a veil of ignorance where we don't know what our situation is, so that the obligation is meant to be imposed on us, because we are asking of others what we would like for ourselves in a condition of radical uncertainty about where we're going to be. Whether we're going to be in today's generation or a future generation, whether we're a woman or a male, whether we suffer from a disability or not and so forth. So it's meant to capture an account of fairness for generations today, present generations, and he comes up with two principles of justice to do that, but it's also meant to capture obligations to future generations and there's a tension between that, that I might return to in the discussion.  I'll leave the discussion of libertarian and communitarian accounts so that I can leave time for my speakers but I'll return to them in the discussion. Thank you.  (applause) … |
| **Robert Manne** |
| Thanks very much Miriam. The second speaker you will be pleased to see that John Daley has arrived.  But the second speaker is Jeff Borland, he is the Truby Williams Professor of Economics, University of Melbourne. His major interest is in labour markets but also he's got an interest in sport. (I must say so does Miriam, she used to be a very good hockey player). And he has held the Australian Chair at Harvard some time ago, a member of the Association of Social Sciences and many other distinguished things. It's great to have him at La Trobe, I don't know if you've been here before? |
| **Jeff Borland** |
| Quite a few times, quite a few times. |
| **Robert Manne** |
| But anyhow now if I can introduce you now - Jeff Borland.  (applause)… |
| **Jeff Borland** |
| Thanks very much Robert and thanks to PPE for the invitation to speak tonight. I'd like to congratulate you as well for putting on the event, I think it's fantastic to have all the opportunities we can in Australia to talk and think about public policy and I also think it's especially good to see young people being involved in the discussion of public policy. There's a lot of discussion these days about disillusionment with formal politics, but in the end I don't think disillusionment is really something we can live with, because formal politics and policy making, I don't see it getting any less important as a driver of what happens in Australia. And so I think really, the only course to take is to roll your sleeves up and get involved in contributing to debate, so I think it's fantastic that you've got the Society and doing initiatives like this.  As Robert mentioned, my area, one of my main areas of research is the labour market and I guess that's the perspective I can bring to the topic of intergenerational fairness and secular stagnation. And so I'm going to try and give you a labour market perspective on two questions, first of all: do I think Australia is in an era of secular stagnation of the type that say Larry Summers has described for the US, basically saying a deficiency of demand is leading to poor outcomes in the labour market? And then I'm going to address one of the topics that was suggested for thinking about secular stagnation in Australia, which is the position of young people and in particular, the position of young people in the labour market, and maybe I'm going to rock the boat with the answer I'm going to give to the questions.  In answer to the question, "Is Australia in an era of secular stagnation"? I'm going to say, I don't think so, at least I don't think there's much evidence of that yet, in fact I'm not even really sure that the US is in a period of secular stagnation. I think it's pretty hard to judge what's happening in economy when you've gone through a period like Global Financial Crisis, the biggest shock in the US economy since the Great Depression. I think it's hard to judge exactly what's happening in the US economy, but I think at least we can be confident at the moment that there's not much evidence in Australia.  Secondly, "Are the young in Australia today experiencing worst labour market conditions than previous generations"? Well there's various interest groups, the media I guess every now and then, suggesting every now and again that this is the case. I guess I want to put a contrary view and say, things at the moment are in a variety of ways, worse for young people than say, five or six years ago and we should take seriously the welfare consequences of that for young people at the moment. But does that mean that there's a long term trend towards worst outcomes for young people in the labour market? I'm going to answer 'no' and say: look I think most of what's happening at the moment is just cyclical. Australia's been in a period of slower economic growth now for five or six years, and I'll suggest that what's happening with young people is mainly as a result of that.  Ok, so first of all, is Australia in an era of secular stagnation? So this is a quote from Larry Summers, I guess the talk that started it all, the Feldstein Lecture at Harvard a couple of years ago, so he says, "Until a few years ago, I don't think this topic of how new technology affects the labour market was a very complicated subject. The Luddites were wrong and the believers in technology and technological progress were right". In other words technology keeps making people better off and then Summers says, "I'm not completely certain". And then he goes on to present some evidence which he argues, suggests that the US might be moving into a period of secular stagnation.  When you look at labour market outcomes in Australia compared to the US. I don't think Australia; if the US is in secular stagnation and as I said, I'm not convinced by that, I think it's hard to argue that Australia is. This is the employment population rate over the last 20 years for Australia and the US. The red line is the US, you can see the employment population rate was about 5 or 6% higher than Australia in the late 1990's, the US decreases a bit with the tech wreck of the early 2000's. And then when the Global Financial Crisis hits, decreases a lot more. So I guess what Larry Summers is referring to, if you draw a trend line from 1995 to 2015 it sort of looks like it's decreasing, so that might be interpreted as a decline in labour market outcomes. Less of the US population in employment.  In Australia though, you can see this story has been very different. As part of a long boom the employment population rate in Australia increased from 58% to 62% before the GFC. And then even with the GFC it's only come down 1-1.5% and then lately it's started to increase again. So you can see it is very argue that there's some long term decline in the employment population rate in Australia.  What about average weekly earnings? So another reason the US is singled out as having a period of secular stagnation is that there's been a lack of growth in real earnings. The average worker in the US hasn't experienced any growth in real earnings since 1995. But again, that's not the story in Australia. In Australia since 1995 there's been pretty consistent growth in the real earnings of real average weekly earnings, to the extent that today the average worker is earning about 40% more in real terms than they did in 1995.  The other aspect of the US that attention is often drawn to, is the share of any increase in income labour market income that's going to the top income earners. And again if you look at the US from 1995, to in this case the data only goes to 2012. The share of taxable income going to the top 1% of earners rose from about 13% up to about 18%. In Australia there's been an increase but it's been miniscule of comparison. It's from about 6% to around a little bit over 7% sort of. So the change in distribution towards the very top of the income distribution that's got so much attention in the US has been much more muted in Australia, so I guess when I look at the data of labour market outcomes in Australia, I don't see a picture that suggests that things, that there's any long term trends towards things becoming seriously worse.  What about what's happening with young people today? So I'm going to address that in two ways, the two ways is raised in public. One is about high youth unemployment, the other is outcomes for young graduates. So the fact that gets a lot of attention is that unemployment rates for the young at the moment are high and have been increasing in recent years, and there's no doubt that that has adverse consequences for those young people who are in unemployment because there's a higher unemployment rate today amongst the young than there way a couple of years ago. Both in the short term, the impact now and in the long term. Because we know if you are lucky enough to enter the labour market at a time when there is less demand, higher unemployment and experience unemployment, that has a scarring effect on you for the rest of your work life. You're less likely to be in employment in any time in the future if you started off your working career with a period of unemployment so there's no doubt there's adverse consequences from that.  However, does that mean that high unemployment for young people is here to stay? I don't think so. I think that mainly what's happening at the moment is we're going through a cyclical downturn. So this is a graph that shows you the rate of unemployment for people aged 15 to 19, 20 to 24 and 25 to 64 since February 1978, and the thing you can see is in every time period the rate of unemployment for those younger age groups is above, for the 25 to 64 year olds. The other thing you can see is, whenever we get into a period where the rate of unemployment is increasing, it always increases by more for the young and there's a reason for that. The reason is that, what happens in a downturn is employers stop creating as many jobs, the rate of job creation slows, that disproportionately adversely, affects young people because young people make up most of the group of people who are looking for jobs. So when the rate of job creation slows down that means unemployment goes up because not as many job seekers are moving into employment and most of the job seekers are young people.  The other thing you notice though is, look at the periods when unemployment comes down so from 1992 through to 2009. In those periods, young people disproportionately cease being unemployed. The rate of unemployment decreases more quickly for young people than it does for the general population or for the rest of the population and it's just the reverse argument. When the rate of employment growth speeds up young people are disproportionately benefited by that because they're disproportionately in that group of people who are looking for jobs. Just another perspective on that employment population rate, so you can see the employment population rate for people 15 to 19 and 20 to 24 is actually lower after the recession of 1989 to 1993 than it is at the moment, None of that's to minimise the adverse effect that current employment outcomes are having on young people, you know the fact that it's 6% lower today than it was in 2008, but it's to make the point that there's nothing that I see in the figures to suggest that when economic growth picks up there won't be better outcomes for young people.  The other issue I want to talk about is, are worsening outcomes for degree holders a sign that today's young are worse off? So you might have seen quite a bit of publicity lately saying that the percentage of bachelor degree recipients from 2004 who are in full time employment in early 2015, was the lowest ever in the history of the Graduate Destination Survey. And so, for those of you doing the PPE, does this mean your degree's going to be worthless when you finish? No, not at all, again I think what we're mainly talking about is a cyclical downturn. Shifts to part-time employment and changes to the composition of bachelors graduates. So this is the data that's got so much attention, that if you look at the end in 2014 it's about 68%, it's the lowest since the survey started in 1990.  So now what I'm going to do is give some reasons why I don't think that means outcomes for bachelors graduates are bad forever. One point is that when you include part-time employment, the employment outcomes don't seem nearly as bad. You can see the red line which is full-time plus part-time employment, that hasn't decreased as much. Partly what's happening is, in the years since the Graduate Destination Survey started, the proportion of people in part-time employment; in the economy as a whole as a proportion of 20 to 24 year olds in part-time employment, has increased. And so, it's not really a fair comparison to compare full-time employment 25 years ago with full-time employment today, because there's just less full-time employment in the economy generally and amongst young people. If you want to think about employment, you need to think about full-time plus part-time employment and that doesn't show anywhere near as severe a story.  Secondly, again, same point as I made before, we're in a cyclical downturn, so it's not just new bachelor degree graduates who are worse off. The employment population rate, you can see the red line for all 20 to 24 year olds has declined. So partly what's happening to bachelor degree graduates is just what's happening to young people entering the labour market, it's a more difficult labour market to find employment in.  The other point that I want to make is a little bit more subtle, but it's that, when you compare the 1990 cohort of graduates with the 2014 cohort of graduates you're not comparing apples with apples with apples. Two big things have happened between 1990 and 2014. People who have bachelor degrees are much more likely to go onto further study, and secondly, the higher education system has massively expanded. So what I've got on this graph is, you've got a sideways bell curve for the distribution of academic ability and we know that roughly speaking, employment outcomes are correlated with academic ability. At the very top of the diagram you're going to have the highest probability of employment, holding other things equal, as you move down a lower probability of employment. So what's happened is we've shifted down the top level of the cohort of people who are graduating with bachelor's degrees and looking for employment, because more people now are continuing on to higher level study, and the other thing is we've shifted down the lower cut off for people studying bachelor's degrees. So we've lowered the, when you look at people who are graduating with a bachelor's degree looking for employment, which excludes people going on to further study, you've lowered the average academic ability of that group. And we know that with other things equal, likely to lead to lower employment outcomes. So I think what's happening is also a composition effect.  The final graph I've got, it's not so clear it's relating to what I'm talking about, but once I'd done it I liked it so much I thought I'd put it in. (laughter)… You know what you can do from this Graduate Destination Survey, you can actually look at area of study and you can look at what's happening to, you know, to the relative position of different areas of study and so I've done that from 2004 to 20014. Dentistry, like I was amazed by how much dentists earn when they first get out, (laughter)… they are earning so much more than anyone else, by, it's incredible and the employment rate's pretty high. So if you're in the bottom left hand quadrant, it means your employment rate - relative to average, and your starting salary - relative to average, have decreased. Dentistry is the big winner, but the fact that it's in there says it's less a winner in 2014 than it was in 2004. So these dots are showing you how, areas of study are doing in 2014 compared 2004, both in terms of employment and salary outcomes.  And you can see that interestingly, maths and computer science are doing well, humanities has had an improvement in employment outcomes and it's the ones such as vet science and dentistry that you might think of as the successful professions, they've actually declined a bit in the last ten years.  (applause) |
| **Robert Manne** |
| So, I imagine you all have to go out and enrol in dentistry courses. (laughter)  The third speaker is John Daley, it's a delight to have John at La Trobe again. He's made an extraordinary difference to the national debate as being a commentator, he's often heard. He's the CEO, the head of Grattan Institute which I think now becoming the most important public policy think tank in the country and it's a great pleasure to have John to speak today.  (applause) .. |
| **John Daley** |
| Thank you Robert for that introduction, thank you everyone for coming and of course it's an enormous pleasure to be back here at La Trobe.  The take I'd like to take on this topic will be about the wealth of generations, we've heard a lot about income, I want to talk a little bit more about wealth. Wealth of course is very fashionable since Thomas did his thing. But before I do that I just want to frame this very briefly relative to what Miriam and Jeff had to say.  I'm going to take it more or less as a given, that we do have reasons to care about the welfare of subsequent generations. Miriam's elaborated with much more detail than I've got time for and with much more learnedness than I have, about why we might do that. But in summary what I would suggest is this. If we make policy decisions today, or if we set up our society today, so that future generations are worse off than we are, pretty much any ethical system will probably tell you that's a bad idea. And it will tell you it's a bad idea because most ethical systems, one way or another, have at their core an idea that you shouldn't make a decision that will have an impact on someone else, that you aren't prepared to have made to you. And whether you do that through a Rawlsian veil of ignorance, or whether you do that through a Kantian golden rule or whatever it gets labelled, either way that applies.  And so if we are making decisions today, that a future generation by definition doesn't have any control over because they don't get to vote, and that generation ends up worse off as a result of those decisions we made, it's inherently going to be a very difficult result to justify. If we're making decisions of course that mean that people today, are not quite as well off, sorry so that people tomorrow are not quite as well off as they would have otherwise have been, but they're still better off than people today, that of course if s much more complex trade-off morally.  And I'll be talking in a moment about secular stagnation and where that fits into the story. And so the three propositions I want to talk about today, and it's very much focused over a 20 – 30 year period as opposed to 100 year period or a 3 year period. Over 100 period, assuming any kind of economic growth, basically our great grandchildren are bound to be better off than we are. But over a generation as we'll see the story can be quite different.  And over that generation, we can quite clearly see that older age groups today in Australia have accumulated wealth of a size that younger generations on average are looking increasingly unlikely to match. Secondly, that incomes have continued to grow, as Jeff has been pointing out but there are some stories from overseas that could give us reasons to be a little bit nervous. And thirdly there's a big governmental story as governments are effectively transferring quite substantial resources as we will see, from younger generations to older generations and indeed that turns out to be one of the biggest things going on.  So, to look at this in a little more detail. Firstly let's look at the story of wealth and over the last 8 years that we've got 2 points of data for, as you can see, the wealth of older people has gone up very fast and in quite large terms. So the wealth of 55 - 64 year old households has gone up from about $850,000 to pushing $1.1 million so it's quite a big jump and that's because, in general, asset prices have risen very fast, and that's because we have seen interest rates fall. When interest rates fall and earnings fall, the logical corollary of that is that asset prices usually go up and that's exactly what we've seen. Of course, not so great if you didn't own any assets and that of course, is the story of younger households, and younger households aged 25 - 34 today actually have less wealth, than households of that age 8 years ago. And as you can also see the jump in wealth for middle households, 35 – 44 I remember those days when I used to think of 35 to 44 as middle aged. Now of course, 35 – 54. Their wealth as you can see hasn't gone up by that much either, particularly relevant to older households.  Now this is not because the young are feckless, that's the mean we usually hear back, it's 'yes, yes, that's because the young aren't saving'. Ladies and gentlemen, it's not true. As a percentage of income 35 -44 year old households are saving about as much as anybody else and there has been a big jump as there has been for all age groups, over the last 6 years that we've got survey data for. There's been a much bigger jump for 55 – 64 year olds and that's because, if you go and read our 'Wealth of Generations Report', they had an enormous jump in income and they managed to save, at least some of it.  So wealth is not a consequence of savings, it is a consequence of the shift in asset values as well as how much people have succeeded in saving. As you can see here, the 25 – 34 year olds today, relative to 8 years ago as we've already seen they've got less wealth, they've taken on much larger liabilities than households at that age used to have. Their property's worth, their owner occupied housing is worth a little bit less because it's taken longer and longer to get into the housing marked. There's some countervailing trends in their financial assets but net-net they're worse off. And as you can see the 55 – 64 year old households has been essentially across all asset classes, both their own homes, owner investor housing, other financial assets, superannuation and everything else that we can classify. Interestingly as you can see from this, quite a substantial proportion of wealth these older households, about half is tied up in property and about one third is tied up in owner occupied housing and that of course, is one of the issues, we are seeing rates of home ownership falling quite quickly, and particularly for younger households. So 25 – 34 year old households today, about 10% less likely, 10 percentage points more accurately, less likely to own their own houses than households of that age 30 years ago. And as you can see, the effect most pronounced, for households that are in the lowest income quintile.  You can also see, and this is the thing that's starting to really keep people awake at night, we could wave arms away at this for a while by saying, 'ah that's because the young and feckless 25 – 34 year olds are taking much longer to settle down, are taking much longer to find partners, much longer at university which is doubtless worthwhile, and it will all be ok and come out in the wash'. But what we can see is that rates of home ownership are also falling for 35 – 44 year olds, that's harder to explain away and indeed we're now starting to see rates of home ownership falling for 45 – 54 year old households and of course, if you don't own a house by 55, you need your parents to die soon because it's not going to happen otherwise. And of course if households don't accumulate owner occupied housing which is a very important vehicle for enforced savings, there's a very good chance they're not going to accumulate that much wealth at all.  Now you may be hoping that your parents die and that you inherit, let me point out you are probably going to be waiting a while. I mean if you just think about the raw math, on average your parents will die about 85 that means, on average you will be aged about 57 at the point that you inherit from the first parent. Of course if the first parent leaves it to the other parent which is quite likely and to just give it a wee bit of stochastic variability, chances are you're going to be 60 before you inherit anything much from your parents. And you can see this if you look at the data from inheritance which comes from HILDA the only data available on inheritance available in Australia (and it's dreadful but it's the best we've got), as you can see inheritances are much more likely for people who are old, not surprising, and they're also much larger and also much more likely for people who are wealthy already.  In the Piketty world, basically people who are already wealthy are those who tend to inherit. It's true of the Australian data, it's also true overseas. Now, one little caveat here, while I've got a bunch of captive people here who are at university, the date on inheritance is terrible in Australia because we don't have a wealth tax and we won't have an inheritance tax. And on the assumption that we're not going to get a death duty back any time soon, that means data sources will continue to be pretty lousy. Apart from the Probate Office, which of course keeps every single will in Victoria and indeed a signed statement from everybody who is hoping to inherit from them under that will, about what it was all worth, who died, who inherits, where they lived, how old the kids were, all of that kind of stuff. So we in fact have a pretty complete data set in Victoria about who has died, where they lived, who their kids were, how much they all got, what the assets were, the only catch is, you've got to go through the Probate Office one will at a time.  Now, you could of course sample it, and if you did you will be dining out on this data set as an academic for the next twenty years because it's the only descent data there is on inheritance. And let me remind you that Thomas Piketty did quite well out of research on inheritance, ladies and gentlemen the data set is there, Grattan Institute has no interest in going after it and I suspect the Victorian Supreme Court would be quite co-operative if somebody wanted to go and have a look. I'll leave it there.  Moving along to incomes. Incomes have grown so incomes for all age groups are higher today than they were 8 years ago, that’s the good news, I'll move on from there. However, if we look at the United Kingdom, younger households today or more accurately younger people today, as you can see they are the ones born in 1983 to 1987 are the age of 25 up are earning less than previous groups. And if you work through those curves it's not a wildly encouraging story. Now my suspicion is, and of course the United Kingdom is a place in which there's been no net growth in incomes for now the better part of 8 years. So not surprisingly young people, for all the reasons that Jeff's been through, have basically borne the brunt of that. But it does provide a warning that when you do get very flat growth national incomes, it tends to be pretty bad news for a younger generation that grows up through that. As Jeff's pointed out, that's not where Australia is at the moment, but it does give us some indication where we might end up.  The United States is even a more, stark story. Many people are familiar with the graphs that Jeff put up with the top 1% taking more and more, but fewer people are aware of this phenomenon, 25 – 34 year olds in America today, earn less money than people of that age in 1970, in real terms. As you can see it has been a somewhat happier story for 55 – 64 year olds, that cohort is doing very nicely, thank you very much. But the younger cohort has done really badly. It is not the 99% who should be jumping up and down and screaming in the United States, at least their incomes are flat over the long run. The 25 – 34 year olds are the people who should be really pissed.  And that's the trend we see in the US. Now as Jeff pointed out Australia is a different story and that's true, but it is worth remembering that over the very long run, economic growth is not assured for a generation and yes we've become very accustomed because, essentially since 1945 economic growth has grown like a steam train in Australia more or less every year and certainly over any 5 year period you care to pick. It's essentially gone up in the order of about 2.5% - 3% a year and that's pretty handy, or 2.5% in per capita terms, and that's pretty handy. But as you can see if you go back to 1850 you can find a 25 year period in which real incomes per capita in Australia didn't go anywhere. And then you can find a much longer period from the peak of the mining boom in 1980, (that probably sounds a wee bit like 2013), for 45 years until about 1935, in which real incomes in Australia didn't move in net terms.  So you certainly can have periods in which incomes don't move very much. I think one of the points to make is that there are of course three possibilities for Australia's economic growth. One is: we continue to ratchet along on the steam train we've had for the last 70 years, that would be nice that would be my preference, but in many ways it would be surprising if economic growth in Australia kept going in the same rate that it has for the last 8 years when we have just had the largest mining boom in Australia's history, and indeed in global history, by miles. So the amount that was invested in the Australian mining boom in the last decade is about double the size of any other mining boom in our history. It was enormous, it was larger than the mining boom anywhere else in the world, it would be pretty odd if we went through that and then managed to see economic growth going at the same rate thereafter.  Option two; that as a secular state nation we see no material economic growth, and of course that's where a lot of Europe has been and I guess that's what the phrase secular stagnation often means. But there's a third possibility and I guess it's one that the IMF has been pointing to, that the Reserve Bank has been pointing too recently, which is, maybe it won't be zero, but maybe the trend rate of growth might be materially lower than it has been. And that strikes me as a material possibility. If you look at the numbers that the IMF has concocted recently, in the developed world trend rates of growth were clearly slower before the economic crisis and they've continued to trend slower since then. And there is, as yet, not much clear sign of a material pick up. Australia has escaped that, I would suggest largely because of the mining boom, there is no particular reason I can see why we would be different from every other developed country in the world, apart from maybe our migration policy, which of course helps GDP, might help GDP per capita in the long run a bit but it's hard to believe it will make that enormous difference. So it's at least possible that incomes will be a problem.  So let me tell you the third piece which is around government transfers. What we look at here is government transfers back again, obviously in real terms in 1988, and then flowing through all the way through to 2009 – 2010 cutting this by age group. And by net government benefits, what we mean is payments, so that includes obviously welfare payments, but it also includes government funded services such as health and education – less whatever it is that households tip into the tin via taxes. So not surprisingly, most households under the age of 55 net contribute to the government tin and then of course most households are net takers out of the government tin once they retire. It's what you might think of as the intergenerational bargain. But of course, here's the rub, as you can see the intergenerational bargain became a lot more favourable to older households in the last 6 years. And essentially we have funded that through deficits. When you work through, what is that roughly 10,000 per household jump, equate to it about $22 Billion a year, which is about half the size of the current deficits of Australian governments.  And when you ask, what drove that, what's driven that change? Again cutting this by age as you can see, some of it is a pretty spectacular increasing cash benefits for the older households through the age pension, partly about increases in the rate, partly about increases in eligibility and then as you can see, very largely a big jump in spending per household on health. And there's also been, as you can see for 35 – 44 year olds, a big jump in spending for education, that seems a little odd but of course it's because when we count education we count the children of those households and so of course we've seen a jump for those households. So that's the spending story. These older households it's essentially an age pensioner health story.  Then of course there's the tax side, (I'm sorry it's kind of disappeared a little bit in the colours there), but as you can see the net increase in tax for older households is pretty small, and indeed they are paying less income tax in real terms than they did 20 years ago, even though participation rates for older households have increased very materially, and of course there has been a quite material increase in real wages. What explains this? Basically a couple of things, the Senior Australian's Tax Offset and superannuation tax breaks essentially mean that paying income tax is more or less optional for most households over the age of 65 unless they are doing spectacularly well, in which case they become American citizens like Rupert. So that's what done the damage, these older households have seen a big jump in how much they're taking out of the tin in health and welfare, and then there's been a reduction in how much they're putting into the tin in terms of income tax when of course everybody else is putting in more, apart from 15 – 24 year olds and that's because far more of those households are now in higher education.  And of course that has led to very sustained budget deficits for the Commonwealth Government, we all know about the headline deficit which is the red lines here, but the black line is structural deficit, that's where would we be if there'd been no mining boom and no financial crisis? And the short answer is we would still have been in deficit to the tune of around about 3% of GDP and that is more than big enough to care. In the Commonwealth Government's terms that means that they are spending $10 for every $9 they get in, and obviously there's a budgetary hole. Now who pays for that and the answer is younger households, because not surprisingly older households aren't going to be paying tax for that much longer, indeed many of them aren't paying tax already.  If you look at the impact of those deficits and that's the bit you get on the far right hand side, for younger households, when you run deficits as we have been of about $40 billion a year, that means younger households at some stage over their lifetime will have to pay an extra $10,000 in tax sooner or later, to pay back the debt. Government debt does work a little bit like ordinary debt in that, sooner or later the banks want their money back and someone has to pay for it, and as you can see by and large, that someone is younger households. And so younger households have been very badly hit, or at least they will be, by this increase in the government debt, on the other hand as you can see in terms of what's happened on the private side (which we went through earlier), big jumps in the wealth of older households which have more than offset any impact of government debt for them. The story of course less happy for younger households.  Everyone's been saving a bit and contrary to popular belief, changes in HECS Debt at least over the last 10 years, not that big in the scheme of things, relative to the impacts of budgets on the one hand, changes in world savings, just not that large in the overall scheme of things.  So that's this story I would have for you. That older age groups have done very nicely in Australia over the last decade and have accumulated wealth and it may well be that younger generations don't match. Incomes have continued to grow but the United States and the United Kingdom give us room to at least have a little think about that is necessarily going to be the case in Australia and if it's not the case then chances are, younger generations will do quite badly out of that, and in the meantime governments have been making the problem worse. The problem is not the aging of the population, the problem is the aging of the electorate and the fact that, essentially the Australian electorate has been voting itself a substantial transfer from younger households to older households over the last decade and ladies and gentlemen if you are under 30 and not enrolled, the website is AEC.gov.au. Thank you.  (applause) … |
| **Robert Manne** |
| Can I ask one question just of everyone in a way? The question of intergenerational fairness, the way I think about it mainly is concerned with something that was in the introduction, and was discussed by Miriam a bit, which is the question of environment, in other words, climate change.  It seems to me if you think about climate change seriously, then this generation is, for all sorts of reasons, doing incredible harm to the younger generations, to the point where some people wonder whether they should have children to leave them a world of this kind.  This is sort of to the two economists, it seems to me that the discipline, means that you think about it in terms of what Miriam discussed, discount rates, and the two ones that I'm aware of, one by William Nordhaus, the other by Lord Stern, came to wildly different decisions about what discount rate they'd use. I just wondered whether you'd thought about it and whether you can explain to us how you can come to a conclusion about intergenerational well-being on the basis of a decision about a discount rate which to a non-economist seems entirely arbitrary. That is: I think one decided on 4%, I think Nordhaus and I think Stern was at 1% or even less? |
| **John Daley** |
| Well firstly, I'm qualified to answer that question one way and another, I'm not an economist, I'm actually a Legal Philosopher, I'm not actually trained at doing anything real, but I've done plenty of public policy since. I guess what I would observe is, a discount rate is simply a mathematical explanation of a moral choice you have made further up in the argument and there is no magic to this stuff. You know economists don't just get to pick a number out of the air and say, 'well therefore we win the argument'. Economics is fundamentally a discipline that needs to be based on moral calls, ethical calls and it depends on what ethical call you build into your theory, will then have an expression in your economics on top of it.  That said, it's worth remembering that actually the paper that really drove the discount rate was the Oxford Doctoral thesis by an Australian Cameron Hepburn, who then in fact ended up working for Stern. Although as he said, it was a completely career limiting move, he'd written his Oxford Doctoral thesis, a brilliant piece of work on discount rates, he was planning to dine out on that one for decades and then it became an official government policy about a year later and there went his career. So he had to kind of reinvent it. Needless to say he's done quite well since. But it's an interesting story that actually that work was done by an Australian.  But I would suggest it's fundamentally a moral question. If you make different ethical calls then you'll wind up with different answers and I think one of the problems that sometimes economists take things that have been developed for one ethical problem which is particularly discount rates, which are fundamentally designed to think about; 'how do I as an individual make choices about my life spending money today as opposed to spending money next year'? That's what they were originally designed for. And then applying that without necessarily thinking about whether the underlying philosophical theories say, to a debate about the value of $1 spent today, relative to the value of $1 held by a different person of a different generation 25 years in the future. |
| **Robert Manne** |
| Jeff? |
| **Jeff Borland** |
| I can't improve on that.  (laughter – applause) |
| **Miriam Bankovsky** |
| I have a question for John. What sort of account of intergenerational fairness would you be defending here if you want to say that, for older generations, benefiting at the expense of the younger generation is unfair? |
| **John Daley** |
| Well as I tried to argue, I'm actually think pretty much, if they are benefiting to the extent that future generations will be less well off than otherwise, but still better off than today, I don't think that's a particularly difficult thing to justify. Essentially you are saying, 'these people are going to be doing really well, I'm here and I'm going to jiggle things so it looks like that'. That strikes me as pretty much lots of ethical systems are going to allow you to do that and it seems a bit arbitrary.  On the other hand, if you say 'I'm going to make a decision so that I am better off than a future generation, that by definition has no ability to influence that decision, I think most ethical theories are going to lead you to trouble with that, because a fundamental Kantian golden rule has just been broken. |
| **Miriam Bankovsky** |
| I object to that, we'll flag that. Keep going. (laughter) |
| **John Daley** |
| Well I think that that's going to be the issue. I am making a decision, that leaves me in a position that I know will not be shared by others who are, in other respects essentially like me. And I think that most ethical systems in one way, not like that as a result very much. |
| **Miriam Bankovsky** |
| To return to the first speaker who spoke briefly about rules account of 'Just Savings'. It might surprise people to know that the account of 'Just Savings' that Rawls developed, really doesn't really require that future generations be better off than present generations. So what I understand him to be saying is that, for the sake of intergenerational fairness, guarantee 'Just Institutions'. And 'Just Institutions' for Rawls are those institutions that satisfy the principles of justice, these being distribute liberties, as broad a base of liberties to all equally, including personal liberties and political liberties. That guarantee fair equality of opportunities so that, which isn't just careers open to talents, but actually provides the institutional basis for as much as possible, equalising opportunities.  You can't do that of course, because we keep the institution as a family which is itself, going to always cause differences in our books, but that means education, sporting facilities, all sorts of investments that we need to make to put people as much as possible on an equal footing are what he would count as 'Just Institutions'. But it's not about growth. So it's quite specific in that so, if it’s the case that future generations are going to be worse off, as long as they've got 'Just Institutions' it's ok.  So that's the difference, I just want to make absolutely sure on that, that not all moral and ethical philosophies do require that a future generation be better off in terms of the narrow confines in which well-being is established in economic terms, because there are a whole other realm of measures that are not calculated in those terms. That's all. |
| **John Daley** |
| I guess I was thinking of worse off, not in a just purely economic sense, but in a prosperity sense. If you want to then say, and there's two way you could play that argument. Either say, 'yes, yes, ok it's about prosperity in that broader sense and we're prepared to trade off sporting fields for less income'. And that's one way of thinking about, life behind the veil of ignorance.  Another way of saying is, 'No, no it's purely about institutions'. And that goes to the core of the philosophical problem at the heart of Rawls, which is, he's got no reason for explaining, why, behind the veil of ignorance, I would care about the fact that I get these beautifully equal institutions that say I have an education, but I'm guaranteeing that everybody in future generations is living in poverty. I mean if you just think about that as a thought experiment, that's a deeply unappealing philosophical theory that says; 'The future generation are going to have lots of education, and they're going to have institutions that divvy up the pie in ways that appear to be fair, but they're all going to be miserably poor'. |
| **Miriam Bankovsky** |
| Their world might be ugly, this is Janet Thompson's point, "Their world might be ugly, they've lost their natural environments, its historic buildings, its monuments, everything, but it's still got 'Just Institutions' in that sense and there's political and personal liberties and basic institutions to guarantee as much as possible'. |
| **John Daley** |
| And do you think that's an appealing moral theory about what society should be making. (laughter) … |
| **Miriam Bankovsky** |
| No, but I wanted to point out that it's not the case that all moral theories do think that growth is desirable. I'm not, as a student of philosophy, which I continue to think of myself as, I don't feel confident in saying what I think intergenerational fairness is, I just want to raise some of the different points of view that others have brought to the question. |
| **John Daley** |
| And as a practitioner of policy, I don't have that luxury. Policy is about making choices. |
| **Miriam Bankovsky** |
| So what's yours? |
| **John Daley** |
| I actually think that you get this through most. As I said, most philosophical theories will at their heart have some kind of Kantian thing. In fact the way that Rawls is often interpreted is not with that very narrow view of institutions. There's a bit more substance to the outcomes and indeed in places you can see him giving way to that temptation of saying, 'No, no I'm looking for reasonably substantially, equivalent outcomes here', and as soon as you get driven to that point of saying, 'I'm looking for relatively similar outcomes', then of course you get rapidly driven to, 'I can't make younger generations worse off'. I take your point, it's perfectly ok to make positions and leave them 'no better off'. |
| **Robert Manne** |
| And, if I can just say, and then we must open it to the questions. And if you take climate change very seriously as I do, then you feel pleased when there's no growth or when there's an absence of growth. |
| **Miriam Bankovsky** |
| That's my point too. |
| **Robert Manne** |
| Because it's quite clear that emissions have always increased when the economies are growing and the only time there was a slight hiccup in the emissions was in the period of the Global Financial Crisis. |
| **John Daley** |
| I'm not sure that's right Robert, emissions per capita and emissions per dollar are falling in most countries, well emissions per dollar are falling in Australia and they're falling like … Net emissions. |
| **Robert Manne** |
| Actually, the atmosphere, is not interested in per dollar. Actually, the atmosphere, is not interested in per dollar. The atmosphere is interested in what the studies made of the emissions which were done off Hawaii and there's been actually a slight increase even in the rate of emission growth, anyhow, it's not …. there's time for questions. |
| **Miriam Bankovsky** |
| But the interesting point there is that, just before you do that, it makes us think about the way in which the topic was formulated today, in terms of secular stagnation as being not necessarily a bad thing, and as you, the young people not being able to expect what their forebears were able to expect as a bad thing, when there might be moral and philosophical reasons to suggest that that's not such a bad thing if one can guarantee other sorts of… |
| **Robert Manne** |
| That there's royalty in kind… |
| **Miriam Bankovsky** |
| That's right, other sorts of institutions and so forth and achieve other outcomes. |
| **Robert Manne** |
| Time for questions now, there's three I think from PPE. |
| **PPE** |
| Actually, those presentations were so great and the discussion just now I'd pretty much crossed a third of them off the list but. My question is around climate change specifically, but with a slightly different approach.  Labouring under the assumption that intergenerational fairness does have intrinsic value in a society of the time, this implies that our current generation ought to be ready to make some sacrifices of current welfare. So how do we reconcile this with Australia's hostility towards carbon pricing and other economic sacrifices aimed at preventing future climate change, policy wise I guess? |
| **John Daley** |
| You can't. It's wrong, so there we are, next? |
| **Robert Manne** |
| (Laughter)…Jeff would you? |
| **Jeff Borland** |
| Well yes I think it's a failure of politics and a failure of leadership in politics in Australia that we really don't have an outcome like that. I think if the leadership in politics was being done differently we could have… It is the right approach, we just need leadership interacting. |
| **PPE** |
| I'll say that, it might surprise you to know that Tony Abbott was a graduate of the PPE Degree at Oxford, but it won't surprise you to know that he didn't do very well in moral philosophy. (Laughter) |
| **John Daley** |
| And he didn't do any economics. (laughter) |
| **PPE** |
| Although he'd done economics in Sydney. |
| **Robert Manne** |
| So that leaves him as having done politics. |
| **Audience** |
| And he didn't do very well on communist and socialist political… |
| **John Daley** |
| And the interesting information of who was on the selection panel for the Rhodes Scholarship emerging this week as well. |
| **PPE** |
| That's an indirect answer. |
| **PPE** |
| My point was touched on by you John recently, but I guess with an ageing population the worker to beneficiary ratio is getting put under a lot more strain as we enter into the future, so obviously I think our pension system and superannuation system is in need of reform.  What reforms do we need and how can we reconcile this with an ever increasing older, voting block? |
| **John Daley** |
| Well, I'd suggest a couple of things. One is, there's a lot of discussion about how many 25 – 64 year olds there are relative to the 65 plus cohort? With respect I think that's the wrong question. The right question is what's the total participation rate of the population? In other words, how many people are working, divided by the total population? Now of course if your participation rate by 65 year olds goes up then that ratio will be ok for a very long time and indeed that participation rate for older households has been going up quite materially for Australian households since about 2001.  So that becomes really the key lever in dealing with this. If you see participation rates for older households continue to go upwards, most of the problem, the real problem, goes away. And then the question is, ok what can we do about that? Some if it is about what you might describe as the supply side, about employers being prepared to employ older workers, they are not being discriminatory, all that kind of stuff. But some of it is also about the demand side. To what extent, depending on which way you talk about demand and supply here. To what extent to older workers choose to work as opposed to retire? And that's why moving the eligibility for the aged pension is such a big deal and even more importantly, moving eligibility for withdrawing from your superannuation is such a big deal. When you look at who in fact withdraws money from their superannuation before the age of 65, which is of course today's retirement pension age, the answer is essentially exclusively people in the top half of income earners. And there's a very real question about why we are giving people any tax concession at all through superannuation when they withdraw it before they hit pension age. I just cannot see any rational argument for doing it.  I think there is an extremely powerful argument in principle for saying, we should lift the age at which you can take money out of your superannuation, to the age at which you can get your pension and we'll probably have some exemptions for people who are on disability pensions and that's why they can't work, but otherwise it strikes me as a pretty good rule. And we've already seen some shift in the age at which you can get access to your superannuation, but we need to see a lot more. |
| **Jeff Borland** |
| I think the age composition effect does matter, because in the last 20 years say, participation rates have stayed the same within age groups because, older age groups have lower participation rates than younger age groups. If the only thing that happened with the age composition effect, that would have wiped about 4 percentage points off Australia's participation rate. So John's right, if you can get growth in the participation rate within groups, you can still have growth in the participation. But I guess the point is, we need to keep getting substantial growth in participation within age groups just to undo what ageing is doing to the participation rate.  And the other point is, I think a lot of the growth in participation rate has been stuff that's been driven by increasing female participation and increasing higher education for females flowing through to hold the cohorts are more likely to stay participating, some of it is undoing the business cycles, but I think there are challenges in increasing the participation rate. |
| **John Daley** |
| Absolutely, but as your work shows, there is also been a material jump in men since 2001, older men. |
| **Jeff Borland** |
| Yes, yes exactly. |
| **John Daley** |
| So as long as we can see that keeping going, much of that ageing effect will be offset. |
| **Jeff Borland** |
| I think the point you make is important, I think a lot of the stuff that's driven that so far has been stuff like the fact that for older males, participation rates fell so much when manufacturing declined and now you've got a different group of males in terms of educational background coming through.  A lot of what's happened in terms of increasing participation in older age groups has been natural forces. I think, your points really important, I think policy now needs to do more of the job of boosting participation rates, policy hasn't played directly a large effect in driving participation, but if we're going to get further increases its policy that has to do that I think. |
| **Robert Manne** |
| I think there's a third question from PPE. |
| **PPE** |
| My question's regarding institutionalising a generational class system and particularly in relation to the housing system that you were talking about before. You've touched on the fact that, actually in my bracket 25 – 35 we're earning less. If we're not coming from a family where there is wealth, I guess historically we were able to break out of that lords and ladies inheriting the family castle, because there were more opportunity, education, all of those kind of things.  Are we going back there though, with how the systems currently set up and are there opportunities for re-jigging the system so there are more opportunities to break into the housing market? Thank you. |
| **John Daley** |
| I'll talk about the housing market, I can talk about the housing market all night. Obviously things on the demand side, particularly around tax breaks for negative gearing, capital gains tax and so on, are not helping. But the big game is inevitably supply. And the big game on supply is not just releasing more land in the outer reaches of Melbourne, 40 km from the CBD which basically have very poor access to jobs, by and large low levels of education, very low levels of female workforce participation because it's just too hard, for both partners to find a job and get the kids to child care and everything else.  So the big game is about increasing the volume of housing in what you might describe as the middle ring in our cities, so that's the Camberwell's and Glen Iris's and Essendon's of this world and they're of course, in Australia as in many places in the world, we have locked a lot of it up through various forms of planning law. And for a younger generation that is big deal. The extent to which we allow increases in housing in cities in those middle ring suburbs and whether we do it along the transport corridors at six or seven stories as Rob Adams would suggest, or whether you do it through suburban infill taking quarter acre blocks and turning them into five or six townhouses, or whether more likely it's a bit of both, that's the big lever in terms of housing affordability.  Because of course the thing that's deteriorating in housing affordability is not the cost of the building, it's the cost of the land and that's essentially driven by scarcity and if you allow more subdivision then you effectively create more housing at an affordable rate. That's the lever for housing affordability, needless to say, going near planning legislation and having more people who are not like me in my suburb, is not the kind of thing that tends to be wildly popular with town councils and of course the losers don't live in that council area so it's not wildly popular either.  But we need to start having a much more public discussion about, that is the trade-off. And if we want to be a society which both maximises the economic opportunities that are increasingly created towards the centre of our cities and if we want to be a fair society that doesn't see this enormous gulf between people in the middle and people on the edge, then that's the policy choice we need to make. |
| **PPE** |
| My question is around how universities are creating or not creating intergenerational fairness. If we think back to when the boomers were going to university and I think that was the time of Menzies and free education was the word of the day. A lot of baby boomers went to a university and then came out into a workforce that had policy around superannuation and a trajectory which saw their skills get wealth for them in the long term and also saw them, having jobs in the Australian labour market.  Whereas the younger generations, Gen X and Y, it seems to me a lot of the university and skills that these generations have gained at university, they've then needed to go overseas to gain value from these qualifications. In those instances those younger generations are then competing in a transnational skills labour market which has changed quite dramatically from the 1970's. It also means that the policy makers for these workers, so the skilled policy transformers, the Paul Keating's of our day are no longer in Australia, they are in New York or in San Francisco or in Singapore where they can actually get careers from their skills.  So implicated in all of this is actually universities and how much they take ownership for creating fairness for the people that they're selling degrees to? |
| **John Daley** |
| Well I don't work for a university, I'm happy to cut a stick for … but I think you guys should be entitled to defend yourself first. |
| **Miriam Bankovsky** |
| I'm not sure I fully understand the question that's all. If you could just say in one more question. |
| **PPE** |
| I suppose, are universities and institutes of higher education are key institutions, or could be or ethically, could be being protagonist in creating intergenerational fairness? |
| **Miriam Bankovsky** |
| So you think they're creating institutional unfairness? |
| **PPE** |
| So the Graduate Destination Survey for example; seems like there is an awful… like, we do not know right now what the profile is of the Gen X worker in Australia as opposed to the Gen X worker who got their qualification in Australia, but has left because there aren't meaningful labour entry opportunities for them here. |
| **Miriam Bankovsky** |
| What I'll talk to is, why I see educational institutions as being part of those institutions of justice that we owe to future generations. I think one way in which philosophers have looked at the way why we own obligations to future generations in terms of constructing Just Institutions including education, is that we are beneficiaries of investments of prior generations in education schemes that have allowed us to develop.  Speaking to this first hand, I can say as a daughter of an immigrant from India, Anglo-Indian, no education, who's now a parking inspector; with my brother and I both graduates and PhD's in philosophy and mathematics, not that it matters for me, education in Australia has been one of those institutions where one can access equal opportunities as much as possible and undo the disadvantages of families. All that's changing. Gonski pointed…, given the problems with the requirements that no school lose a dollar, Gonski still put forward lots of recommendations in what needs to be done to sustain Just Institutions.  It is the same for higher education, the commitment to this has been undermined, and that's disturbing, not only for the fact that intergenerational fairness is not going to be able to be maintained, but also because future generations are no longer going to be committed to them, because they will not be inheritors like us of Just Institutions. So it's a vicious cycle and we need to be very careful with this because, this is the key to intergenerational fairness in education for the futures to come. |
| **John Daley** |
| The think I would add to that, it's worth remembering, 'Yes a previous generation got free education, if they were lucky enough to get one'. Participation rates going back 30 years ago were way lower than they are today. And so the opportunities of higher education are clearly today far better distributed than they were. You've got participation rates pushing up around 35% and yes, that 35% are being asked to pay for some of the costs of their education, but certainly on the numbers at the moment, that 35% are likely to earn substantially higher salaries than the remaining 60% or whatever it is that are not going to university.  So those institutions are certainly, I would argue they're working better than they were 30 years ago, they're providing substantially more opportunities and they are continuing to provide opportunities as I said, at least on average, graduates are earning a lot more than people who are not graduates. The margins … |
| **Robert Manne** |
| Jeff, do you want to… |
| **Jeff Borland** |
| Well I think the big issue in education is not so much intergenerational. I think certainly the universities have an intergenerational effect, as John said, it's been working in favour of the … towards current generations against older generations.  I think the big issues are still within generation's effects. If you have to spend time thinking, should I direct education policy towards achieving intergenerational objectives or within generations, I think all the biggest gains are within generation. Like making sure that really disadvantaged kids get early intervention programmes to make sure they're not left behind. I think the big issue isn't so much the average of this generation against this. It's still within each generation we've got kids who aren't getting acceptable education. |
| **Miriam Bankovsky** |
| That's true, but I would just say that from an intergenerational perspective, one can say it's really important in terms of generational outcomes. But from an intergenerational perspective we won't be in a situation in the future years of feeling indebted to our society for the creation of those institutions which have provided us with that starting point. And so there's that capacity for undermining what's been built so far in generations. I still think it's intergenerational as well. |
| PPE |
| My question is goes to your climate change point before. You were saying you find it's quite good when there's no growth because it's good for the future environment, but the problem with that, that's been pointed out is during those times of no growth or low growth the unemployment rate for my generation and the generation coming are going to be incredibly high.  Now how does it work going forward where say the older generation did very well for themselves, were able to store up a lot of wealth because they were able to essentially abuse the environment at no cost, now we have to bear that cost, how do we go about it?  I don't know, I mean going forward policy, these much higher unemployment rates that would necessarily flow from lower growth, how is that going to work for the next generation? How does public policy work to make sure that those people, it doesn't lead to a much greater disparity between the higher wealth and new legions of poor? |
| **Robert Manne** |
| It is a good question. The way I look at it is there is no problem facing human kind today, even remotely as significant as the destruction of a human friendly and a species friendly, planet. Your question which is, I'm not exactly advocating no growth, I'm saying it's an irony that, if you think of the world of that being a central problem, then the problem is to some degree lessened. But there's a moral problem in our way of thinking about economics for your generation, if growth stalls or goes backwards like Australia.  There's much bigger problems, the first three emitters in the world are China then the United States, then India. And the problems for the Chinese and the Indians will be immense if their growth doesn't continue because millions will remain sunk in poverty, so these are bloody big problems. But still it seems to me that that's what one has to begin thinking about, which is that this generation everywhere, is turning a blind eye to what will make the earth, at its worst, uninhabitable in 50 or 100 years, almost uninhabitable.  And there's a first rate economist Weitzman from Harvard, who's written a book just now about climate change, he believes that capitalism can solve the problem. But he does say, looking very carefully at the modelling, through the IPPC, that there is a 10% chance of a 6 degree Celsius increase, by the end of this century and he says, and he's a very, I think he's a Nobel Prize winning economist, a very serious economist saying, 'that spells the end of human civilization'.  So these things are matters of weighing up all sorts of considerations. But in my view anyhow, climate change is much larger as an intergenerational question, than the question of relative well-being and wealth. I know it's easy for me to say it, nevertheless I have to say what I think. |
| PPE |
| It's all fine and good to say but how does it actually work out in policy? I mean it's nice to say, I understand your point, of course we all want to live, it's not much point talking about how much money I've got if I can't breathe the air.  That's great but how does that actually work in public policy? I guess that's a question more for our friends at the Grattan Institute? |
| **John Daley** |
| And I guess what I'd suggest there is, people have been predicting resource scarcity since Malthus and the one thing we have learned time and time again, is that, if we price the resource, then human ingenuity tends to be surprisingly good, and surprisingly on the upside at figuring out ways to continue to prosper albeit with limits to that resource. And whether we are talking about scarce minerals or whether we are talking about scarce water, as soon as we price it, then usually it winds up being a reasonably happy ending to the story.  Now of course the catch is that Australia came within, well indeed Australia was pricing carbon emissions, not enough, but we were at least down the track and we've now walked away from that, and that's where I would be putting the problem. Now you might well get back to the business of pricing carbon emissions via some less perfect policy instruments whether they are regulation, or renewable energy targets or whatever, but that's where you need to go.  If you look at what's being going on in California around water scarcity and all sorts of problems, problems that in many ways Australia has moved on from over the last decade because we bit the bullet and, it's not perfect and all the rest of it and lots of things we can argue about, but we have successfully priced water in Australia and 'hey presto', agricultural productivity per litre of water went through the roof as soon as we started to price water in a way that was half way credible.  The same for carbon emissions, at the point that we start to genuinely price that into economic decision making, I can't predict how the problem will be solved, but history does give me quite a lot of confidence that it will be solved, and it will be solved through a multiplicity of innovations, driven by that scarcity. |
| PPE |
| The complicating factor is you've got the public group externality side of it. So pricing it in Australia works fine, but then the rest of the world needs to price it at the same time otherwise, we've got no solution right? |
| **John Daley** |
| Absolutely, and let's see how Paris works out, but my guess is the world is probably inching towards a more controlling regime than we had two years ago. And it won't be enough, but of course in this game the thing that matters massively is not whether Paris is the complete answer for the next fifty years, the key issue is that you keep moving in the right direction. Because the reality is, three years is not material in this game, even ten years. |
| **Robert Manne** |
| No, but inching is, it's an unusual problem in that, most problems are not irreversible, this is an absolutely irreversible problem and inching towards a solution is what physics and chemistry tell us is not good enough. If you turn that into the intergenerational thing, I think the most effective climate scientist in the world is James Hansen in the United States. He's taking a legal action on behalf of his granddaughter at the moment against the US or different US authorities, on the grounds that her life in this legal action, will be infinitely harmed by the failure of the United States to take serious action. For example; $100 per ton carbon tax spread across the globe, might actually help solve the problem, but those of us who study politics know it's almost inconceivable. No not almost, it's inconceivable at the moment. (laughter).  So anyhow it seems to me that's an intergenerational problem of the most serious kind that human beings have ever faced and I think about it a lot and I can't see a solution. Beginning on the very small thing of an employment rising if there's no growth, coming to something like the thought that doomsday prophesies may actually, for once, not be fantasy. |
| **Jeff Borland** |
| On the question of public goods, Australia's a rich country as well, if there's a country that should be taking a lead and trying to sift by setting an example that can influence other countries to do this, it's us because. The questioner before said, there are trade-off's but Australia is a rich country so we are in the position of being able to compensate people who lose because of putting on a carbon tax.  I'm not meaning the companies who are doing it, but the individuals in society who may be unemployed because they've got a lower rate of growth because they're doing this in the short term, we can compensate them. So I think, I understand what you're saying Bill, but I think… |
| **Robert Manne** |
| I suspect we better…. One more question? |
| **Audience** |
| Before John Daley was talking about pricing scarce resources and I was just thinking before you were talking about housing affordability and how the problem is high land prices.  Now I'm wondering in the sense that, we talk about pricing scarce resources but if land values are increasing because land is becoming a more scarce resource, why is it that we're not pricing it effectively with say, a greater emphasis of taxation of land values? |
| **John Daley** |
| I've just issued a paper talking about it. That's a Dorothy Dixer. Well I've obviously been reading our property tax's paper which advocates taxing property more highly which will doubtless help but it's not actually going to solve the problem here, which is that there are not enough houses relative to demand and normally of course economics would look after that and basically the price would go up that would result in an increase in supply, that doesn't happen because supply's restricted by regulation, i.e. planning, and it's not an unrestricted market. So that why planning is such a big deal here. |
| **Audience** |
| So but when you say supply of houses, you're saying specifically supply of land because it's the high land price which is the problem? |
| **John Daley** |
| Well no, you've got to distinguish between supply of housing and supply of land because the number of houses I have on a one hectare block, can vary. And you can produce a lot more supply if you increase density and the reason we don't increase density is not because it's not worth doing, it's because planning means it doesn't happen. |
| **Robert Manne** |
| I'm being nudged for one more question, alright and then we really need to wind up. |
| **Audience** |
| I think one of the hallmarks of the Hawke/Keating Governments was tough economic reform and the leadership that was shown during that time, not only from the government, but a number of key policy makers like the opposition, like the labour movement and so forth. And I think the Hawke/Keating Government were able to spend so much political capital to make those tough reforms but the population was willing to go along with it.  So I was just wondering is there fatigue in the electorate for tough economic reform given the many years of Hawke/Keating then Howard, I mean is there appetite for economic reform in Australia in the electorate today? |
| **Jeff Borland** |
| Well I think its two things, one thing is they had a set of circumstances where people, I think, more believed that things were really bad and something had to change. You had the onset, stagflation, we had high inflation, high unemployment, productivity growth had slowed since the mid 1970's, the terms of trade were tanking and so there was Keating's "Banana Republic" quote. So they were assisted by the circumstances in creating a feeling in society that there needed to be reform. But I think partly it was also, as I think you're suggesting, their quality as policy makers and politicians. They were fantastic at selling policy but they were also fantastic at designing good policy, and it takes things like, it takes skill and it also takes hard work.  Lately I read Gareth Evans memoir and you read his memoir, basically every weekend Gareth Evans gets up on Sunday morning, flies to Canberra for a twelve hour cabinet meeting that probably is going to last through to the next morning as well, and if he's not doing that when he's Minerals and Energy Minister, he's flying around the country consulting people about policy. Good policy making takes, (doesn't just happen), it takes a huge amount of hard work. And so partly, I think they had the circumstances on their side to allow them to convince people that there needed to be policy reform, but partly I think we were really very fortunate at that time that we had a group who were incredibly hard working and skilled in developing good policies and were able to sell those effectively. They weren't perfect, but they worked on the job and the thing got better as they went along. |
| **Robert Manne** |
| That's a nice optimistic place to end. |
| **James Otway** |
| I'd like to thank everyone for coming, I know we did run half an hour over, but I think it was worth it and I'm not going to be able to afford a house, so give me something. (laughter) …  So once again I'd like to thank you all for coming. My name's James Ottaway, I'm the President of the PPE Society, and I'd also like to thank our 3 panellists and our discussant, Robert Manne.  Helping me distribute the gifts is Maleela Julyan who is our Editor in Chief of our newsletter, you can subscribe to that on our website, it's quite good, you should. And Maxine Catchlove the Vice President of the PPE, so thank you all. |
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