Australia's budget pressures – the view from Treasury - Melbourne

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Speakers: John Daley, CEO Grattan Institute
John Fraser, Commonwealth Treasury Secretary

Three days after the 2015-16 Budget, Commonwealth Treasury Secretary John Fraser spoke to Grattan CEO John Daley about the key economic issues for Australia going forward, including the outlook for debt, growth and structural reform.

JOHN DALEY: Good evening ladies and gentlemen and welcome to the *Policy Pitch* at the State Library hosted by Grattan Institute. My name is John Daley, I'm the Chief Executive of Grattan Institute and it's my very great pleasure to welcome you all here today, as well as our guest John Fraser, Secretary of the Treasury for the Commonwealth. First of all, I'd like to start tonight by thanking the State Library, thanking the affiliates of Grattan Institute who support us and who make things like this possible, and of course we are here in Budget week and at the end of a very long Budget week I suspect for the Treasury Secretary. In fact, I dare say that it's really more like sort of Budget month for the average Treasury Secretary in the lead up to it.

John Fraser, obviously now the Secretary to the Treasury but started life doing a first class Honours degree in economics at Monash University, spent 20 years in Treasury culminating as the Deputy Secretary Economics, then moved to UBS where he spent another 20 years, 10 years of that was as the Chief Executive of Global Asset Management for UBS. Somewhere in-between and along the way he was Chair of the Victorian Funds Management Corporation and, of course, re-joined the Commonwealth Treasury this year in January as the Treasury Secretary. So John, welcome, it's great to have you here this evening.

JOHN FRASER: Thank you.

JOHN DALEY: So John, why don't we start on that personal note, you've grown up in Melbourne, you've moved to the public service and then you've spent over a decade internationally. From that distance based in London, what struck you about Australian politics and policy as different?

JOHN FRASER: Well it is different, it is quite different. In fact, it's four months today that I started in Treasury and it's four months and one day since I returned from the UK, although I was a frequent visitor our here chairing PFMC five to six times a year. The politics are similar, I think the policy debate has waxed and waned. At times in the UK the policy debate has been quite sophisticated and certainly running into Christmas last year the policy debate between Labour and the Tories really at the economic level was very good and when I left in early January you started to think this is heading in the right direction. I was back in the UK a few weeks ago on business, by then it had deteriorated. When Ed Miliband is interviewed by Russell Brand, the comedian, you probably don't know him much out here, but you really know things are off the rails.

But it had the same problems. The 24-hour media circus, cycle I should say, has meant that a lot of issues were kicked out of touch – a rugby term – or into touch before they got developed and that's a big similarity with Australia I think, which is sad, very sad. The relationships between the major parties were not what they were 20, 30 years ago. There was never a great camaraderie, but I think there was greater understanding when I was in Treasury in the '80s between the opposition and government and it does seem a little bit more pointed the differences. And the personalities are far more important, the personalities, similarly in the United Kingdom, are very important, so that's sad. I think it's a function of the media that people play the person rather than play the policies, like they should.

JOHN DALEY: And has that affected how the public service is, do you think? I mean, coming back after a 20 year period, do you notice that it's different to how it was?

JOHN FRASER: It's a lot different. I left in '93 as Deputy Secretary, we had a purple patch in Australia and I came back here. The issues are far more different, we've been through a mining boom and are transitioning now from an economy that was very dependent on mining to one that has to be broader based, and that's a difficulty. We're coming out, as the rest of the world, of a period of slower growth, although don't forget Australia's been growing well, but with the public service the role of the advisors is far more important. So when I left you had the ministers, you had a small number of advisors many of whom had come from the department, and then you had the department. When I came back you've got the ministers, you have a lot more advisors, many of whom have not come from a public service background and they add value, there's no doubt about it. But it is a bit of a battle at times for department, not just Treasury, to make sure that there is cohesion in the policy advice and, I'm sounding a bit old now but I am, an order in how that policy advice goes through.

Things are far quicker. That's probably one of the biggest differences with '93 and the early '90s. Things are far quicker. Instantaneous consideration of issues, not instantaneous decisions but a far quicker cycle of consideration, policy development and decision, and then it goes out, as I said, through the media and you get the feedback. You've seen that with the Budget this time round. It's a much quicker cycle and the ability to brief in a – when I went there in the '70s there were things called minutes where you went through and you developed the policies and that still happens, but it's on a much quicker cycle. And the other big change is the freedom of information has made people extremely careful in the public service about what they put on paper and that's sad because the freedom of information, which is not a bad thing in itself, but open policy debate means people have got to be candid and at the moment a lot of it's done orally, which is a pity. It's a pity for history and it's a pity because I'm not smart enough to think quickly on my feet and writing something down is a great discipline.

JOHN DALEY: So to provide some context for tonight and what you are and are not allowed to talk about, what do you see as the role of the Treasury Secretary? At least historically it's had more of a public role than for many other Commonwealth Secretaries. Is that because the media inherently finds economic policy a much more fascinating topic or is there a different role for the Treasury Secretary as opposed to many of the others?

JOHN FRASER: I think you've answered your own question John. I mean, economics is interesting, well I think it is, and it affects everybody. I think what's happened with Treasury, the other big change from the early '90s is the responsibilities are far greater, far, far greater not only in terms of the whole waterfront of economic policy, it's not just fiscal policy, it's not just Commonwealth-State relationships; it's the whole gamut of financial policy, whole gamut of structural policy, and then we've got the regulator bodies which are now in the Treasury portfolio – APRA, ASIC, a host of others. In fact, I had a meeting of the agency heads thinking we could hold it in my office and 18 people turned up. Good people, but it was a bit daunting, this was in my second week.

For the role of the Treasury Secretary, I think there's always been a focus on, as I said, the economic agenda, whether it be the Budget or the media statements or economic policy more generally. So the Treasury Secretary gets a bit more focus but, that said, through televising of the Estimates Committee a lot of other Treasury Secretaries are thrust into the spotlight. We've seen that with some of the immigration issues, we've seen it with the health issues, we've seen it with I dare say the human rights issues more recently. So you're under scrutiny far more and that is probably good and bad, like everything, but I don't think the role of the Treasury Secretary has changed that much. I mean, my view is we're not there to be popular, but we do have a role in helping to contribute to the economic debate in a sensible way. That goes for Treasury as a whole, but clearly the Treasury Secretary tends to get a little bit more interest than somebody else.

We played a very good role I think this year. Rob Hefferan, my Deputy Secretary in charge of taxation, has been I think remarkably good in participating in a non-inflammatory and learned way in the debate on taxation and I would hope that the senior leadership of the Treasury can do that as we go forward across a number of issues. For me, I every now and again will make a speech when I think I can add something, but I certainly don't want to make a speech just for the sake of making a speech.

JOHN DALEY: What do you see as the limits to that? Where is it that public servants shouldn't go when they're talking in public?

JOHN FRASER: I've got a simple view about the role of the Treasury. We're here to serve the Australia people, cut and dried. If we're not then I don't know what we're doing. We do that through providing good analysis and good policy based on that analysis to our ministers. That must be the conduit to how we serve the Australian people. It's not our role to start fighting battles outside that arena. Our advice goes to the ministers for better or worse, they may agree with it or they may not. It would be a road to hell if we started saying, "Alright, you haven't accepted our advice, we'll go and fight it outside". Our credibility but, more importantly, our trust from the ministers would be devalued and that would make us far, far less effective. So there are limits to it.

I have not under this government or indeed in previous times ever felt that I'm constrained in what I think, that's the most important thing. If you're told what you can't think then we're heading back to Stalinist Russia. But you've got to be sensible and, as I said, if we've got policy debates they should be within the framework we have in the public service and advising the ministers.

JOHN DALEY: So let's move on, I know that there are lots of people in the audience that are only really here to debate the rights and wrongs of Treasury's projections about the non-farm GDP, but we'll be getting to that, don't panic. But before we get to the Budget itself it's worth starting with the bigger picture and, of course, I guess we've had probably the biggest picture that Treasury tries to paint on a semi-regular basis, namely the Intergenerational Report which was published in March of this year. Rather than arguing about the particular projections in that, obviously it does provide some ideas about the long term pressures on Australian government budgets.

Of all of those long term budget pressures, as you look at them, which of them do you think really ought to be keeping Australians awake at night or is it the reality that it's all just going to be fine?

JOHN FRASER: By the way, I'm amazed you all came at six-thirty on a cold Friday night, so thank you. It may be a comment on your lives, but I'll leave that. On the Intergenerational Report, in 1996 I was on the Audit Commission, I was with Alexander, Bob Officer and Maurice Newman, and I take some pride in the fact we brought in the Charter of Budget Honesty, and I was a bit of a driver on that, and from that came the Intergenerational Report. The only surprise I've had about the Intergenerational Report is that people were surprised because the message was not particularly profound. It was a timely reminder of what I see every morning when I look in the mirror, that we're aging and that's a fact. It's something we share with virtually every country in the world bar India and it's one that will drive our lives into increasing complexity about the issues.

What came out of the Intergenerational Report was a) that the aging process is manifest and it will change the nature of Australian society and the economy; b) and it's not particularly profound, it will put pressure on those expenditures which are related to our aging, health expenditures in particular, the provision of age pensions; and c) the ability to service those needs will be constrained by the fact that the working population, if we don't change in terms of participation, will be asked to share a bigger burden. My generation is the most selfish generation I suspect of all time and we were very happy to vote ourselves increasing largesse from the government during the '80s and the '90s. We had a mining boom that came along and everything was sweet, but the Intergenerational Report is basically saying over the longer term go back to what economics is about, limited resources, virtually unlimited demands, and try to reconcile that. It's not much different from the household budgeting that my late parents did or your late parents did or your parents do.

So I was surprised that it got such resonance. I'm delighted the debate – I refuse to use the word "conversation" – was picked up a little bit by it. Clearly there are pressures coming out of it. I hope people don't lose sleep at night, life's too short, but clearly those pressures on spending that are related to aging will increase and we need to think it through how we want to calibrate our expectations about what governments can do for the population and our ability to meet those expectations. So a very good document, very useful. I was surprised at some of the debates about half a percentage point in the projections, and they are projections, over forty years. A bit like Beelzebub in that movie, my head just spun and I thought that's not the point. It's not half a percent, they're projections. They're not forecasts, they're projections, but the message is very simple and a very clear one. And the government, and it's the Treasurer's document, I guess what has been good is to see the debate has picked up in the wake of it.

JOHN DALEY: One of the things that was a little bit different about the Intergenerational Report this time around was a much longer discussion around participation and future participation rates. Do you think that there's much the government can do to make a difference to participation and, in the overall scheme of things, how important is it or are changes in the participation rates really just marginal?

JOHN FRASER: No, I think it is important. Governments can do some things, firms can do more firms, but individuals can do a lot of things themselves. Governments can do things and the government is doing it and previous governments have started to address it on issues like childcare. I've got two young grandchildren, one just over one and one about eight months, and it's been very interesting watching how that's affected my sons and their wives. I think the ability to provide childcare and flexibility is important. We do have low participation rates for women, particularly compared with Canada and some other countries. If we can get the participation rate up that's going to help. From my own experience in the private sector it's the firms in terms of how they accept or promote flexible working hours and things like that. For some jobs it's virtually impossible, I will say that. I know it's not popular but for some jobs flexible working hours just don't work, but for the vast majority of jobs they can work. And good firms want to keep good people, and so good firms I've found will make adjustments and think about how they're going to work.

So I think governments can do something with childcare, they can do something – we'll come back to it later I suspect – in terms of making it attractive, so taxation. It doesn't cruel you going back in the workforce or the interaction of taxation and childcare allowances and whatever but, at the end of the day, it's about firms saying, "We want that woman to come back so we want to help her to raise a family and also be able to work with us". And I say about individuals, well, people should make choices. In London, where I was for 13 years, we had a lot of women who would get to a point where they say, "Well actually, I want to take five years off, six years". That's fine. So it's about making work attractive but, at the end of the day, economics is also about work and leisure trade-offs, leisure in the broadest sense. I'm not suggesting staying home and bringing up kids is leisure, quite the opposite, but in the classical terms that's how it is.

Governments can't resolve it all by themselves. The taxation and childcare is something they can play around with.

JOHN DALEY: That then of course leads us to productivity and it's almost everything in the long run, very famously. But again I guess the question is what can governments do that will make a really big difference to productivity? Is there much there or is the reality that in Australia, where we've floated the dollar and we've pulled down the tariff barriers and we've privatised electricity in most places and so on, most of the low-hanging fruit has been picked and there's not a lot more that government can do to improve productivity?

JOHN FRASER: Fred Hilmer, good report, big advances in the '90s, showed up in productivity gains, very important. I feel very for Ian Harper. Great guy, but he basically was doing the act after the Rolling Stones had left the building so it's a bit difficult, but that's not to say there's a hell of a lot more than can be done on productivity. At the government level the provision of services by the states and indeed local government, the State Under-Treasurers, who are good men and women, many of them are ex-Commonwealth Treasury so by definition they're not bad, but there's a real recognition there, harmonisation of service provision, looking more at outsourcing and getting the best delivery of services. So I don't give up on that. There's still a lot of privatisation that can be considered. As long as Western Australia regulates the supply of potatoes I will not concede there is not a lot more work to be done and I -

JOHN DALEY: But I guess that's a good example. There are plenty of things we could do, but are they large in the scheme of things? It's difficult to believe that doing away with the WA potato scheme is going to make that much of a difference to GDP.

JOHN FRASER: It's a totally fair point. It just seems really strange to be regulating, really strange. Look, there are labour markets. I lived for five years in the States in DC and I've been going to big businesses in Chicago, New York and Hartford in Connecticut and you can't but be impressed by the resilience of the US economy through the flexibility in their product markets as well as their labour markets. And I'm a great believer that the labour market here we need a bipartisan approach to sit down and have a think about what productivity gains we can unleash by looking at labour market practices and I've been delighted that we've seen some stirrings of debate on that. What happened in South Australia was very encouraging. There's been some sensible discussion, some of the enterprise bargaining agreements, so I think that's a big area. We should not also lose sight of the fact that trade is a big improvement. You talked about getting rid of the tariffs. We've signed recently free trade agreements with China, Korea and Japan. And particularly with China but also with Japan that's going to cost us a lot of money in the short term through foregone tariff revenue, but the opportunities that are going to be opened by that I think will surprise people. A lot of effort has gone into it and I think that could be a series game-changer, particularly with Korea and China and I hope with Japan when they start to grow.

There is other stuff in the digital area, but I am completely antediluvian when it comes to understanding. I only found out what Netflix really was the other night when my second son said he'd finally watched True Detective and said it was a great series, I've been telling him to watch it for two years, and I said, "How did you watch it?" and he said, "On Netflix".

JOHN DALEY: So you decided to tax it?

JOHN FRASER: We got in quick. But what I'm getting at, I think there's a world out there where the advances we're going to see from IT and related, you know, I see the changes now. You see it how we work with iPhones, where we work with emails. I get to Treasury and I was a little bit surprised that we weren't using videos like we did in UBS. I ran companies in 24 countries and more often than not we'd go into the global table room where you felt as though you were next to them, and that's what we're doing in Canberra now. We link up with our overseas posts with a video from Beijing, from London, from DC. I think we forget about the massive advances we've had from the IT, even simple things like all these people sitting at dinner looking at their iPhones. I mean, I find it absolutely terrible, but the productivity gains are massive. It is depressing, it really is depressing, but that's how it is.

So I'm not agreeing with you that there aren't more gains to be had, but often it's a great thing about the market, we don't see it coming. Things come out of nowhere and what is great about the world is younger people are so inventive and so innovative in a way that I never was when I left university.

JOHN DALEY: So that's on the bigger picture. I guess it's probably time that we talked about the Budget. I actually got asked by someone earlier this week was I a Budget Paper 1 or a Budget Paper 2 kind of guy? And I think that the right answer to that question is I'm probably a Budget Paper 1 kind of guy, so we might start there. Obviously a key part of any budget is the kind of frame that that we put around it in terms of what do we think is going to happen, both in Australia and internationally, particularly given that obviously the international piece has a big impact on it. As you were framing the international outlook for the Budget what did you see had changed since last year?

JOHN FRASER: Well I came into it late, January 15th, but I think if you take the last six months the major factors were the US economy looked stronger, significantly stronger, and that became the case over the last three to four months and it has been quite a turnaround in the US economy. The issue now is when, not if, interest rates will go up. There's a whole industry out there that watches the Fed and I'm not sure it's a productive use of their time, but it's a sign of the strength of the US economy, unemployment around 5%, in recent time at 10%. So the US economy strengthening was a significant factor. China became a greater focus for us, not so much on the activity in China. It's always hard, I don't know whether the numbers for China are accurate or not, I suspect not but I don't want to insult our great Chinese friends, but what did come out of it was the iron ore price. The iron ore price had a palpable effect on revenue.

Now, we put in an assumption, it's not a forecast, in the Budget of US$48 free on-board for iron ore and that is the average of the previous four weeks to the Budget. It's the same basis on which we do the exchange rate - trying to do a forecast of iron ore at exchange rate is a fool's game - but it had a big impact on revenue and Joe Hockey's made it very clear it's hit us for six. The iron ore price yesterday was $US57 compared to our assumption of US$48. I'm told today, I haven't looked at it, that it's over US$60. If the iron ore price, let's say, stays at US$58 that's an extra $2.1 billion or so of revenue, $2.1 billion of revenue, and that will go straight to the bottom line. If it were, and I'm not suggesting in any way it would, but it if were to go to US$68 that would be an extra $4 billion and a bit on revenue. So that has a massive impact on us. That really was the story.

I mean, on the international side, a little bit of strengthening in Europe, I wouldn't go overboard about it. The UK economy clearly growing, London as a city state is booming, totally booming, as the rest of the UK is doing well. The UK car industry, I saw the new Rolls Royce was advertised here the other day, the Wraith, it's got coach doors, they open the wrong way. That was released two years ago in London. You saw the first of them about October/November in London and it seems they're advertising them here, ridiculous price but that's their business. The point I'm trying to make is they weren't being sold into the UK domestic market, they were being sold into China, they were being sold into India and to the United States. Mini Minors the same.

So the UK was getting stronger. Europe, I don't want to use the term "green shoots" but there was a little bit more strength. Not much, not enough to jump up and down about, so things got a little bit better but you've got to be careful, we're still vulnerable and they were the biggest changes we saw framing the Budget.

JOHN DALEY: One of the big questions in that whole international analysis of the developed world is whether we are going to return to the same trend rates of growth that we saw before the financial crisis or whether people like Robert Gordon are right and that obviously they'll keep growing as economies over the long run, but it will be a much slower growth. What do you think is the right way to think about it and, in particular, as you're framing a Budget where you've got to make assumptions about trend rates of growth, how do you deal with that debate?

JOHN FRASER: I'm a bit of a loner on this. I did a speech for CEDA I think in February where I referred to it and I did get a couple of letters. I think we have underestimated greatly the leverage that came out of the financial sector. Up until the global financial crisis, and I ran the part of UBS that never got into trouble, that's why I was there for so long, we were the asset management side but I was on the group executive board and you saw what was happening with the investment bank and wealth management. But UBS were not Robinson Crusoe. Every major international bank was trying to grow their balance sheet dramatically. It was a bit of a macho game. People had extraordinary ambitions to grow their balance sheets. It really started to rev up in the late '90s, gathered pace through the early part of this century and, of course, became shipwrecked in 2008.

The point I'm trying to make is that if you're growing your balance sheets the financial sector was providing massive leverage into world markets. Since the global financial crisis regulators, rightly in my view, and bank shareholders and boards have said, "Hang on, this was too risky. You should bring your balance sheets back". For that not to have an impact on growth possibilities I find counterintuitive. I saw it myself when the sort of loans or financing that used to be done on the fly were now suddenly taking four to six weeks of due diligence. As I said, I'm not saying this is a bad thing, I'm just making the point that we had a world economy that was being supercharged, I would suggest, from the mid-'90s through to 2008 and I think that will have an impact on potential growth. That's where I come back to saying about expectations. We've got to be sensible about our expectations for growth and, through that, our expectations for what we can essentially pay ourselves.

The other thing for us in Australia is what you referred to earlier John, the productivity growth. The productivity performance we've had over the past 20 years and certainly through the '90s was very impressive and it should be, because we hadn't had much productivity growth beforehand, we had some decent reforms, we had the floating of the exchange rate, the tariff or protection reductions, labour market reform and structural reform in the '80s, and we got good productivity growth. We need a renewed emphasis on that not because it's good because economists say it's good, because it will be an important part of growing our economy over the next 40 years and that was another message out of the Intergenerational Report.

JOHN DALEY: Presumably one of the other things you see as you look at the international economy is very, very low interest rates and I guess there's inevitably a question about whether they are essentially charging international economic growth in a way that's also not sustainable. In the same way that the very rapid growth of bank lending pre-financial crisis was ultimately an unsustainable growth rate, are even the growth rates we're seeing today in the developed world unsustainable given those very, very low interest rates?

JOHN FRASER: I worry, and I'm talking about the world here, I'm being very careful what I say about interest rates, but I worry about the impact of QE and the associated monetary policy settings what it's going to do. We have a tiger by the tail. QE has had low interest rates. Anybody who's owned assets has benefited from this, or sorry most people have; anybody who's been in equity markets has done well; anybody who's got houses in the better parts of New York or London – in fact in London, anywhere in London – or Zurich or Sydney by the harbour or here in Melbourne, have done well; and it's hard to not think that the very easy monetary policies have not been a big part of that. Anybody's who's been in a firm where the remuneration has been linked to their share price has generally done well and that's why when people say there's been no inflation I say, "Really? Have a look at the remuneration of executives of the top firms if it's been linked to equity markets".

There have been losers. I worry and I worry deeply about the good people. I grew up in Armadale when Armadale was a poor suburb. I had wonderful parents, but it was poor and I had wonderful parents who saved and what they wanted to do in their retirement was put some money on fixed deposit and get 4% to 5%. Modest people, part-pensioners and the whole deal, and I feel for people now - and it's worse in London. I went down Kensington High Street in December, the best you could get for a two year deposit was 1.0% and that's pre-tax, and I think that's unfair. I really think that's unfair. I think – we'll come back to this – we've broken the social compact with a large group of people and I think that's very sad and unfair. It's not as bad here in Australia because fortunately you haven't gone down to the zero levels that we've had elsewhere, but it's a worry.

In terms of investment, look, I'm a sceptic. I mean, one of the greatest set of meetings I had in my earlier years was with Mr & Mrs Friedman and I've always been stuck by Milton Friedman's comments both in Canberra and when I met him also in DC, was about monetary policy, "I don't know, we don't know, nobody knows" and I worry when people say things like the impact of interest rates will be this or that. I think in terms of investment it's been shown to be not a major factor. It will be, let's see how it pans out, but I do worry that we've got a tiger by the tail getting out of QE and the US will probably be in a better position to get out because they'll be the first ones out, but what's going to happen in Europe will be interesting.

JOHN DALEY: So let's come to the local environment in Australia and of course a key assumption underlying any Budget is where we think economic growth will go and historically the way that Budgets have been drafted in Australia we've assumed that GDP growth goes back to trend in the years three and four of the Budget, and so therefore this Budget assumes that we go back to 3.5% real growth in GDP in 2018/19. Of course, that has a big impact on what we think will happen to the Budget balance in the third and fourth years. Is that 3.5% really our best guess about the future?

JOHN FRASER: We forecast for the first two years and you're right, we've adjusted how we think about the third and fourth year, and there are issues about forecasting. I actually majored in econometrics at Monash under Ross Williams and Gary Sampson, who's just about to come back to Australia after many, many years overseas. Anyway, I did quite well actually, a little bit of self-praise honestly given, gratefully received. I did rather well, but because I did that I've always been I thought warranted to be a sceptic about econometrics. So I'm not going to go to bat for any particular economic model and what has been fascinating is to see the development of models, it hasn't been massive, it is our best forecast. It's our best forecast and it's a forecast and we put it out with confidence limits on it. But there's another point and I think the more important point, the relationship between GDP growth and collections is far more complex. So when we do the tax collections and certainly also on the expenditure side we are seeing a growing, not massive but a growing disconnect between the GDP forecast and the tax collections.

Now there are possibly a number of reasons for that, so when we look at what's going to happen on the fiscal side it's not a slavish application of the GDP forecast and similarly you see it on the outlay side too. You've got to look at what's happening with wages and prices. On the outlays side it's particularly on the prices on the wage side, and we've seen very, very slow nominal wage growth and that was another major factor in the fall-off in the expected collections over the past year. The repair of the fiscal position and, as I said in February, it's not a crisis but it needs to be addressed, if we don't address it we are a weaker country. I'm unequivocal about that, and it will be addressed, but the repair of the fiscal situation will come about through proper examination of the expenditure side plus the growth in the economy. If we sit around just waiting for economic growth to cure it we will be I think sorely disappointed.

JOHN DALEY: Well then if we actually look at the Budget, this is a Budget that has very few measures in it relative to many of the Budgets we've seen over the last few years and certainly their net impact on, for example, the Budget balance in '18/'19 is I think very close to zero in terms of their net impact. And yet we go from a deficit this year of about $43 billion to a much smaller deficit by '18/'19. What's driving that improvement? And can we believe that improvement, it's an improvement that of course Treasury has been forecasting now in a succession of Budgets and every time we get a year down the road the rainbow is kind of receded a little bit further over the horizon. What's driving the improvement in the Budget as forecast, or projected more accurately, and is this time different?

JOHN FRASER: It was not ever thus. As I normally say it was ever thus, but it was not ever thus. In earlier times when the mining investment boom was going on the problem was that Treasury were far too conservative on revenue growth and, as I'm told by the boys and girls who were there at the time, they were sort of shutting the door because the revenue was flowing in and where is this all coming from and what are we going to do? And of course, as I said in the CEDA speech, Peter Costello is a good man but a lot of it was spent on longer term spending programs and it was transitory revenue and other people have had to address that issue. So it's not always been the case we've been too optimistic. That was a very unfortunate little period we had. Sorry, I've forgotten the second part of it.

JOHN DALEY: The first part of the question was what's driving the -

JOHN FRASER: Sorry. The simple reason for that is actually the spending is not too bad and that's why I say in all the circumstances this wasn't a bad Budget. Quite the contrary, it was a good one in all the circumstances. But one of the things that I think a lot of commentators haven't picked up, the real growth in outlays or spending as it's now called – I'm old-fashioned, I call it outlays – this year the real growth was 1.1%. It goes up to I think 1.5% next year and it does go up a bit through the forward estimates period, but I'm old school, I worry about the immediate year more than anything because, as you say, the rainbow can end but also things can happen and minds can be concentrated and let's look at it next Budget. But 1.1% real for '15/'16 where we've got real growth in the GDP forecasts at 2.75%.

So it's not as if the government has gone crazy with spending, quite the contrary and where you get that repair is because there haven't been commitments that are going to drive spending through this period. There have been a number of major savings measures but, more importantly, there's been a reversal of some of the spending intentions and, of course, a key one on that was the PPL, the paid parental leave, which was a very expensive one. The spending in the out years obviously the national disability insurance scheme is a big driver of it but, to me, as I said, with your rainbow or my challenge it's we get up, we look at what the Budget's going to be for the next year. But don't lose sight of that fact. It's not as if we're sitting on a spending program that is, I think, silly. There'll be some people that will say could have done better, could have addressed it quicker, but I think in all the circumstances it wasn't too bad an effort and that's where that comes from. I take your point about the revenue growth and, as I said, this is when you saddle up and look at what the options are in less than a year's time.

The Budget planning process - and I hope we can do it properly this year - should start around about November. It shouldn't be something that we start to think of seriously in February and I know that's something that the Department of Finance, Department of Treasury will be pushing. You slow down a little bit on the Budget, there are people work their guts out. I'll put in a little bid here for the public servants, people going home at 2am. Now, it worries me because you make mistakes at 2am, but the loyalty and the energy of these people is extraordinary and I'm biased, they're my people, I love them dearly, but the loyalty and the energy. I've had to kick them out of the department at times for their own good. But we've learned a lot from this process and I think we can start addressing what the Budget's going to look like next time. We've got the mid-year economic and fiscal outlook which comes down in December and then we'll use that as the basis for next year's Budget.

JOHN DALEY: If we look at that improvement in the Budget position over the forwards, as you say, there's quite strong control on expenses projected in the Budget, not as a result of explicit measures but that's the organic forecast, if you like. But the biggest shift as I read it is you see revenue going up by about 1.7% of GDP over the forward estimates and most of that is on the personal income tax line one way or another and, indeed, they grow I think by about $40 billion more than they would if they simply grew at the same rate as GDP. How much of that improvement is fiscal drag and how much of it is something else and what's "something else"?

JOHN FRASER: Fiscal drag is a problem and it's a big item. It's roughly for '15/'16 about $5.5 billion, that is people going into the next bracket, and that's not good. I'm not going to sit here and say that's good. It's about $25 billion over the four year period and I think it's something that has to be addressed, it's something that hopefully we'll address not just in a fiscal policy framework, but also in the review of the taxation under the options paper we've got. It's a worry. You talk about growth and you talked about workforce participation, I'm unashamedly of the view that high taxes discourage growth. Why do I worry about that? Because growth is the best way that we can support the weak and the disabled and the genuinely disadvantaged people in our community, we need jobs. Fiscal rectitude is not an end in itself. Fiscal rectitude is there because the economy should be stronger and be in a better position to grow over the longer term so that we can get people into employment.

So the fiscal drag to me is a worry. It's particularly a worry because the tax competition for Australia is growing. It always used to be Singapore, Hong Kong and, more recently, Shanghai. You can go to Singapore or Hong Kong, 15% top marginal tax rate, every day you're out of the country you pay no tax, so the airlines love it because all these expats in those countries are out at the airport getting on to go down to Singapore when they should be working, anyway, it's a little game people play. But it's not just Singapore or Hong Kong and Shanghai anymore. You've now got in the United Kingdom George Osborne talking about taking the top rate, which is currently 45% plus the national insurance, back to 40% and you've got our good friends the Kiwis who've got a top rate of 33%. 46,000 people net immigration into New Zealand. My opposite number is a lovely guy, Gabriel in New Zealand reminded me this week, 46,000 people went back to New Zealand and the calibre of those people, they weren't just disaffected Kiwis who wanted to go home, there were a lot of Australians. And when you looked at the makeup, there were a lot of professional people, anybody under 50 is young in my book, but a lot of people in their 20s and 30s, and there's tax competition there.

You talk about fiscal drag. Our top marginal rate now cuts in at 2.3 times average earnings. In England or the United Kingdom it cuts in at 4.3 times average earnings. In Canada it cuts in at 8 times average earnings. If you think that doesn't have an impact on growth that's fine, you're entitled to that view. I think it's counterintuitive and it's a reason why you see a lot of Australians wandering around London who don't want to come home, as much as they love the country and you have functions at the Australian High Commission and they're all there waving gum leaves and crying about they miss home, but they won't come home because it's going to cost them and it's going to cost them big time. And we've got to be conscious of this tax competition because, whether you like it or not, disproportionately the upper income groups are paying the vast bulk of taxation. And that's why I think the taxation reform has to take account of the tax competition and the disincentives that are thrown up by inordinately high marginal rates.

JOHN DALEY: That might be a nice point to transition into talking about all of the other things that are on Treasury's plate at the moment. We've got obviously Ian Harper's inquiry into competition, we've already talked about that a little, Murray's inquiry into the financial services, and then of course you've got a tax white paper process running. And we've been talking about tax and those of you who know me well know that that's one of my favourite topics. If we look at the tax discussion paper I think it would be fair to say it was consistent with many other documents we've seen from Treasury over a long period, including obviously the Henry Tax Review, in laying out the concerns with the economic drag of corporate taxes in particular relative to other taxation bases.

When you dig into that argument it's essentially a claim that we need to get Australian corporate tax rates down because we need to attract foreign capital into the country, we're essentially competitors on a global stage for foreign capital and therefore if we pull the tax rate down, so the theory goes, we'll see more capital flow into Australia. I wonder, given how low global interest rates are at the moment are we really competing that hard for foreign capital or is it really just desperate for anywhere it'll find any kind of return?

JOHN FRASER: I know where you're going and I think it's fair to say, from my own experience, when foreign businesses look at international investment generally the internal rates of return that are required, the hurdle ones, are so high it would be false to say that taxation rates, unless they are ridiculous, loom large. Whether it's 30% or whether it's 25% frankly is not as important as other issues, governance, dispute resolution. As a rule of thumb, most big firms won't look at acquisitions unless – and I'll put a number on this and you'll get every – but it's well above 20% because things go wrong, you want margins of errors. So I think it's fair to say that corporate tax rates in terms of attracting foreign investment there are other factors, the exchange rate of course and exchange rate expectations.

But for Australian companies and others it's a factor and you see that particularly when you talk to small and medium size business it's a factor and, for my part, I would like to see a lower corporate tax rate. In earlier times there was a general view to try to align the highest rates for personal tax at something like the corporate tax rate and that seems to be a mantra that's dropped a little bit.

JOHN DALEY: Does that still matter in a world of dividend imputation? And I guess one of the questions about the whole corporate tax rate debate, John Freeburn's obviously here tonight but has also written on this in the way that it doesn't have that much of an impact, because of divided imputation the only thing that really matters for local corporates is how much money have they got to reinvest. That's the only place that the tax rate really hits them.

JOHN FRASER: Well, the government's made it clear their views on dividend imputation, so I won't stroll into that. It is a factor, it's an offset. I was there when dividend imputation was brought in. Because the chap who was going to give the address to Brookings' group of tax officers fell sick, I had to give a speech to the Brookings Institute in DC. I'd always avoided talking about tax because you say something. I spent three days studying for it and it was the worst time of my life, but the drivers in the mid-'80s were, as everybody knows, quite different. But it's something that in the longer term we've got to look at in the total mix, you can't look at it, as you can't in a lot of issues, in isolation. But I'm not denying it's an offset to the corporate tax rate for Australian companies. It may have some impact on the behaviour of the Australian companies, it clearly has an impact in terms of how they distribute profits, whether it's retained earnings or dividends, but it's something I would hope one day will be looked at in a holistic view with tax.

The tax options paper, where I cannot moan, I have been delighted with the calibre of the submissions we've been getting. What I have been encouraged – and I did a couple of sessions today with two of the big accounting firms – is to encourage companies to speak up, because what we need in Treasury is real life experiences of how the incidence of the tax is affecting them. The industry associations are very professional, very good, but often the circumstances of particular companies differ quite greatly and what I am encouraging is companies to actually stand up and be counted and let us know. That's why we've got a big engagement process over the next few weeks. I'll be chairing a couple of meetings both here and in Sydney with people to say how is this affecting you? But if we don't get a decent debate on these tax options we will be the poorer for it. It's hackneyed, but the tax system was designed for another era when FJ Holdens were going down Burke Street.

We've got to have a good look at it because when reform does come I suspect we'll be stuck with it for another 20, 30 years, so we've got to have a few worriers out there to stand up and be very blunt about their own experiences. We are in Canberra. We've established a Sydney office, we're establishing a Melbourne office, I'm putting people in them, I'm seconding people in from the private sector; we need real life experiences about how the incidence of tax and, indeed, other policies impact on economic life.

JOHN DALEY: So that's tax and I guess the other inquiry is the Murray Inquiry into financial services. It's obviously a very large and comprehensive piece of work, but what do you take away as these are things we really need to get moving on?

JOHN FRASER: First of all, I think it's a very good report. You'd expect me to say that, but I had a couple of hours with David recently and we were in roaring agreement on too many things, which was good. I'm a child of the early '90s. We in Canada had our financial crisis in the early '90s. I remember coming down to Melbourne as a precursor to shutting down the State Bank of Victoria and meeting the then Treasurer and Secretary to the Treasury and going back up to report to the Prime Minister, Paul Keating at the time, and it was all history after that. The State Bank of Victoria was sold, we did the same thing with the State Bank of South Australia, but what came out of that - and some of the banks had some problems - was a much stronger financial sector. The parallels with Canada are and were uncanny and we now have a situation where our financial sector is very strong, the banking system, as is the Canadian one.

The issues in the Murray Inquiry, we've got to work this through, we've got the banking issues, capital, perhaps there's a little more scope to talk about liquidity. I know through my experience during that horrible week of the Lehman issues, which was horrific, I went from London to Zurich, which is a bit of a problem, to spend a week in Zurich is a challenge, but we were managing a US$120 billion cash fund for our UBS Global Asset Management and it was frightening, it was frightening. But I also saw the bank trying to make sure we had access overnight to liquidity and that's why I'm loathe to criticise people for what happened in the global financial crisis because it really was a worry. But it also underlined to me how important the financial sector is. I'm not excusing their remuneration in any way, I won't and I won't defend it, but I am totally convinced how important it is. And we are blessed in Australia that a lot of the measures that were taking in the early '90s have served us very well, served us very well in the global financial crisis. So there are the banking issues which we'll address. I hate to say they're straightforward, but they're a set of issues where I think there's a lot of agreement and I applaud the banks who recognise that and we've been in dialogue with them.

There's a second set of issues which my people have called "consumer outcomes", they're about competition issues in the banking sector, things like the wealth management business which I feel very, very dearly about. It's very important, and this comes back to the Intergenerational Report, as people are getting older the trust that's needed in wealth management, in financial planners cannot be anything short of 100% and we need to address that. This is a real role for proper intervention to make sure that works and the Murray Inquiry will give us a vehicle, the response to it, to look at it. There's a third set of issues which relate to superannuation, structure of the superannuation industry which we can look at. I don't want to hold up the response to the banking issues or indeed the consumer outcomes, so we'll get out in good time. It's a very good report; the government's very engaged on it, Josh Frydenberg, the Treasurer. It's one that I'm looking for good progress in reform.

JOHN DALEY: On that note it might be time to throw it open to questions from the floor. Who would like to go first?

AUDIENCE: I just wanted to raise two issues that you've brought up tonight. The first was bracket creep and the second was the political divide which you mentioned at the start, you thought it was more intense nowadays than it was previously. I think the status quo at the moment is that the Treasurer's saying today that bracket creep can be fixed provided Labor passes the savings measures that the government has previously announced, yet Labor says of course that they won't pass them. I'm just wondering if you see this as a re-run of what's been stalling some meaningful reform over the years or whether you do have any optimism that this can be resolved?

JOHN FRASER: I'll leave that to Joe to respond.

AUDIENCE: I was wondering if you could reflect on your experience in the UK and during their period of austerity, their commitment to maintaining their foreign aid budget and Australia's, over the last couple of budgets, cutting of the foreign aid. Is there something different in the economies that allow the UK to maintain a commitment externally whereas Australia hasn't been able to?

JOHN FRASER: I don't think I can add much to it. It's been a little bit of a different debate in the UK. No, I can't really add much.

AUDIENCE: The question I have is on tax, but most importantly federal/state relationships. Do you envisage that there can be constructive policy debate about the allocation of responsibilities for revenue raising between state and federal and expenditure between state and federal?

JOHN DALEY: I'm pretty hopeful that there will be. I'm a little bit biased because I chair the Head of Treasury's meetings and a lot of them are ex-Treasury people who I know well but I must say, the debate we have at those meetings is top class, really top class. They're lively, they're robust, but there's a community of view and economic understanding and I think when the Treasurer chaired the State Treasurers' meeting recently in Canberra that also came through. I'm a great believer, I love this country obviously, I'm a great believer that good things will come, but often they'll come slower than you want. I think on the Commonwealth/state side the one thing that we share with the states is what I've said always, unlimited demands, limited resources, and the calibre of the State Treasurers, the calibre of the State Under-Treasurers give me great hope there. I'm not expecting an outbreak of agreement next week, quite the contrary, but I think there's a lot of good work being done and I'm probably more hopeful there than perhaps in other areas. I might be fooling myself but hey, if you don't live in hope what's the point?

AUDIENCE: You mentioned your admiration for the US model and the robustness of the productivity, the product innovation, the demand adjustments, labour market adjustments. I've worked for American companies for a long, long time and one of the great things is innovation in terms of capital allocation, if you look at Silicon Valley, if you look at the entertainment industry, all throughout the states. We in Australia seem to have a tax system - and I questioned Mr Costello on this the other day and didn't get a satisfactory answer - we seem to have a tax system that biases our entire capital allocation towards buying a second, third and fourth home and then escaping Scot free, as John Daley has pointed out, and pulled up the drawbridge, if you like, once we become 55 with the tax free superannuation etc., coming back to the selfish generation.

Surely Treasury should be able to convince both sides of the political divide that innovation comes from correct capital allocation in the industries of tomorrow, rather than the house of tomorrow?

JOHN FRASER: The thrust of what you're saying about the Americans. I mean, the other thing that strikes me about America is the UK and Australia share something else, that is a disproportionate number of people who work in big organisations, whether they be banks, whether they be insurance companies, mining companies, whereas in the US people come out of college or even if they don't come out of college, tend to go to Silicon Valley. But it's not just that, the hedge fund industry is a classic. I used to run a hedge fund and some of the people there you'd sort of cross the street rather than meet, but they were terrific and they were young people coming in, they got paid far, far too much. But there was, as the Americans would say, an attitudinal issue which they went out and they were innovative and entrepreneurial; failure was not something that was stamped on your forehead to be worn all through your life.

And I think what you said about capital allocation, the ability to raise money through either the private equity networks, the people to be able to do something, was terrific and I would hope that would come more and more here in Australia. And don't forget what the government did – and I'm not here as a cheerleader, quite the contrary, I try to call it sensibly – but small business I think is very welcomed. Small business, the number of small businesses is massive, that's where we need to pick up. We need to encourage small businesses to become medium and then to become large and I do think the measures that have been brought in, not just the tax and the accelerated depreciation but also buried away in the Budget papers is stuff about cutting red tape, giving immediate deductibility for setting up businesses, and I think that is part of a cultural change we need to engender.

I've got a niece who's about to get married to a plasterer and he's young, he's 28, he's terrific, he's set up his own business and it's terrific to talk to him. At a family function he came up to me and I thought I was going to get the normal bit about, "We need more money for this" and "You ought to do this" and he said, "Cut taxes, what are you doing about cutting taxes because I want to do this? What are you doing about cutting red tape?" So it's about the tax system, it's about the allocation of capital, but it's also about giving small businesses, giving people who are starting off a real turbo-boost. And I do worry, and for Treasury I've encouraged people and we're very grateful, you go and see the big end of town, it's good to talk with them, but we've got to engage with everybody and not just business. We've got to engage with the council social services, we've got to engage with the charity groups, you know, the great work done by some of the charity groups, but we've got to engage also with the people starting out to know what they need.

So I'm agreeing with you, our ability to persuade people I'll leave it for others to judge.

AUDIENCE: I notice in this Budget there's a continuation of the big reduction in expenditure around health and education in the out years and one of the things, sitting on a board of a hospital here, looking at that you'd say there are three scenarios here: one is that these cuts will in fact be implemented and you've got to say, given the history of cuts, it's pretty challenging to see how they can be met without significant cut backs in access to the system; alternatively, they will be rolled back and simply not sustained by a future government; or they could be levered to drive the states into actually accepting the need for an alternative source of revenue, perhaps an increase in GST or some other form of revenue.

What do you see as the preferred outcome there? Because a cynic might suggest that this is in fact Treasury's sole way of driving improvement in the state and federal relations on revenue raising.

JOHN FRASER: It's lovely to be accused of being subtle, it would be novel. You're referring to the cuts that were announced in the last Budget. Well, they are what they are. This is what I was referring to with the Intergenerational Report. I'm not in a position to comment beyond that to be honest, but they're in there at the moment, this is part of the $80 billion cut back for the states, and these are policies that remain unchanged.

AUDIENCE: In the UK the Social Value Act has been introduced and part of that Act is about encouraging social enterprise. I'm just wondering with your comments around encouraging small businesses if you see that there's a greater role for social enterprise to play in Australia?

JOHN FRASER: What do you mean by social enterprise?

AUDIENCE: It's a form of business that has basically triple bottom line intentions, so as well as creating a value, also social or environmental value.

JOHN FRASER: I've always been of the view that there's no contradiction through running an enterprise which – they used to call it the three -

JOHN DALEY: Triple bottom line.

JOHN FRASER: Yes. I've never seen the conflict.

JOHN DALEY: Well I think these are often enterprises in which they deliberately aim for a sub-commercial rate of return, albeit a positive rate of return.

JOHN FRASER: Well, it's choice, if people want to do it that's fine. For me to worry that I've lost any chance of getting an interview for heaven after 22 years in the private sector I threw myself, trying to solve my conscience, into a number of charitable organisations. In the United Kingdom we had a social enterprise with the Help for Heroes, the disabled soldiers who are coming back, and I can assure you they were not making a profit. But an example was a chauffeur business that we set up through the Help for Heroes group that was totally subsidised and the key objective was to provide these men with the ability to become chauffeurs, but it wasn't making money. So that's my involvement with it.

I can't add much to it really. The more the community gets involved the better. I think the great work by some of the community organisations in welfare is not appreciated enough and that was one of the things that I was struck in the United Kingdom; that you had people getting grants from government to undertaken community work and so the delivery was, I thought, far better than having government departments do it. I know it's a bit wishy-washy.

AUDIENCE: I'm just wondering if you could reflect on the capacity of Treasury to put all the economic variables into the spatial context of Australian cities. I guess in many respects I'm noting the work of the Grattan Institute in the work that its being doing around cities that if we think about income distribution, if we think about productivity, all of that happens within the context of essentially the dominance of large metropolitan cities. I guess the evidence that the way those cities function substantially damages what we might regard as some shared economic goals.

JOHN FRASER: I totally agree. Just casual observation in the United Kingdom brings that home. The decline of once great cities like Birmingham is a classic and that has severely impacted the economic development of that northwest region. The rebirth of Manchester has been terrific for the United Kingdom. Here in Australia it's one of the reasons that we went on a little bit about QE. I see what's happening in Sydney and Melbourne with housing prices and I think that's extremely worrying. And I look at my own children, they might have an old man who helps them and they're lucky, but I see other young people who are being pushed into a life that doesn't reward them adequately for hard work. Don't get me wrong, the income distribution is a real economic factor. It's a social factor, but it goes through that, and massive divergences in wealth and also income don't help and I worry.

So yes, I agree. Look, I've only been four months in the job, I want to work with a lot of the think tanks and the great thing is there are more than when I was here 13 years ago, not as many as Washington DC, but then they're a bigger country etc. In the UK think tanks have expanded, Institute of Fiscal Studies, Policy Exchange, you name it, and I'm delighted to see in Australia we're getting them right across the political spectrum. But to judge them not on whether they're seemingly left, right or whatever, I don't care, on the quality of the output and that's why when John wandered into my office with some of the work he'd done in the aging area it was hard research and that's good. So I agree with you, yes.

AUDIENCE: You've gone and spoken for an hour and you haven't mentioned the word "infrastructure" which I think is terrific personally. But does that reflect a view that it's not the issue that it's being hyped up to be in the Australian economy?

JOHN FRASER: No, quite the contrary. I used to drive down the M4 most Sundays - I'm old enough to do that. I'm not a car person, but I'd marvel that these roads that were built in the early '60s had given such a return to the United Kingdom. I had lunch with my opposite number from the Treasury when I was in London and I said, "Nick, have you ever looked at the economic analyses of these infrastructure projects?" and he said, "No, but I've been told they all said they were a waste of money and that we shouldn't have built them". And I suspect that was the case also with the great road expansion in the United States under Eisenhower. I think Australia has been served poorly by the lack of investment in infrastructure and I think one of the sadnesses of the mining investment boom, because mineral demand will come back, it's just that we've had a mining investment boom where capacity is up, is that we didn't use at least some of the proceeds there to build more infrastructure. We got a big boost in Sydney out of the Sydney Olympics, we've got a God awful stadium where they play the rugby union tests and it takes two hours to get home from, but that's a personal view, but we at least got some decent infrastructure in the roads. We should have had more infrastructure and I think we've got to play catch-up now. It's not an issue of finance I can assure you; it's an issue of lack or projects. In UBS Global Asset Management we had a big infrastructure fund, we had $2 billion we raised in, of all times, September '08, it took us about three years, four years to spend all the money because of a lack of projects. When I was Chair of Victoria Funds Management Corporation the lack of projects was the issue about finding something to invest in.

It's not a lack of finance; it's a lack of projects. If I can give a little bit of a wrap on this, it's one of the reasons why Australia's joined the Asian Infrastructure Investment Bank and we announced that we were exploring joining it a few weeks ago. We have a global infrastructure hub which will be established in Sydney, we've already got the office space, glimpses of the Harbour as the real estate agent said to me as I crawled along the floor. I'm Chairman of that and I relish being Chairman of that. It'll be a hub in Australia which we have already people, real members, that is they've given us money, China, Turkey, the United Kingdom's come in, we've got Korea in there, it looks as though Brazil and Indonesia will join us. That will be a hub worldwide to try to get a consistency in how projects are put together in terms of contracts, possibly even dispute resolution, and the reason will be then we will be in a better position, particularly for developing countries but also for developed countries like ourselves, that when people come with finance they will get a comfort, it'll be more of a clearing house.

Now, I think we need to do it. I don't want to see stupid infrastructure projects, nobody does I hope, but I have been worried a little bit about people talking well, because interest rates are low we should be borrowing to billyo to throw it in infrastructure projects. Peter Harris at the Productivity Commission came out with a very good report where he said the last thing you want is a honeypot for these infrastructure projects. At the moment it's the lack of the projects. We are looking through the asset recycling process that the Treasurer put in place to encourage the states to come up with infrastructure projects, to give them assistance, to partner with them and I think it's a great project. I'll give an ad for Treasury here. We cover the waterfront, we cover the waterfront from, as I said, macro policy, structural policy, tax policy, labour markets, the whole bit, and infrastructure, and my not mentioning it was an oversight, but I've been trying to cover most other things.

AUDIENCE: With this government in this Budget we've seen a lot of measures and rhetoric aimed at older Australians and supporting older Australians and you mentioned earlier that you think a lot of innovation and creativity comes from younger Australians. Is there any underlying economic reason for not investing more in younger Australians or is it all politics?

JOHN DALEY: Sorry, is the question that we're underinvesting in young Australians?

AUDIENCE: Yes and is that an economic issue or is it a political issue?

JOHN FRASER: Underinvesting in young Australians? Well, I really don't think we are. There's a number of measures and increased spending on a range of measures for training. I mean, I think the youth unemployment rate is deplorable, 13%, 14% depending where you are. I really don't think we can be accused of underinvesting in young Australians. Quite the contrary, I mean, if you're going to get productivity up and you're trying to get workforce participation up, the last thing you want to do is underinvest in young Australians, particularly as we age the more people in the workforce the more we're going to have wherewithal to meet society's needs. So with the greatest of respect my friend, I'd reject that.

JOHN DALEY: Thank you. I think we should bring things to a close, it's been a very long week for anyone who's been involved in the Budget and I suspect that Mr Fraser is no exception to that and, indeed, probably has seen a lot of long hours. So thank you for coming here at six-thirty on a Friday night. Thank you to everyone in the audience for coming here at six-thirty on a Friday night. It's a very late hour to be discussing a Budget, but thank you for your interest. Thank you obviously again to the State Library for hosting us this evening and we look forward to seeing you at the next Grattan event, and please join me in thanking the Secretary of the Treasury, John Fraser.

END OF RECORDING