SUPER MEMBERS COUNCIL

SMC event transcript: Why early withdrawal of super would exacerbate the housing affordability crisis

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Welcome by SMC CEO, **Misha Schubert**
Presentation by **Saul Eslake**, Corinna Economic Advisory
Followed by a discussion between **Zoe Daniel MP, Deanne Stewart**, Aware Super CEO, **Saul Eslake**
Hosted by **Elysse Morgan**, Stafford Capital

Misha Schubert:

Hello. Wominjeka. Thank you to all of you who join us today here on Wurundjeri Country, Melbourne now. And to those of you indeed who are watching along on the broadcast today, we pay our respects to traditional owners across the country and pause to reflect on that long story of our shared history as Australians, the story of the world's oldest continuing cultures anywhere on the planet, and the privilege it is as Australians to connect to that long story in the sweep of human history.

I'm Misha Schubert, the CEO of the Super Members Council. And it's a delight to have people gathered today for this important discussion on public policy in our country. The Super Members Council was established in October 2023, so we're not quite yet a year old, to be a powerful voice advocating for the policy interests of 11 million everyday Australians with their savings in profit-to-member super, an organization that works above and across politics to deliver good policy settings in the interests of millions of our fellow Australians.

And we're an organization that seeks to bring really strong and rigorous, well-informed evidence into the service of policymakers and policymaking in our country, and to put that information into the public domain to inform superannuants and policymakers about policy ideas that are advanced in superannuation. This report today by independent economist Saul Eslake is the latest of the contributions into the public policy square.

Super is a shining Australian success story. And a key principle that makes super work is that savings are preserved until retirement. That's the whole point. So for built savings over our working lives that grow and compound. So when we reach retirement, that gives us income to pay the bills when we no longer have wages coming in.

Saul Eslake is, of course, one of Australia's most respected independent economists and foremost experts on housing policy. And his powerful independent report sets out the analysis of the evidence to inform public policy discussion in our country in a way that is both rigorous and deeply thoughtful. To formally introduce Saul and to moderate today's panel discussion with our all-star panel, would you please welcome Elysse Morgan from Stafford Capital?

Elysse Morgan:

Thanks very much, Misha. Well, I left the ABC and journalism two years ago, and good to see that absolutely nothing has changed, that super and housing both remain political playthings, and that that's likely to continue to ratchet up as we edge closer to a federal election and as the housing crisis grows ever more acute every day.

The significant decline in home ownership rates will undermine one of the key assumptions that underpinned Australia's retirement income system at its birth, namely, that the vast majority of Australian retirees will have very low housing costs. And that was a safe-ish assumption in 1992 when compulsory super was introduced and home ownership averaged around 80%-plus for anyone over the age of 45. It's dropped ever since, and dramatically so for younger generations.

At 3.5 trillion dollars, you can see how super is a tempting bucket to borrow from to solve today's housing crisis. It's not a government that's current or the next government or the next government that will likely have to deal with the real bulk of retirement costs ahead. So who cares if you dip into it now?

Is tapping super for housing such a bad idea, though? And how can that 3.5 trillion dollar bucket be used in some way? Can it?

Independent economist Saul Eslake will shortly walk us through why it's a bad idea. Hope I haven't stolen your punchline. And then he'll join us in conversation with Deanne Stewart, the chief executive of Aware Super, and Zoe Daniel, also former ABC journalist and independent MP for Goldstein.

You may wonder why I'm here. Well, as a former ABC Business host, I've done a few of these panels. So, very kindly, the Super Members Council asked me if I would mind dusting off my old skills. And I'm now with a fund manager called Stafford Capital Partners, and we fundamentally believe in the value of super to deliver a well-funded and dignified retirement not just for the Australian super funds that we manage money for, but for all people around the world who rely on their pensions and who we manage retirement savings on behalf of.

This is an event for everyone to get involved in and ask questions whether you're here or whether you're online. Please use the Slido app. And there's a QR code on your tables which if you scan, it will just bring up the Slido app for you on your phone and you can put questions in. If you're online, there is a link on the LinkedIn page for this event, which will take you to the Slido app where you can put questions in.

Please put them in as we go through the discussion or even as Saul is presenting so that we can weave your questions into the conversation and we don't just have a back-and-forth ping-pong match at the end with a random bunch of questions. I'll now hand over to Saul to take us through the key points of his report.

Saul Eslake:

Thank you, Misha and Elysse, for the introductions. And I want to thank the Super Members Council for asking me to undertake this research and present to you here today. But in saying that, I also want to emphasize that although Super Members Council paid me to do it, they did not tell me what to say or what not to say, as any of my former employers could tell anyone who asked, that doesn't work.

And if the Super Members Council had tried to tell me what to say or what not to say, I wouldn't be standing here today, saying what I'm about to say, which, as Elysse hinted in her introduction, is that the proposal the coalition is making, called "super for housing," is a thoroughly bad idea. Having said that, let me say at the outset that there are two propositions which the proponents of this game make, with which I do agree; first, that Australia is facing a housing crisis. Coalition aren't the only ones to say that. As Paul Keating might have said, "Every galah in every pet shop across the country is squawking, 'Housing crisis.'"

The coalition also says, and I agree with them completely, that all else being equal, people will enjoy much better standards of living in retirement if, by the time they reach retirement, they own their own home outright. And thus, as Elysse said in her introduction, they have very low housing costs whilst in retirement, as has been one of the typically unspoken pillars of Australia's retirement income arrangements for generations.

And there is no doubt that we are facing a housing crisis here in Australia. One indication of that, and it's only one, is the number of times that Australians are searching the word "housing crisis" according to Google, which has been, in the last couple of years, at unprecedented levels. And in simple terms, and you don't need to be a PhD economist in order to understand this, and I don't have a PhD in economics, it's the result of demand exceeding supply for a very, very considerable period.

One indication of the demand for housing is, of course, the growth in the population. One indication of the supply of housing is the growth in the number of dwellings, the stock of housing. But of course, population isn't the only driver of the demand for housing, among other things, for a variety of reasons, including that people are living longer, that families unfortunately do, from time to time, break up, so what was once housed in one dwelling now needs to be housed in two. More people are living as singles for longer. People are having fewer children.

All these things have led to a significant decline over time in the average number of people per dwelling, which means that for any given size of the population, you now need more dwellings to accommodate them as they wish to be accommodated than you would have done in the 1950s or '60s, for example.

And it looks as though growth in housing supply will be constrained for the foreseeable future, judging by the downward trend in the number of dwelling approvals, commencements, and completions, and people such as the Governor of the Reserve Bank, Michelle Bullock, and Susan Lloyd-Hurwitz, who's the chair of the Government's National Housing Supply and Affordability Council but has a long career, of course, previously having been CEO of Mirvac, have all pointed to factors such as the shortage of skilled labour and the fact that building contractors are competing with very high levels of state government infrastructure spending for that skilled labour.

Difficulties that the construction sector is now experiencing because of the interaction between fixed-price contracts on the one hand and escalating labour and materials costs on the other, high interest rates, and of course, the long-standing issues associated with high levels of tax and charges on new builds. And increasingly, onerous zoning and planning laws administered by state and local governments are all constraining the ability of the housing sector to meet the growing demand for the number of dwellings.

And the government's own National Housing Supply and Affordability Council in May of this year foreshadowed that even with some pickup in the rate of new dwellings and allowing for an easing in the extraordinary rate of population growth that we've experienced over the last couple of years, in six years' time, there's still going to be a shortfall of housing supply relative to housing demand of almost 40,000 dwellings over that period.

Against the background of persistently excess demand for housing relative to the supply of it, it's been almost inevitable that housing prices would be on a long-term escalator. And there are different ways of measuring that, but the one that I've used in this report is the ratio of household disposable income, as published in Australia's National Accounts, to the number of people over the age of 15 as published in the labour force statistics released every month as they were for August today.

Now, I know that, obviously, there aren't too many 15 to 20-year-olds who ever were, let alone today are buying houses, but I wanted to take children out of the picture and look at what, for the most purposes, are adults. And you can see from that chart that that ratio of household disposable income to median... household disposable income per person over the age of 15 to median house prices has increased from about four and a half 44 years ago to almost 13 today. And any other measure you might make of income relative to house prices would tell you an essentially similar story.

And it's been a more or less relentless upward trend, although it has come in waves, particularly in the first five years or so of this century, and another wave during and after the COVID pandemic, a period when, as you'll recall, interest rates were at record lows. And the consequence of that for the long-standing goal of home ownership has been very serious.

Australia's home ownership rate has been declining since 1966. You might think, from that chart, not by very much, but that chart conceals wide divergences in home ownership rates among different age groups. Among people under the age of 45, the traditional homeowner groups, the home ownership rate is now back to where it was in the early 1950s.

Indeed, for people under the age of 34, it's back to where it was in the late 1940s. Some of that reflects different lifestyle choices that people of that age make today compared with their grandparents. People typically stay in the education system for longer and come out of it with HECS debts. People typically form permanent relationships and have children later in life than they did in the immediate post-war period. And young people have other things that they would like to do at that stage of their lives that simply weren't possible for people in the immediate post-war era, like travel extensively.

So the decline in home ownership rates among the youngest age group in particular isn't completely due to deterioration in housing affordability, but a significant part of it is. And the further you go up the age distribution, even to people aged between 45 and 54, where the home ownership rate is the lowest it's been since the early 1960s, declining housing affordability is the main driver of that decline in home ownership rates.

The reason the overall home ownership rate hasn't declined as much is because the groups among whom home ownership rate hasn't declined at all, namely those 65 and over, represent a much bigger share of Australia's population than they did in 1966 when the overall home ownership rate was at its peak.

And this decline in home ownership rates among younger people has profound consequences. Not only will it increasingly mean, as Elysse said in her introduction, that the long-standing assumption that the vast majority of retirees will have zero housing costs, and incidentally, that the small fraction who don't would be accommodated in social housing where their rents would be fixed as a percentage of their pensions. That assumption is starting to become less valid and will become increasingly untrue as time goes on, as more people reach retirement age without ever having achieved the goal of home ownership.

But secondly, it's driving a huge increase in intergenerational inequality of wealth. Inequality of wealth between rich and poor hasn't widened as much in Australia as it has in some other countries, but inequality in the distribution of wealth between the old and young has widened enormously. The share of household wealth owned by households under the age of 45 has dropped by 13.5 percentage points since 2003/4.

And the most recent survey we have of that is 2019/20, the one that should have been conducted in 2021/22, was delayed or postponed because of COVID. Almost certainly, the gap in holdings of wealth between the old and the young has widened further since then. And that I suspect is becoming and will increasingly become a source of social division between the old and young in Australia, which will have political consequences.

The decline in home ownership amongst the young has occurred despite governments spending a total of $38 billion in today's dollars between 1964 and 2021 on grants to first-time owners, and at least since 2011, an additional $9 billion on stamp duty concessions to first-time owners.

And I've been arguing since 1980, let me say in passing, since I was federal president of the Young Liberal Movement, the first Tasmanian to hold that role until Jason Falinski beat me, the youngest person ever to hold it. So don't let anyone accuse me of, as some people have done in the comments columns of today's Australian, being a Labor man.

Since 1980, I've been saying that anything that allows Australians to spend more on housing than they otherwise would, in a supply-constrained market, which we have always had, results in more expensive housing, not in more people owning that housing. It is no coincidence that the decline in the home ownership rate began at the first census after the introduction by the Menzies government in 1964, ironically, at the urging of the then president of the New South Wales Young Liberals, whose name was John Howard, we were taught that when I joined the Young Liberals in the mid-1970s, that it's been going down ever since then.

Because that marked the beginning of a fundamental switch in housing policy away from what had been the bipartisan consensus from 1945 until the mid-1960s, that government should avoid needlessly inflating the demand for housing and instead focusing on boosting the supply of it, to what has become a policy of needlessly inflating the demand for housing and restraining the rate of growth in the supply of housing with the consequences that we now see.

Another factor that's contributed to that was the change in the capital gains tax regime instituted by Peter Costello in 1999, which converted negative gearing from what had traditionally been a vehicle allowing people to defer tax to one which allowed people both to defer and permanently reduce the amount of tax they had to pay by converting wage and salary income taxable in the year in which you earn it into capital gains taxable at half the rate applicable to wages and salaries at a subsequent year of your own choosing.

And even the decline in interest rates, which most people would regard as something that would have assisted people more readily to become homeowners than was the case when I bought my first home and paid 17.5% on my mortgage for part of that time, has been more than offset by the increase in the mortgage required to buy the average house. As a result of which, the proportion of household income that's being spent on interest payments today, even though the mortgage rate today is about a third of what it was when it peaked in the late 1980s, is similar to the proportion of income that was being absorbed by interest rates at the peak in the late 1980s.

So as I say, the lesson of history going back 60 years is that anything that allows Australians to pay more for housing than they otherwise would, be it first-time owner grants, stamp duty concessions, tax breaks for property investors, lower interest rates, easier lending conditions on the part of banks, mortgage guarantee schemes, shared equity schemes, results in more expensive housing rather than more people owning that housing, which brings me to super for housing.

And the point is that super for housing is conceptually a souped-up first-time owner grant scheme with the difference that the money that you get comes from superannuation savings rather than from the government itself. Although it's in superannuation schemes, of course, as a result of government policies. And like every other scheme that has, at its heart, enabling people to pay more for housing than they would be able to otherwise, super for housing will result as... and a wide range of authorities smarter than me have said, will result in prices going up.

Now, economists argue as to how much they might go up. And the coalition likes to quote some economists who say they won't go up very much at all, but they still say house prices will go up. And the reason the coalition says that they won't go up by very much, although they don't say this explicitly, is because the scheme actually won't help very many people. At least it won't help very many people who need help in order to become home buyers.

And this is what the next part of my report seeks to show, that if you look, as I do with these figures, which, let me be clear, come from Super Members Council research, at the kind of superannuation savings that people in the traditional homeowner age range actually have, which are for singles age 25 to 34 is about 20,000, and for couples is about 45,000 and you take 40% of that, which is the maximum allowable under the coalition's policy, what they would get is somewhere between 8,000 and $18,000. In other words, it's very similar to a first-time owner's grant. Now as with first-time owner's grant, you can potentially use that money to get a bigger loan than you might otherwise would because you will have a bigger deposit. So that represents 20% of a bigger sum, and you might be able to borrow up to $40,000 or $90,000 more if your income is sufficient to pass the other tests that the banks use your capacity to meet that interest out of your income.

The people who are going to be able to withdraw large amounts are, by contrast, people who are older have been in the workforce for longer earning higher salaries and therefore have higher superannuation balances, people who are more likely to be homeowners on their own account anyway without needing to draw down their superannuation savings. The benefit would, for people aged between 25 and 34, not benefit many people. As the numbers compiled by SMC Researchers show fewer than 3% of single people between 25 and 34 would have superannuation balances large enough to allow them to draw the maximum amount for a couple of a hundred thousand dollars. While more than 70% of people in that age group who were singles would be unable to withdraw more than $20,000. People who are over 45, 40% of them would be able to withdraw the maximum amount of a hundred thousand dollars. But as I say, they are more likely to have been able to buy a house in the first place.

And if we look at couples, only 0.3% of couples between 25 and 34 have superannuation balances big enough that would allow them to withdraw the maximum amount allowable under the coalition's proposal while more than 55% wouldn't be able to withdraw more than 20,000. Again, the biggest beneficiaries would be people who most likely would be able to buy a house on their own without resorting to this kind of assistance. So it is unlikely to help a large number of people. The people it does help don't really need assistance, which again, in some ways, makes it like a first homeowner grant.

Moreover, unless you believe that house prices are going to continue rising at a faster rate than the prices of the assets that super funds typically invest in, and the fact that they have done that over the last 30 years is actually a good reason for doubting that they will over the next 30. As all of you who are involved in the marketing of investment products know, the fine print says past performance is no guarantee of future returns, unless you believe that house prices are going to continue rising at a faster rate than superannuation assets, people who take advantage of this scheme will have lower income in retirement after housing costs than would otherwise be the case. In other words, it would fundamentally undermine the objective of the superannuation scheme.

Moreover, if house prices do continue rising over the next 30 years at a faster rate than superannuation assets, then the housing affordability problem is going to get worse, in which case the scheme is not going to solve it. What this scheme will also do by inducing people to take money out of superannuation assets which are taxed admittedly concessionally, but taxed at 15% into owner occupied property which is not taxed at all, then it will have a deleterious impact on the budget, which Deloitte Access Economics have modelled could be several billion dollars a year by the end of this decade, $8 billion a year off the budget balance. So it's not only bad for private savings, it's also bad for national savings or public sector savings.

The final point I want to make here is that all of what I'm saying is not an abstract theoretical or hypothetical proposition because we only have to look over the Tasman Sea to see an example of a scheme similar in many conceptual respects to this at work and what it's done. In New Zealand since 2010, people with what are called Kiwi Saver accounts have been allowed to take out all of their superannuation savings except for the last $1,000 and put them towards the purchase of a new home. Now to be clear, new Zealand's super scheme is different from Australia's. It's not compulsory. You can opt out. The contribution rate isn't as great as it is in Australia. So Kiwis typically have smaller savings balances in their super accounts than we do, but nonetheless, they have been quite enthusiastic at taking them out.

And as you can see from the chart on the left-hand side, when they do take them out in large bounds, it has a noticeable impact on house prices. Correlation isn't causation. Every economist is taught that in their first year stats class. I was taught about the researcher who supposedly found a correlation between the number of storks off the north coast of Wales and the British birth rate. It doesn't imply causation, but it's certainly highly suggestive. What is also clear is that the home ownership rate has dropped since this scheme was introduced in 2010. It may have dropped for other reasons as well, but super housing in New Zealand certainly hasn't done anything to lift the home ownership rate.

What it has done as the New Zealand Treasury advised the New Zealand government in '18 is that he has in a supply constraint market, which they have like we do here, put upward pressure on prices and in particular has had a negative impact on the prospect of becoming homeowners for those people who either haven't or aren't able to withdraw significant amounts from their savings accounts. So it's clear from the lived experience of New Zealanders that a scheme such as the coalition is putting before the Australian people not only won't work, but stands a reasonable prospect of making the problem they're purporting to solve worse.

So the conclusion is that super for housing is a thoroughly bad idea. Whatever benefits it confers will be for those least in need of any assistance, it's likely to result in higher house prices. How much higher is contested territory and I'm not pretending otherwise, but no one's saying it's going to result in lower housing prices and it could result, the more people who take it up and the more affluent those people who take it up are, in potentially materially higher housing prices. It will do nothing to lift the rate of home ownership any more than any of the other schemes that have been tried over the last 60 years have succeeded in lifting the rate of home ownership.

It will result in lower retirement incomes after housing costs for people who do avail themselves of the scheme, unless, as I say, house prices continue to rise over the next 20, 30 years at a faster rate than superannuation fund assets. And if that is the case, then we're going to have a whole lot of other housing affordability problems besides. And it will add to pressures on the federal budget. So as I say, a thoroughly bad idea and one which I hope won't go any further than it already has. Thank you.

Elysse Morgan:

Thank you much. Thank you very much Saul, and some excellent charts in that presentation. There's a few journalists in the room, so I hope you make use of those. Deanne, what's the key takeaway for you from that report, apart from the fact that super returns have to outstrip housing returns as Saul said?

Deanne Stewart:

Look, I think the key takeaway is supply, supply, supply. If we really want to solve this crisis, we have to get to the root cause and the root cause is we don't have enough supply and we've had too many demand incentives.

Elysse Morgan:

Zoe.

zoe daniel MP:

I think that if everyone is bidding on houses using their super, the only beneficiary is the seller. And I think Saul has outlined that very well. And from my point of view, this is populist policy. Unfortunately, it lands. I was listening to Talkback Radio yesterday where there was a discussion about this and there was a woman who called in, was middle-aged, three children. She said, "I'd love to get the hundred thousand dollars that I've got at a super and put it onto my mortgage. It would ease my cost-of-living pressure."

And the presenter said, "Well, but what about when you retire?"

She said, "Oh, who cares about that? That's years away. Deal with it then." And so from that point of view, it's not only simplistic, it's concerning because if we go into this spiral of allowing people to access their super for whatever reason, fleeing domestic violence, COVID or this current proposal, then we end up in an ever depleting cycle of lower superannuation and potentially higher house prices.

Elysse Morgan:

Because Deanne, apart from when there was the early release during COVID, currently, there are quite a lot of different reasons why people can dip into their super earlier, isn't there? There's medical, there's health, there's different things. I think I saw for IVF, you can dip into super.

Deanne Stewart:

Yeah, there's two main areas. It's both compassionate grounds and financial hardship. And while they are quite contained, there's definitely been some areas where you can see them accelerating, like dental as an example where I know SMC has done a fair bit of work. But the financial hardship is certainly where we see most of the demand. And it's a little bit to Zoe's point. While I think the super industry does an incredible job of helping members through that moment, in many ways, they shouldn't have to because all that does is exacerbate the future.

Elysse Morgan:

Yeah, so what are the impacts of allowing withdrawal of super? I guess for a house would be the largest withdrawal if it's allowed compared to, say, a medical cost, hopefully, for the individual, but also for the system.

Deanne Stewart:

Yeah, I think for me, you have to go back to the basics. And I think Saul's just outlined that incredibly well, which is the super system is such a powerful backbone to the financial dignity of Australians for retirement. Together with Medicare, they are two of the most incredible things that Australians have to ensure their health and financial well-being. And so ultimately, what makes that so successful is the three components. It's mandated, it's universal, and it's preserved, and they are regarded as world-class. You talk to anyone around the world, that is what makes the system so successful and drive those high as well that you see consistently.

So ultimately, that is a really high integrity system. You then think about something like super in housing and it doesn't solve the problem. At all at a systems level, all it does, to Saul's perspective, is it exacerbates the housing affordability crisis. It doesn't solve the crisis and indeed makes Australians ultimately less well off in their retirement.

Elysse Morgan:

Yeah. We're getting the questions through coming up, and this one's actually for Saul, but I think I might actually put it to Zoe instead. Why do you think the coalition pursues the super for a housing policy when all evidence shows it won't achieve the stated goal?

zoe daniel MP:

For votes.

Saul Eslake:

Oh. Shocked.

zoe daniel MP:

Stunning revelation, isn't it? Well, as I've already indicated, it's popular among some cohorts who would like to get their hands on that cash flow, but what it fails to take into account is several things. Obviously, doesn't alleviate the supply issues and then potentially puts people in really difficult situation during their retirement when the government that has enacted the policy will not be in office. And from that point of view, I think it's really irresponsible.

Elysse Morgan:

And, Saul, a little bit outside of your report and you didn't talk about it, but given how many budgets you've covered, I think you're in a good position for this question. The pension, we talk about a dignified retirement. Deanne spoke about how it is the backbone of allowing Australians to really look to the future of their retirement with some certainty. Because the pension, if they don't have a good super bucket, that pension can't necessarily be relied upon to continue to increase. Can it?

Saul Eslake:

Well, I suspect it will continue to increase at the CPI. Woe betide any government that didn't index pensions every six months in line with [inaudible 01:10:07] in the CPI. But of course the economic system kind of relies on people's incomes rising at a faster rate than prices. That's what productivity growth is about, it enables wages to rise at a faster rate than prices without pricing labour out of the market and resulting in higher unemployment. That's why productivity growth is important. So Australia's retirement income has always had as one of its unstated assumptions that the vast majority, and by that as you said, over 80% of people in retirement, will have very low housing costs because they own their own homes outright and so their only housing costs are really council rates and repairs and maintenance.

And that the very small fraction who weren't able to attain home ownership during their working lives would be catered for by social housing in which their rents were fixed at a percentage of the pension. Now, that over time will become increasingly untrue because a growing proportion will reach retirement age, either never owned a home or still having an outstanding mortgage on their home, which they will then rationally use their super payer to pay their mortgage down. If you are in that position, that's a rational thing to do and they will then be dependent on the pension. And there isn't enough social housing to accommodate all the people who are on low fixed incomes, and so they will be increasingly exposed to the vicissitudes of the private rental housing market, which in Australia remember is unusually structured.

In most countries with similar living standards to Australia, the rental housing market is predominantly owned by some combination of government authorities, not-for-profits and charities and especially in the US and Canada companies established for the specific purpose of building, owning and operating rental housing. Whereas here in Australia, the rental housing stock is predominantly owned by what politicians like to call mums and dads, individuals. And they're typically in it not for income, but for capital gain and for tax avoidance or reduction because it's legal for reducing their tax.

And because they typically own their homes for their properties for about eight years on average, tenants have less security of tenure than they do in countries where the ownership of the rental housing is different. And tenants typically have fewer rights, for example, to keep pets or to put pictures on the walls. And the reason for that is of course that in this country, the owners of rental properties vote, including they vote against governments that want to expand tenants rights. Whereas in countries where the rental housing stock is owned by people or institutions who can't vote, the weighting pattern is different.

So among the problems that Australia has is not just increasing or pressure to increase the pension, I suppose, to cover the fact that more pensioners will be renting in the private market, but fewer rights for pensioners. And security in retirement for someone who's 85 or security of tenure is a real issue if you're 85 and thrown out because the owner of your property wants to sell it to realize a capital gain and kick you out.

Elysse Morgan:

Zoe, you've just got back from [inaudible 01:13:30], what's your view on how likely this would be to get up? One, if we see the opposition come to power in the next election, but also if we see the government remain in power, but perhaps a larger cross bench, perhaps a stronger opposition? What's your view?

zoe daniel MP:

As an Independent, I only speak for myself and I can't make a judgment on how the others, certainly in the lower house, would vote on any bill that might come forward. I would say that obviously the super bill to, in effect, define the purpose of super went through the lower house quite easily in the last few weeks. It's now sitting in the Senate. But I think that what you do have with the independent cross bench is a group of people who are not driven by ideological policymaking, but are driven by pragmatism, evidence and long-term thinking. And I think that in some ways you have Labour, which obviously is a big fan of super for obvious reasons, and the coalition with an ideological set against super. And that's why we have this constant ping-pong game going on around superannuation.

Luckily, we now have a group of people sitting in between them, and hopefully we'll have a few more after the next election to exert some of that rigorous thinking around, well, why are we doing it? What are the actual likely unintended consequences of it? And what are the long-term effects of it for us as a country? And I think that broadly, that's the way that certainly the lower house independents and the likes of David Pocock approach things, and it really is every bill on its merits and we ask the government of the day to make the case for the legislation and then they prosecute that and well, then each independent would make an individual decision on it

Elysse Morgan:

Because it's certainly not going to be really a budgetary consideration for any government in the next couple of years, is it? Because the cost of this, as Saul's pointed out, is going to be in 20, 30 years time,

zoe daniel MP:

Yeah, which comes back to the, is it just a pre-election campaigning tool rather than a serious policy proposal? That said, obviously, the coalition's been prosecuting this policy for some time, and certainly it was an element of conversation in my electorate prior to the last election, not least because the person that I was competing against was one of the key proponents of the policy. But the feedback from constituents that I had was that they didn't like it. And whether that was a factor in how they voted, I don't know. But I think that people in a highly educated electorate like Goldstein who are in the upper income earning portion of the Australian community did not see it as sensible economic policy.

Elysse Morgan:

Well, that's good to know and Saul, you just need to send your presentation around to the cross bench. So that's your homework from today. Why is super better off in super though? I mean, you've mentioned super returns over the past a couple of decades versus the increase in Australian housing prices or values, why is it better in super?

Saul Eslake:

For me or for you?

Elysse Morgan:

Whoever wants to take it.

Deanne Stewart:

Super is certainly better in super in that. And Saul, you'll have all the stats, but certainly from an overall perspective, the super returns are very, very high relative to the housing. But also, the point is that if you actually put it into the housing, then you actually end up getting the reverse. So you would get higher house prices and lower home ownership. So it actually doesn't solve the problem.

Elysse Morgan:

Let's start talking about some solutions then. There's a question that's come through that says has there been any government programs that have actually worked in the past? We've gone through the Rolodex of catastrophic policy decisions, Saul, have there been any good ones?

Saul Eslake:

No.

Elysse Morgan:

Cool. Next question.

Saul Eslake:

Because we haven't tried any good ones. In other words, every policy directed towards ostensibly helping first home buyers and lifting the rate of home ownership has entailed, in one way or another, enabling them to pay more for housing. And that flies in the face of the evidence, which I summarized here, that anything that allows Australians to pay more for housing than they would without that assistance results in more expensive housing. And to the question that you put to Zoe, why do politicians keep doing that? The answer, and I apologize for the cynicism, but in 45 years of trying to figure out why politicians do what they do, I've never found that cynicism has been a course of error. Other things of caused me to be wrong, but being cynical about the motives of politicians isn't one of them.

Politicians know, even if they don't say so publicly that in any given year there are only a hundred thousand or so people who succeed in becoming first home owners. And even if you assume that for everyone who does, there are five or six who don't, that's maybe 600,000 votes for policies that would restrain the rate of house price inflation. Whereas politicians also know that at any point in time, there are at least 11 million people who own their own home, there are close to 2 million people who own at least one investment property, that's between 11 and 13 million votes for policies that would keep house prices going up.

So on the one hand, 500,000 600,000 votes for policies that would put a lid on house price inflation, 11 million votes, 13 million votes for policies that would keep the fire under it burning. Even the dumbest of our politicians can do that math, and they do, even whilst shedding crocodile tears for the difficulties faced by young home buyers in getting their first toe on the property ladder. I actually think it's as simple as that. So the solutions are, in simple terms, one, stop needlessly inflating the demand for housing. Scrap first-term voter grants, scrap stamp duty concessions, scrap excessively generous tax concessions for investors in established properties. You don't want to disincentive people from investing in new builds, but established properties, stop it.

Stop imposing such excessive taxes and charges on the construction of new homes. Stop using zoning and planning laws to make it more expensive, more difficult or impossible to build housing in the places where people want to live, closer to jobs. Stop or do something about the obstacles that exist to having institutional and corporate investors invest in rental housing and governments using more of their own money to build more social houses for rent, not necessarily in the same way that they did in the '50s and '60s with government-owned workforces, but paying private builders to do it.

And so the old saying is, when you find yourself in a hole, the first thing you've got to do is stop digging, we've got to stop doing things that have been making the whole bigger, which is needlessly inflating demand and needlessly constraining supply. And then when we stop doing dumb things, we can start to do smart things, but we're a long way from stopping doing dumb things.

Deanne Stewart:

Maybe to round it out a little bit, I think a lot of that is true and fair. You can definitely see, and this I would say goes on both sides of Parliament though, where the answer once again is going back to how do we tackle the supply side? And the problem with super in housing is that it doesn't solve the problem. It doesn't create one home. And so really at the end of the day, whether it be state government, local government or federal government, the focus needs to be around supply. And you can certainly see that. And certainly, I feel that with both what you're seeing at state and federal, they're trying to tackle that supply side. I don't know that it's really taken off yet.

And certainly as a really significant institutional investor in this space, there are several things that we'd really like to see really accelerated to really solve this urgent crisis. And I think that's where I'd love to see all of the energy and all of the focus on both sides of Parliament because that gets to the root cause if you truly want to solve this housing affordability crisis. So it is things like, and you can see the state governments for example starting to do this, is looking at their own land. Where are their sites? Whether it be transport sites or their own land, where actually you can build a lot more affordable housing or a lot more stock of housing in those spots. That's part one.

Part two is to really address the approval process. We've got several sites where we've been going for over two years trying to get approval for more than 150 apartments in each of those areas. And they're right beside health precincts, education precincts, where you've got essential workers desperately needing that housing. So that's part two. Part three is actually to really review the incentives and how the incentives are structured. So for example, the state governments, to their credit, have bought in things like a 50% land discount. Now, guess what though? You've got to go through all these hoops, you've got to do the whole building, and then you might get that at the end the incentive's not working. So they have to look at the bureaucratic machine together with the incentive.

And then finally, if you think about some of those incentives and you want more in things like affordable housing where it's desperately needed, at the moment, that is really all going through community housing providers versus saying...

Deanne Stewart:

... all going through community housing providers versus saying, how do institutional investors and community housing providers get access to those incentives to increase the supply? That is what's done internationally and it's done to much greater effect. Institutional investors in things like build to rent, for example, overseas is 20% plus, in some markets it's 50% plus. Here in Australia where it is all mums and dads represents less than 2% in this market. Why? Because it hasn't been a constructive market to invest in.

Elysse Morgan:

And how do we develop a more constructive market, particularly for that build to rent?

Deanne Stewart:

Yeah, there's certainly a couple of things as it relates to particularly around if you think about build to rent and why is build to rent important? It's back to the housing prices and where they're at. You've got over a third of Australians needing to rent or fine rent and you've got vacancy rates at less than 1%, so you desperately need to increase the stock for rent.

In terms of being able to do that, for me, there's a couple of things that would really incentivize more institutional investors come to the table including super funds, but much more broadly than that. Certainly it is things like in build to rent, you've got GST right up front, whereas you don't have that in build to sell. So you've got a disincentive almost right from the word go to create that really long-term property ownership.

But secondly, as I said, if you want to tackle more around the affordable housing, then that certainly, the similar tax incentives of community housing providers, if you provided those two institutional investors together with the community housing providers, that would create a lot more incentive to invest in those areas. So there's a couple of areas that I think I haven't seen enough of the focus on those sorts of opportunities.

Elysse Morgan:

So just want to, some people in the room may be aware of Aware's work in this space. That must happen all the time. So could you just talk us through what your housing portfolio is like and how you've structured it and why? I mean was it in answer to this problem or have you just found yourself happily in the centre of this housing crisis and thought you beauty, we're right where we should be?

Deanne Stewart:

This has actually been something that Aware Super has been doing for years and years and particularly I would say internationally at first because once again, back to the incentives and the institutional market internationally is far deeper and far better. So we certainly did that more and more overseas., but certainly in terms of our property portfolio years ago, the team recognized that there was such, this increasing shortage of supply in residential, both in terms of affordable, market, and retirement and there was a really great opportunity to invest in that.

And so that's sort of where it began. It began very much with that context of a good investment opportunity. I think it is important, and this is certainly not a bragging moment, but it is important to know that the property team over this period of time have been one of the highest performing teams through this. So this is not about our ideology or bleeding hearts. This is actually a very clear investment opportunity for the team where they've got about 40% in what we call living.

And so fast-forward to today, we've got 13 sites across Melbourne, Sydney, Perth, Canberra, and through both what is built and what is being constructed right now, that's over 1,500 apartments. So that is quite sizable over a period of about six years of what's been built and ultimately, we see that as a really good opportunity. At the moment though, I would say some of the sites we have put a pause on. Why we put a pause on them? Well, construction costs are sky-high and you've got real labour shortages and so the returns are not stacking up. And so that is once again where coordinated input and incentive from government is required to have institutional investors like Aware Super come to the table.

Elysse Morgan:

So build to rent, it's in the name, it's not helping people per se with ownership directly. And there's a question here from the floor which says, what are the alternatives to offer help with saving for a house? Now I think you've made it pretty clear you're not up for governments tipping money into things or allowing people to unlock their super early. So is a solution to get more affordable rental accommodation into the market that then allows people to save some of their income, is that a part in the solution?

Saul Eslake:

Well, I would say that the solution ultimately requires an extended period where house prices rise at a slower rate than incomes so that people can afford to buy a house, or at least to save up the deposit required to buy a house out of their incomes within a reasonable period of their lives so that they're not buying their first home on their 50th birthday. But rather are able to achieve that at some time between say 25 to 35 depending on vastly different individual circumstances. It would not be a bad thing in my view if house prices were to fall by say 5% over a three-year period. Now I say that. You can't engineer it and if you tried to engineer it, you might end up having house prices fall by as much as they did in the US during the global financial crisis and that has all sorts of other consequences that are best avoided.

Elysse Morgan:

And you wouldn't have a government or a reserve bank that would support that.

Saul Eslake:

Well, that's an interesting question. I mean John Howard who, whatever else you might think of him, was usually pretty scrupulously honest, was honest when he said, as he did on a number of occasions, that no one ever came up to him on his morning walks and said, please prime minister, would you do something that makes my house cheaper so that my children's generation can afford to buy it off me more easily.

But I've seen in the last couple of weeks opinion polls suggesting that opinion on that score might be shifting. There was an opinion poll came out last week that said a majority of Australians would actually welcome the prospect of house prices falling a bit so that their own children and grandchildren would have a better chance of achieving what they themselves and their own parents had achieved. And if so, then that kind of suggests the penny has dropped for a sufficiently large proportion of the population for governments to contemplate doing policies that might actually help solve the problem rather than make it worse, which would entail at least putting a break on house price appreciation.

Most economists, in fact, I struggle to think of an economist who doesn't support the idea of replacing stamp duties, which are the worst tax ever invented with a broadly based land tax that doesn't exempt the family home, which economists, going back to Adam Smith think is a good tax. Even Milton Friedman, the epistle of free market economists has been an advocate of a land tax says as the good said when he was alive. It's a good tax.

One of the things a broadly based land tax would do would actually be to put a break on house price inflation or indeed push house prices down because people who buy housing would incorporate into the calculations they explicitly or implicitly make as to how much they want to pay for it. The fact that they would have to pay tax on it every year. And so that would actually do something in effective transfer wealth from those mostly older Australians who have been sitting on enormous untaxed increases in properly related wealth for the last 40 years to people who've been locked out of home ownership by precisely the same phenomenon in a way that it would seem perhaps for the first time ever a majority of Australians might actually regard as fair and as a good thing.

Elysse Morgan:

And would potentially, since my three-year-old is right on the zeitgeist with this because last week he asked me, "Why does Poppy," his granddad, "have such a big house?" My answer was, "He's a boomer," and so my son now calls Poppy Boomer. But it goes to the point that, I mean you had a chart there in regards to how many people are in houses, inequality, intergenerational inequality, that we are a family of four jammed into a very small, still very unaffordable home in the inner city where my father is in a very large four-bedroom home on the leafy north shore of Sydney-

Saul Eslake:

You offer to swap.

Elysse Morgan:

... alone happily. But if there were to be policies like a land tax that would drive that shift, is that a solution and is that something, do you think Zoe, that would be, if there is a small shift starting to happen in the public where people are looking around, and we are not just seeing it in our family, but everyone's seeing it around that that may be also another solution?

zoe daniel MP:

So I could say that's a state government issue, which would be a great political buck-passing exercise. But what I will say is that-

Elysse Morgan:

I'm not suggesting you take this to Canberra as a platform.

zoe daniel MP:

Thank you. Thank you for that. No, what I will say is that what Saul and Deanna have said really resonates with me partly around changing public sentiment around these issues. In the electorate of Goldstein, which is not uniform in its wealth profile, but it is higher than average wealth. And there are a lot of people sitting in very big houses who feel that they can't sell because of the stamp duty change over cost. The Victorian government as you know, and New South Wales government have been looking a lot at this stamp duty V land tax issue. The idea that perhaps above a certain value you could choose which one you want to have, but also there would be a revenue issue for the state governments. I mean switching that and the federal government may have to step in to underpin the changeover.

I would say that this piece around concern for young people and particularly children and grandchildren is real. So before the 2022 election, a lot of people in my electorate who would have investment properties for example, and will have benefited from things like negative gearing and capital gains tax discounts raise the issue of housing concern about the fact that their children, their grandchildren, will never be able to live anywhere near them. They can't buy anywhere into the market in my electorate, no hope even with the Bank of mum and dad. Very difficult.

And so that is now starting to sort of outweigh the self-interest concern and these things take time. You'll recall back when the Labor Party tried to prosecute the idea changes to negative gearing and such and that was just never going to fly in that era of Australian politics. I think we've moved. The prominence of the crisis in housing, the lack of future pathway for our kids, what life looks like for them. They're drowning in HECS debt, they can't buy a house, they're stressed, they're uncertain, they're unstable. We all know that and this housing supply issue is so key to resolving that problem to give those kids certainty.

So I do think that there is social license there to take some big steps, but I also think going to a lot of the things that the others were talking about, we have all of these structural issues in the system where the Feds, for example will say, "Here you go, here's a few billion dollars to do something with." And the states will go, "Thanks very much." And then they'll shut local government out and then local government arcs up and says, "Hang on, you didn't ask us if you could put that there." And the state government says, "Well, the federal government said we have to build it so we're building it." And that those systems are not speaking to each other effectively enough to create a smooth pathway to a solution because all the levels of government have to be involved in this.

Saul Eslake:

Yeah, and... Oh, sorry. Go.

Deanne Stewart:

I was going to say in support of this, there is definitely lessons to be learned about the crisis around COVID as to how the states and federal came together to really solve this. And certainly there is more coordination than there's been for a long time now, but it's almost like the war room crisis that requires the coordination. And I think back to your earlier question about what is the answer.

There is no silver bullet and the reality is you need supply of housing at each level. You've got to think about that property ladder as well of where do you start? Well you start renting, then you try and save enough for the deposit and then you look for the house. The problem at the moment is people can't even rent at this point with vacancies less than 1% and so they're having to move out and have massive commutes.

And so for me, you've got to tackle it both at the public housing and social housing level. You've got to tackle it at the rental level and affordability in renting. Then you've got to tackle the affordable housing. So you actually need several supply levers to be happening. And you're right, that has to happen at both state but local and federal. But it has to be seen as much more of a crisis like COVID to really solve.

Saul Eslake:

Just one other thing to say apropos of Zoe's point about all levels of government. The federal government imposed a land tax between 1915 and 1953. If the states aren't willing to do this reform, there's nothing to stop the federal government from imposing a land tax and giving the revenue back to the states on the condition, which they can do under Section 96 of the constitution, that they use it to abolish stamp duty. The federal government could make this happen if it so chose.

Elysse Morgan:

You can definitely take that, write that down.

zoe daniel MP:

I'm just writing that Down with the asterisk. Thanks, Saul.

Elysse Morgan:

Adding to your homework as well. We are almost out of time and thank you very much to everyone who's been sending in questions. I've been trying to weave them in as we go. I'll come back to you all for sort of a wrap-up because in answer to one of the questions here, it's not just more housing and more social housing. There's a whole bunch of things that needs to happen. I'll come back to you each with your key points as to what would be at the top of your list for change in order to achieve a better housing outcome than we've got right now.

But Saul, there's one burning question here at the top, and thank you to Simon Jones for putting your name on your question from Home Super. He says, "Many are withdrawing their super at retirement to repay supersized mortgages and that is not the intent of super. How do you address it?"

Saul Eslake:

Well, as I said-

Elysse Morgan:

Lower the price of houses in the first place.

Saul Eslake:

Well, yeah. As I said in my presentation, more people are getting to retirement age without having paid off their mortgage and it's perfectly rational for them to use their super to pay it off. Because if you say the purpose of super is to enable people to live with greater dignity in retirement, then paying off your mortgage if you have one with your super or a part of it is actually achieving that objective for that person in that situation.

The solution from Simon's point of view I guess is let's reduce the number of people who find themselves in that position when they reach retirement age, which is by essentially making it possible for people to acquire homes without having such a big mortgage that it takes them more than their working life to pay it off. That then goes back to the four things, stop doing stupid things that inflate the price of housing and constrain the supply of housing. And then when you stop doing stupid things, start doing sensible things. And if you can do both at the same time, like President Ford I think said about doing something that I won't mention in public and chewing gum at the same time, so much the better.

Elysse Morgan:

So there is no silver bullet, but at the top of your list Saul, what would be the one thing that would get maximum impact to make a difference?

Saul Eslake:

Well, you said there's no one thing and then ask me to nominate one thing.

Elysse Morgan:

There's not a single solution. Can you name one thing that would make a difference?

Saul Eslake:

Well, yeah, the one I just did. The federal government impose a federal land tax and give the money back to the states on the condition that they abolish stamp duty. I offer that because it can be done like that. Whereas most of the other things that would really help, and all of us have talked about that and all of you in the room know what those things are, would take some time.

Elysse Morgan:

Deanne, what's the greatest-?

Deanne Stewart:

I feel like I can't give you one answer. What I can say is-

Elysse Morgan:

What's the greatest impediment to Aware Super writing more checks?

Deanne Stewart:

Right here, right now?

Elysse Morgan:

To build stuff now.

Deanne Stewart:

It is certainly labour shortage and planning approvals and lack of incentives. I know that's not one, but that is three things that I think would really bring way more institutional investors to the table. And I think it's really important to acknowledge that it's important, this is a crisis we're in and you need a lot of ideas on the table, but those three would move the dial the most.

Elysse Morgan:

And do you think it would then have more super funds coming to the table and being comfortable in the space?

Deanne Stewart:

I certainly think it will have more super money at the table. But much more broadly than that in terms of speaking to many institutional investors, you will have a lot more developers and institutional investors coming to the table. And that is needed because ultimately, while government is a big part of the solution, we have to acknowledge that the government is in a fair amount of debt at both state and federal level. And so you need institutional investment at the table, yet in this country we've got it at the lowest level. And then when I look at when you do have institutional investors building things like build to rent, our tenancies are much longer, so it actually provides much greater housing security for those that have to rent as well.

Saul Eslake:

The thing is the coalition is overtly hostile to that now. What they say is overtly hostile to both corporate and institutional investment in rental housing. They're quite open about their hostility to institutional investment in rental housing.

Elysse Morgan:

And while we're talking, very briefly, your future, your super, do you see it as an impediment because it has been raised before?

Deanne Stewart:

No, we don't see it as an impediment at all. Ultimately for us, we've had high conviction that this sort of living segment has been a very strong segment to invest in, particularly when you compare it to retail and office, that does actually make up a lot of the index. So from that perspective, no, we don't see issues.

Elysse Morgan:

And Zoe?

zoe daniel MP:

A multi-partisan agreement. I think the problem that we have is that everything is a political ping pong game and it's very hard to make long-term cohesive policy when you're doing that. And that goes to agreement between the various levels of government, but also agreement across the political system around... And it's not only obviously to do with government funding, it's actually to do with making sure that the rules and the framework works to enable supply and entry to the market. And until everyone gets in a room and has a grown-up sensible conversation, we'll remain stuck.

Elysse Morgan:

Are you optimistic?

zoe daniel MP:

Ever optimistic and blazing a trail of optimism every day.

Elysse Morgan:

Saul that made you choke? Are you optimistic? How long have you been doing this for?

Saul Eslake:

Well, I'm tempted to say I've got a better chance of seeing a thylacine on my front lawn when I wake up one morning than of that kind of multi-partisan agreement being reached, even though I wish Zoe we were right.

Elysse Morgan:

To put that in context, Saul does live in Tasmania, so he's more likely to see a thylacine than you are on the mainland I guess.

Saul Eslake:

Maybe.

Elysse Morgan:

Deanne, what are your conversations like with your peers within super fund land? Are you optimistic that there are more parties coming to the table and looking at this space seriously?

Deanne Stewart:

Certainly. I think certainly from a super fund perspective, the super industry really does want to be part of the solution. I think we have to acknowledge that the role that we are to play is that whatever we invest in must be in members' best interest. And so for us it has to stack up, which is why I've sort of talked about that fuller view of how to solve this is needed because you can't just expect super funds to be a charity in this. We're there to get the best returns for our members, but we can be absolutely part of the solution.

Elysse Morgan:

And there was one final question that was on there that was what should everyone do in this room when they leave? And I suppose I'm going to read into it and imagine that was about sort of advocacy. Or what should people be leaving this room and what message should they be leaving this room with, Saul?

Saul Eslake:

Well-

Elysse Morgan:

Apart from land tax.

Saul Eslake:

No, I wasn't going to say that, I mean if people have understood what I've tried to say about super for housing. And in particular, that is just another example of what some other politician once called a conga line of bad policies that won't solve the problem and risk making it worse. That they go out and say that in their own words to people who respect them and will absorb what they're saying to them. Word-of-mouth is a very effective form of communication if there are lots of mouths saying similar words.

Elysse Morgan:

Excellent. Well thank you very much to the audience for your questions and thank you very much for being here today. And thank you very much to Saul Eslake, Deanne Stewart and Zoe Daniel for taking the time and joining me.

Misha Schubert:

Thank you all too, all of our distinguished panellists today for such a thoughtful evidence-informed discussion around the urgent challenge of tackling housing affordability in our country, based in a way that is actually effective and in the best interests of Australians.

Saul, your unique capacity to bring such a thorough, clear-eyed historical and economic analysis to these public policy discussions is a national asset and we're deeply grateful for the way in which you've brought your thinking and analysis to solving these challenges. Zoe Daniel, thank you for your, as always, erudite thoughtful analysis and observations and for your exhortation, particularly for a grown-up sensible conversation around tackling these challenges in such a thoughtful way. And for your reminder that when you ultimately start to have policy ideas being advanced that ultimately have a number of bidders bidding up prices, the people that wins in that circumstance is a seller. And if we want to go into that spiral of allowing people to access super for any reason, we'll end up in an ever depleting cycle of lower super, which means less dignity in retirement.

And Deanne Stewart, thank you for your really thoughtful analysis as well, not just around the huge challenge of tackling the brute cause of the issue on supply, supply, supply. Identifying some of those clear policy labours that are in the gift of state and federal governments to help unlock that broader access of supply.

And of course, thank you so much to Elysse Morgan for elegantly drawing out the discussion in such a clear, logical manner. Stepping people through those key proof points and pieces of evidence and what we know from the analysis of history, the lessons of history to inform better policy-making into the future. Could you all please join me by thanking each of our panellists and chair? Thank you all for attending today, both in person and online, and have a great afternoon. Thank you.