



THE SENATE

Senate Economics References Committee

Inquiry into Financial regulatory framework and home ownership

Answers to written questions on notice from Mr Saul Eslake, asked by Senator Andrew Bragg on 25 October 2024

Question: Did you conduct any new modelling for the SMC report, or were you analysing previous work done by the Super Members Council?

- a. Did you peer review the model?
- b. So is it fair to say that if that much of your analysis relies on that modelling, so if that modelling was wrong – maybe it had an incorrect assumption – the conclusions might be different?
- c. Was this the SMC's in-house modelling, or the work they commissioned from Deloitte?
- d. Did SMC provide you with that detailed modelling and methodology?
 - i. Could you provide it for the committee?
- e. Are you aware that the SMC modelling is not identical to the Coalition's policy?
- f. Are you aware that modelling didn't factor in key elements of the Coalition's overall housing policy that have subsequently been announced?
- g. Would either of those things likely change your analysis?

Answer:

I did not conduct any new modelling for the SMC Report. I made the use described on pages 14-18 of my report of the modelling set out in Tables 1, 2 and 3 of that report, and duly acknowledged in footnotes to those tables as being sourced from SMC modelling, after having satisfied myself (by asking questions of the model's designer) that the data presented in those tables had been derived from credible sources using plausible assumptions, for the purpose of making judgements about the extent to which the 'Super for Housing' scheme proposed by the Coalition may assist single persons and couples within specified age groups to purchase a home, either at all or earlier

than they might do otherwise, and the impact that doing so might have on their income in retirement, both before and after housing costs. The judgements made in the Report are mine.

- a) I was not asked to, and did not consider it necessary to, 'peer review' the model used by SMC, having as noted above satisfied myself that the data I was proposing to use was derived from credible sources using plausible assumptions.*
- b) It goes without saying that "if the modelling was wrong" then "the conclusions might be different": however, having satisfied myself that the data I was proposing to use was derived from credible sources using plausible assumptions, I had (and still have) no reason to suspect that "the modelling was wrong".*
- c) As fully disclosed in the footnotes to Tables 1, 2 and 3 on pages 14,, 15 and 16 respectively of my report, the modelling was undertaken by SMC. As I noted in my response to one of Senator Bragg's questions during the public hearing, I referenced modelling which had been undertaken by Deloitte for SMC as to the cost to the Federal Budget of the 'Super for Housing' policy, noting on page 18 of my report that the modelling had been done by Deloitte for SMC. Deloitte have considerable experience in modelling both the revenue and expense sides of the Federal Budget and I regard them as a credible source.*
- d) It would be wrong of me to provide the intellectual property of anyone else, and in particular the intellectual property of a client of mine, to any third parties.*
- e) After making what I believe were appropriate enquiries, I was satisfied that the modelling undertaken by SMC accurately captured those parts of the Coalition's policy that were relevant to my analysis of it.*
- f) I am unaware of which 'key aspects' of the Coalition's housing policy "which have been subsequently announced" Senator Bragg is referring to.*
- g) That would depend on what 'either of those things' were, and how significant a change they represented.*

Question: You stressed at SMC that being paid in no way factored into your findings or your conclusions – what did SMC ask you to do then when they hired you? What was the brief?

- a. How did this work come about?
- b. Super funds have prudential requirements to spend money in the members interest – are you prepared to say how much you charged SMC for this report?
- c. How much would you typically charge for this type of report?

Answer:

SMC asked me to “Identify past implemented financial-support-based assistance programs for first home buyers in Australia ... including a full history of policies that were implemented”; provide an “economic analysis of these policies and their effect on rates of home ownership and housing affordability”, and in particular “does the historical evidence show these policies have helped improve home ownership and address housing affordability issues, or not?”. They requested “a report, ideally less than 30 pages in length, and written with a structure and style that explain the premise, presents the analysis and findings, and the economic theory, in a way that is accessible and digestible for a general reader, making it clear whether future policies of a similar nature are likely to have a beneficial effect on housing affordability in Australia”.

- a) I’m not in the habit of asking “why me?”. I presume that SMC were aware that, as I explained during the public hearing last Thursday, I have been arguing since 1980 that anything which allows Australians to spend more on housing than they would otherwise be able to, results in more expensive housing, rather than in higher rates of home ownership. SMC may have been aware, as are many others, that I had put that proposition, among others, in two submissions to the Committee of which Senator Bragg is now Chair over the past decade, as well as in numerous other public fora and in many media interviews.*
- b) No, commercial arrangements between my clients and me are commercial-in-confidence. It would be prejudicial to my business interests if I were to make a habit of disclosing to third parties the details of any commercial arrangements between any of my clients and me. It is not up to me to judge whether paying me to undertake this work is in the best interests of super fund members.*
- c) See answer to b).*

Question: How much did you get paid for this and was it paid in instalments or in one transaction?

Answer:

See answer to question 2 b) and c).

Question: Do you recognise, as an economist, that the Australia's super system is different to KiwiSaver?

Answer:

Yes. Indeed, the first paragraph of the section headed "New Zealand's experience" explicitly acknowledges three differences between New Zealand's "KiwiSaver" scheme and Australia's superannuation system, namely a) New Zealand's scheme is not compulsory, b) the contribution rates under New Zealand's scheme are lower, and c) the New Zealand Government makes annual contributions to the accounts of "KiwiSaver" members.

Question: Should the super guarantee rise to 12 percent? Why not?

- a. What about proposals for the super guarantee to rise to 15 percent? Why would that be a bad idea?

Answer:

As I said in my response to Senator Bragg's question on this subject during the public hearing last Thursday afternoon, I do not support the increase in the compulsory SG contribution rate in stages from 9.5% to 12% which is being phased in between 1 July 2021 and 1 July 2025. My opinion of that proposal was changed after reading a report by Brendan Coates, Will Mackey and Matt Cowgill of the Grattan Institute entitled "No free lunch: Higher superannuation means lower wages" published in February 2020, which showed, I thought persuasively, that the then existing 9.5% SGC rate was sufficient to provide most working Australians with an adequate income in retirement – and that while there are some Australians (in particular women who take time out of paid employment to care for children or other relatives) for whom that isn't true, there are other, better, ways of addressing that problem than raising the SGC rate for everyone.

- a) The same reasoning applies as in my answer to question 5 in the immediately foregoing paragraph.*