Balancing Budgets: tough choices we need

On Thursday 28 November, Grattan CEO John Daley and Professor Judith Sloan discussed Grattan's report *Balancing budgets: tough choices we need*. The report lays out the options that Australian governments have to repair their budgets. It rigorously analyses how much the different choices might contribute to the budget, and what the social, distributional and economic consequences might be. Fixing our budgets will require tough choices between politically difficult options, and the report shows that some of the most commonly discussed proposals don't actually raise much money. With the Abbott Government's Commission of Audit now underway, this event was a great chance to hear more about what might really make a difference.

Speakers: John Daley, CEO, Grattan Institute
Judith Sloan, Contributing Economics Editor at The Australian

JOHN DALEY: Welcome to the State Theatrette on what can only be described as a very typical Melbourne wet day. I hope you all excuse the fact that I at least feel a little damp and a few others may be in that category. My name's John Daley, I'm the Chief Executive of the Grattan Institute and I'm also the author of a recent report *Balancing Budgets: tough choices we need to make* which is the subject for this evening's discussion.

I have with me Judith Sloan, she is well-known I suspect to many of you, she is the Contributing Economics Editor at The Australia, she's one of Australia's best known economists, she continues to be an Honorary Professorial Fellow at the Melbourne Institute of Applied Economic & Social Research at the University of Melbourne where she has had a long and distinguished academic career. She's also a member of the Westfield Board and director of the Lowy Institute for International Policy, she has done just about everything an economist could possibly want to do in this country including being a university professor, a Commissioner of the Productivity Commission, a Deputy Chair of the Australian Broadcast Commission, a Commissioner of the Australian Fair Pay Commission, and a member of a number of boards over the years, including Santos, Mayne Group and, perhaps very appropriately for this evening, Primelife. So welcome Judith, it's great to have you here this evening.

The report covers quite a lot of territory and so what I was hoping we could do tonight is Judith and I will have a discussion. For those of you who know Judith's work well, I think it will come as no surprise to you that there are probably one or two things that Judith and I are going to disagree on that we hope will make it more interesting. Also, I guess it fits with how we see our work at Grattan Institute; we're not looking for cheerleaders, we're looking for people to engage with the material, disagree with us, tell us where we're wrong, and hopefully that way we wind up with a better policy debate than we had yesterday.

In terms of tonight's discussion, Judith and I are going to talk about it for about half an hour and then we'll open it up to questions. And in terms of the discussion that we'll have, I guess I'll divide that into three basic sections. Firstly, do we have a budget problem at all? Secondly, the report outlines a number of things that we suggest we could do, but implicit in that is a very important claim which is that we don't think that there's much else, and so we need to talk about that. And then the report talks about a particular package which we suggest would be better than many of the other things we could do given our budgetary situation and Judith and I will discuss, and probably mostly disagree about, whether those things would or wouldn't be good policies to dig us out of that budgetary situation.

So that's the scope of tonight's discussion and by way of kicking off that first question about do we have a problem, this very much follows up on the previous work that we published on budget pressures that argued that over the medium run Australian governments collectively face budget deficits in the order of about 4% of GDP, $60billion a year. And it perhaps follows up on more recent work, partly by colleague Jim Minifie in his report on the mining boom, partly by the Parliamentary Budget Office, partly by the Australian Treasury, the IMF's had a go, the OECD's had a go, all of which have come to the conclusion that the underlying budget deficit for the last six years, if you strip out the effect of the mining boom and you strip out the effect of the financial crisis, has been in the order of about 2% of GDP or $30billion. That's quite a lot of money, it's a substantial deficit to be running and I guess begs the question about what we're going to do about it.

So Judith, question number one: do you think that's right? Are we really running that kind of deficit and is it going to get worse?

JUDITH SLOAN: I'm kind of with Martin Parkinson on this, I'm not a big fan of even the concept of a structural budget deficit and I'm certainly not a fan of the estimates, I think whatever answer you want you can get. Let me first of all congratulate you and the authors of the report and can I say, let me be upfront, I do steal your work from time-to-time because they're very careful empiricists and they use lots of data sets and, even though I mightn't endorse the conclusion, I do find them very useful, thank you very much John. And I do think I probably by and large acknowledge it and if I don't I apologise.

I kind of feel this is a bit tail wagging the dog, you know, really the main game is this: we have to figure out how to grow the economy faster and we have to figure how we increase productivity - and I know you have a stream in your work program which does involve this - because if you can figure that stuff out a lot of this other stuff will evaporate. I accept the fact that we have a changed composition of the economy. So now we have more in the services sector and more in mining, they're not so good at generating tax revenue particularly for the Commonwealth. They're bloody good for generating tax revenue for Western Australia and, to a lesser degree, Queensland I might add, and it's partly why West Australia really spends so much more in per capita terms on public services than the other states. But I think that is an issue for the Commonwealth government.

So it seems to me that by just focusing on the budget - and you seem to accept the fact that we can't cut expenditure, it all has to be tax increases or paring back tax expenditures which, of course, are going to reduce the size of the economic pie, reduce incentives to invest, reduce employment, do all those bad things. We know that and I'm sure, John, you would agree with me on that, that the real gain is to basically cut your cloth with the expenditure side and then you don't have a problem, particularly if you're working on the larger parameters which will drive fast economic growth.

JOHN DALEY: We'll get to whether there's alternative ways of dealing with the problem, in particular cutting expenditure, I think in a moment, but if I can just take you back to that issue around productivity. Now firstly, of course, we'd all like productivity to go up, it means that there's more resources to go around, but I guess one of the things that I would certainly note out of public debate over the last year or two has been a belief that if only productivity increased that would solve the budget problem. And I guess certainly the review we did of governments that got themselves into budgetary trouble over the last number of decades, both in Australia and overseas, was that by and large they had not succeeded in simply growing out of trouble, they'd always had to do structural budget reform as well. And I guess we would argue that there may be an underlying reason for that which is that when productivity goes up usually, one way or another, wages go up.

Usually an awful lot of government expenditure is either wages of nurses and teachers and all of that, or alternatively is transfers in welfare payments and these days a large number of the welfare payments, the majority of the welfare payments, are effectively tied one way or another to weekly earnings. And consequently, even if you get a substantial productivity lift and a substantial lift in economic growth, you're not necessarily going to get a substantial improvement in the budget position because how much the government's revenues go up, its expenses are going to go up more or less at the same rate. Do you think that's –

JUDITH SLOAN: Well, I just think that's empirically untrue though because you look at what happened to the Commonwealth budget. We had very strong productivity growth, particularly through the '90s, and John Howard was able to get the budget back into the black and in surplus basically through his entire term of office. I guess what you're saying, and up a point I agree on two points, politicians are weak bastards, let's face it, and so they are very inclined to spend the proceeds of growth. I absolutely agree with you on that, and that's a kind of really interesting story – it's probably for another time – about whether you have fiscal rules and the like to try and discipline them. But by and large I think they are weak bastards. And of course, in the case of John Howard, it was like sort of Santa arrived in terms of the kick-up and the terms of trade that just kept on going essentially which was generating tremendous growth in national income and was really, particularly in the early phase of the mining boom, filling the Treasury coffers to a kind of unparalleled extent. And, of course, they spent it.

I guess the second point where I probably would agree with you is that you have to understand that effectively by indexing welfare payments by some sort of measure of average weekly earnings, that is how productivity gains are distributed to welfare recipients. So if you don't like that you probably have to shift back to some sort of CPI indexation and, again, they're weak bastards and people wouldn't like it, but if you were worried about that, and that starts to make quite a difference quickly. So if you're increasing something by 2.5% rather than 4% in five/ten years' time that's a really big gap in terms of the outlays.

JOHN DALEY: As we've seen with New Start, I think one of the points we illustrated in the previous report is precisely because we've increased New Start essentially at CPI now for a number of years, the pips are clearly starting to squeak and I think exhibit number one on that is the point that the Business Council of Australia is saying that New Start is too low, you know, it's probably too low.

JUDITH SLOAN: I think one way around it possibly is to have CPI indexation and then from time-to-time have some sort of stepwise adjustment. They can then behave as if they're Santa Claus which is kind of politically attractive, but probably the overall rate of increase and outlays can be less doing it that way.

JOHN DALEY: One of the other core claims of the report, or more accurately the previous report in terms of budget pressures, was that things would get worse from here and in particular that if we continue to see health spending grow at the same rate that we've seen it grow for the last decade – and there's every indication that it will – that that will take a big chunk out of the budget, that the Abbott government has essentially committed or at least, up until two days ago, we thought it had committed to a large number of spending increases. We'll discover I suspect over time how many of those are in fact the promises we thought they were, but it certainly has committed to a number of things, paid parental leave, national disability and so on, that will have a material impact over time. And then at some point the terms of trade more or less have to fall and that too will have an impact on the budget. Do you think it will get worse from here if governments don't do anything?

JUDITH SLOAN: Let me just deal with the health one. I think you've got to be very careful, John, when you think about this. Are you telling me that this health expenditure is wasteful, that it has a negative marginal product? I mean, I think this is a really big call. An alternative argument is that as the country increases its per capita income you would expect a higher proportion of the output to be spent on health. So you kind of portray this as some sort of bad thing. Maybe actually the marginal benefits for people are actually very high and greater than if the money were directed into something else. So you've just, I think, got to be very careful on how you interpret this.

JOHN DALEY: I think you're absolutely right about that, although I'd hope that the report makes very clear that we're not arguing that this expenditure on health is a bad thing, indeed we're pointing out that it's resulted in increases in life expectancy, substantial improvements in health. Indeed, one of the stories, little vignettes in the report, is a tour operator recently talked about the way that for his business modern medicine has been the gift that keeps on giving and that artificial hips and artificial knees and heart stents – apparently, particularly heart stents – have been fantastic if you are in the touring business. So there's no question -

JUDITH SLOAN: But actually, like, death is really a negative and let me take an example. My grandmother died at the age of 67, she would not have died if she'd moved on 20 years ago because she had an eminently curable condition, a floppy valve from her heart. And sure, when she died we spent a lot less on health. Was that a good thing or a bad thing? She died.

JOHN DALEY: Yeah.

JUDITH SLOAN: So we've got to be very careful about how you interpret this.

JOHN DALEY: No, I'm in vigorous agreement that this is money well spent, but I think the question is who's going to pay for it? And I think that the argument, whether or not one believes in a structural budget analysis, is that essentially what happened over the last 10 years, that we saw a very substantial increase in spending on health in real terms. It went up in real terms by about $40-odd billion a year, that's much faster than GDP even given that GDP was being artificially pushed up by the terms of trade. And essentially -

JUDITH SLOAN: But maybe we were underspending it point nought, you know?

JOHN DALEY: But I think the point is that what happened was that the mining boom essentially paid for it, we didn't have to make too many tough decisions. And I think the question is well, if we keep increasing spending on health for all the reasons that you talk about, that this is money well spent, this means that people live longer, better lives, that's fine, but who is going to pay for it?

JUDITH SLOAN: Yeah. And that's why I think you have to shift to much more user pays, much more private provision, because then people can judge what's beneficial for them and they can pay for it. There will always be quite a bit of government intervention in the market, even in the private market, but there are lots of good features about Australia because we have a quite vigorous private health system and we have of course a big private education system, not in higher education but at schools. And those are things that we can work on because there is an acceptance which is not true in a lot of countries around the world of private provision and user pays essentially. So I think we can work on those things.

JOHN DALEY: That's probably a nice segue into the next question which, as I said, is the report lays out in the order of about 20 different things plus a series of straightforward tax increases that we argue would make a material difference to budget positions. And by material we mean than more than $2billion a year, bearing in mind if you believe in a structural budget deficit it's $30billion and if you believe in the increases we're talking about the long run deficit's in the order of $60billion.

So question one is can you get there with only small things? And then question two, is if you can't get there with only small things, are there some big things we've missed?

JUDITH SLOAN: Well, first of all, I guess the thing that worries me a great deal about your report is that it is almost a total focus on tax increases, on removing tax expenditures and hitting older people. So actually, the politics are very poor, but also we know that if you're going to be imposing these taxes what that does is shrink the economic pie and shrinking the economic pie is not what you want to do. Now, I accept all your points that you want a shift and I do too, you want to be shifting the way you raise tax revenue away from the most distorting form of taxation, so basically you're eating some of the pie, too much of the pie to generate the revenue and shift it to areas which eat less of the pie for the revenue you raise. So I agree with that, although I think the politics of a lot of that are very, very difficult. I mean, the GST for example is pretty locked up, it's pretty locked up. Can you see Labor and the Greens ever supporting an increase or extension of the GST? No.

JOHN DALEY: Well, I think we'll see. To come to the cost savings, I think we did identify seven very specific cost saving measures in the report and they included things like spending quite a lot less on infrastructure, I'm guessing that's not going to be wildly popular; cutting a lot of industry expenditure, I think that's probably going to be very popular between you and me.

JUDITH SLOAN: Yeah.

JOHN DALEY: Increasing class sizes by four, which is one of those things that sounds very tough, I'm sure would be very tough, but interestingly is only worth about $3billion a year – better than nothing; looking at some of the higher education subsidies that my colleague Andrew Norton has written about.

JUDITH SLOAN: Yeah, definitely.

JOHN DALEY: Looking hard at the defence budget, and that's actually surprisingly hard to cut a huge amount out of the defence budget, we did some pretty aggressive -

JUDITH SLOAN: Oh, I don't know, not building the submarines would be a good start.

JOHN DALEY: It might well be a good start but that's a good illustration of something that I think the current estimates are that the submarines will cost us about $40billion essentially over about a 20 year period. Let's assume that instead we bought them off-the-shelf and we cut the price by half, that would save us about $1billion a year. And I'm with you, that's money worth saving, but the point is that that's one of the largest single ticket items in the entirety of the defence budget. Finding many of those is quite hard.

JUDITH SLOAN: But you see, I think the thing is it's kind of arbitrary how you cut this. I didn't really like your $2billion. One of the most wasteful aspects of the federal government budget, and I only know about this really because when you get locked up in the lock-up you're locked up, so you're sitting there with this enormous pile of budget papers and then you think "Gosh, what's this?" There are literally, if you add it all up, billions going out the door in what I call basically patronage. You know, it's $250,000 to the Numurkah Council to improve multicultural relations and there are literally hundreds and hundreds and hundreds of these incredibly wasteful boat-buying programs. I'd be getting rid of those and, because I was so bored at the lock-up, I was adding them up. We're looking at $5billion or $6billion easily. So cut that.

And you see, I don't agree with you about you think that cutting the public servants is also small there. The thing is that it's what the public servants do is the worry. So they dream up programs and they spend our money. I mean, it's not just the money of employing these people, it's what they do that's so problematic and so if you cut those numbers then you'd actually cut probably, you know, it would be a 1:10 ratio of program spending. Then we'd be cooking with gas.

JOHN DALEY: Well, maybe we need to add another point to our magic matrix which is programmatic confetti $5billion. But then I think that's -

JUDITH SLOAN: Can I point out that I think there's bipartisan support for this rubbish, because I was telling the Coalition all this great stuff and they're kind of looking at me as if I was crazy. So I wouldn't expect much progress with this lot either frankly.

JOHN DALEY: Well, I guess then one of the points I'd make is okay, let's assume there's $5billion in programmatic confetti.

JUDITH SLOAN: Yeah, this year.

JOHN DALEY: Each year, absolutely, but each year either you say "Look, I'm going to look at the bottom line budget deficit and that's running at $30billion a year plus for the last how many years" or "I'm going to look at a structural budget deficit, that's been running at $30billion a year". Either way, five will help and that's really terrific, but what else are you going to tip into the pot if it's not on the chart?

JUDITH SLOAN: Oh well, you know, I'm with you. I'd be cutting higher education, no problem at all. I'd be cutting education. The Commonwealth's got no role in this stuff. I think one of the things that's likely to happen, let's hope, out of the Commission of Audit is that they are going to recommend that stuff be sent back to the states and I think that will be very useful. Of course, there will be associated expenditures, there's no kind of complete free kick in that stuff, but that will affect how you think about the federal budget.

JOHN DALEY: Do you think that those transfers back to the states – because I'd agree with you that certainly indications in the terms of reference for the Commission of Audit are that one of the plans here is for the Commonwealth to stop doing stuff and say to the states "That's now your problem". The issue of course is that if they do that and don't transfer the current expenditure, essentially all that does is shift the problem and means that the states then have to make the decision about whether they're going to cut those programs or not.

JUDITH SLOAN: And that's how it should be, but there would be no expectation that the full suite of current programs would be maintained. Lots and lots of them are complete rubbish, you know, so there's no problem at all.

JOHN DALEY: But if you take, for example, the Commonwealth spending on schools, most of which goes to independent schools. If the Commonwealth said "Right, well, we're not going to do schools anymore" but it doesn't transfer the associated expenditure by increasing in one way or another the general grants that go to the states, essentially we're saying to the states "You have a choice. Either one, you essentially withdraw all funding to independent schools or, secondly, you accept you have a much bigger budget deficit problem than you had yesterday"?

JUDITH SLOAN: No, look, I'm not suggesting we can solve any of it overnight. The real problem – I mean, I didn't like GONSKI at all, not surprisingly. There was a kernel of a good idea in that and that is basically you have a basic rate of payment and then you have loadings for the disadvantaged, that was a good idea; the really ridiculous bit was that no school should be worse off. That just was an absolute ridiculous idea because under the formula there are a whole lot of schools that are overfunded, including a lot of Catholic schools and some non-government schools, and some government schools that are overfunded according to the formula. What would I do? I'd say to those schools "You've got five years buddy, okay?" and you would crunch down there in time. If you're going to have the system, have the system. You can't have some sort of make-believe system. The trouble with the "no school will be worse off" is that it just involved way too much additional taxpayer money to achieve a political outcome.

So let's get brave here and say "Look Scotch College, you're overfunded, if you're short of money you can sell a bit of land off" and get over it. I mean, seriously. And there are some government schools that are overfunded and the Catholic system as a whole, get over it, you're overfunded. So if there is a sense, you're telling me, dare I say the term, "a budget emergency", we look for some tough decision and we don't look for tough decisions just by taxing senior citizens more and removing their benefits. If you look at microeconomic reform you have winners and losers all at the same time and people can be winners and losers, and that's not a bad way of getting it through.

JOHN DALEY: Well, let's start with some tough choices that we nominated and let's start with one that doesn't amount to a tax increase and that's the age pension assets test which, of course, would ultimately be a reduction in government spending. So the Commonwealth spends about $38/39billion a year on aged pensions. Of that, about half goes to people who've got more than $500,000 in assets and that's essentially because the existing pension assets test excludes more than $142,000 worth of owner-occupied housing. And the implication of that, and my colleague Jim Savage did some absolutely tremendous work basically trawling through the HILDA data, showing that when you ordered households by wealth the top 10% who've got more than $1million in wealth – these are households essentially over the age of 65 – that top 10% by and large don't get the age pension. But everybody else does and so -

JUDITH SLOAN: Well, part, you've got to be clear.

JOHN DALEY: Or gets a part-pension, absolutely, we're talking about part-pensions. So if you take a household with precisely, or more or less, $1million in net assets there's an 80% chance that they're collecting a pension and indeed that's more or less the same if they've got almost no assets. And so I suspect there's a kind of 20% slice in one way or another still working and that's why they don't qualify for a pension. And then it certainly appears that for households with no more than about $1million in assets they're essentially ordering their affairs in such a way that they get a part-pension, and a very material part-pension. So for all those households with $1million in net assets on average they're getting a part-pension of about $220 a week.

JUDITH SLOAN: Well, I hear what you say, but of course assets and income are different things and we know that there's a lot of social capital in people living where they're always lived. So basically what you say – and can I also make the point, because I'm old and he's young, is that people basically make lifetime decisions based on certain assumptions in relation to their own asset allocation and the like based on certain propositions. And I had a bit of a look, it's very uncommon overseas to include the family home in any of these things, so we'd be a path breaker; government would probably lose office, but we'd be a path breaker. So it's really I think quite tricky because I think you can argue that the promotion of home ownership is an objective in its own right, okay, because you create a lot of social capital by virtue of people owning their homes and creating their stake in a community.

So what you're saying is to older people okay, you've turned 65, you're not going to be entitled to the age pension because the house in which you have lived for the past 30 years has, and you've probably let it fall down, because I think of my mother's house, but it's a valuable house and you have to sell it?

JOHN DALEY: No, remember, it was part of the proposition -

JUDITH SLOAN: Oh, okay, so we're going to have those egregiously high fee reverse mortgages?

JOHN DALEY: No, we're going to have a very cheap Commonwealth reverse mortgage.

JUDITH SLOAN: Oh yeah, they do that sort of thing so well, John.

JOHN DALEY: No they do, we run a fairly sensible higher education help scheme which in effect – that's the opposite, that's a kind of mortgage that you're effectively taking out at the beginning.

JUDITH SLOAN: Okay, having been the Chairman of National Seniors I can tell you how incredibly badly this would go down. People would panic, people would think that they have to sell their house, quite a few people would sell their house, they would be actually incredibly disrupted because they probably can't afford then to buy back in the same area. So I just think of all your long list of possibilities this is not a goer. I mean, there are other ways round it. I'm okay with the age pension being CPI indexed. I'm okay if you think this is a problem of rationing the thing down, you know?

JOHN DALEY: Well, I guess one of the things that concerned us was that when you look at things like, for example, people like NatSen have done, for pensioners who don't own their own house and who are essentially reliant on a full pension, they appear by and large to be doing it quite tough.

JUDITH SLOAN: I'm sure that's right, although they do get rent assistance.

JOHN DALEY: They do get rent assistance, but even with rent assistance a large number of them are doing it quite tough and that's I guess why we were focusing on precisely -

JUDITH SLOAN: I mean, that's true of people who are working. There are some people who are low productivity who are low paid and there are some people who are highly skilled and highly productive and they're high paid. That's how the market economy works John, so, you know?

JOHN DALEY: I'm with you Judith, it's just I guess one of the things that Australia -

JUDITH SLOAN: And the fact that you've got older people, some struggle and some do well, that's exactly what you'd expect.

JOHN DALEY: Absolutely. But I guess one of the features of Australia's welfare system in general is that we have the most targeted welfare system in the world. So whereas, as you say, we'd be first and my answer to that is well, we've been first on most of the rest of the welfare system in the sense of targeting it very tightly, at least for people under the age of 65, to people who genuinely need it. And if you are in a genuinely needing position, either because you don't have much income and you have a family or because you're not working or because you're disabled, we provide quite substantial transfers to those people and we essentially provide very few transfers to anyone else. And I guess I would suggest the age pension is the big exception to that. We essentially -

JUDITH SLOAN: Deliberately so though and the thing is, the way to look at that, it's a kind of lifetime equity issue so people will say that they have paid their taxes, they have worked, often for very long periods of time, and this is the time when there is a return. And that's exactly how it's seen overseas. I mean, they often have explicit government-run social security programs, you contribute and then you're paid back. And it's not an earnings-related arrangement so, you know?

JOHN DALEY: I'm hearing you say that's a tough choice you wouldn't make so let's look at another tough choice that we talked about.

JUDITH SLOAN: I mean, I'm making a tough choice, I go CPI indexation and I'm happy to gradually extend the age at which people get it.

JOHN DALEY: Right, so that was actually going to be my next question is one of the other key things that the report suggests -

JUDITH SLOAN: That's really mean to the people you're worried about I might add, because they don't keep working and some of them can't, but there you go.

JOHN DALEY: Yeah, well, I make this -

JUDITH SLOAN: It's okay if you're, you know, an overpaid economist like me, I can keep working, but if you're a bricklayer or a janitor, as we'd say in America, that's pretty hard to keep working.

JOHN DALEY: And particularly if you're going to index their pension at CPI rather than at average weekly earnings, it's going to be very tough on them. And I guess that's the choice we have. Do we either, one, really squeeze the people at the bottom by indexing it at CPI or do we impose an assets test so that people who are frankly pretty wealthy are not quite so wealthy as they were yesterday?

JUDITH SLOAN: Can I just make the point, in other work you've done, I think it's been very helpful for me looking at the figures, is that all this means testing is not costless. So we have a means test particularly in relation to childcare subsidies and Family Tax Benefit which makes the combination of, say, a husband/partner on $90,000 and a mother/wife on, say, $50,000; it becomes absolutely prohibitive for that woman to work beyond about 15 hours a week. So you shouldn't think there's some free lunch sitting there with means testing and stuff and if you look at what's happened to the participation of women with young children, it's actually plateaued, seriously. I mean, that is something that would help the budget to the extent that I think there is a problem. If it's true that the labour force participation has peaked, and in the short term it looks as though it has, that is an issue. So you might want to start to unpick some of that means testing because according to your figures, your own figures, there's about like 100% tax rate for women - between about 15 hours and about 35 hours you're an absolute klutz to work, taking into account childcare costs, so you've got to go over 35 hours to be really making any dough.

JOHN DALEY: Yeah. Oh look, there's no doubt it's a problem and you're right, it's something we talked about in *Game Changes* although I guess one of the issues though for the budget is ensuring that you can do that in such a way that what you give up from a budgetary point of view and no longer means testing these things, you get back in additional taxes. And I suspect that's a very difficult equation to make work.

JUDITH SLOAN: Yeah, but it's just my illustration of the fact that it's all very well to do the arithmetic but if you don't have a complete behavioural model in terms of how behaviours will change and therefore the sort of total size of the economic pie, eventually you probably have to have some really fancy model to figure that out. You've got to be very careful and I think there's a lot of arithmetic in your report and not so much behaviour.

JOHN DALEY: Yeah. A second thing that we do talk about, which I guess is certainly intended to be behavioural, is around shifting the age at which you can get either access to your superannuation or the age pension. We propose essentially moving that up rather faster and rather further than is currently in legislation. Do you think that there's merit in that idea?

JUDITH SLOAN: Oh, well, I think so. Are you proposing that those ages merge?

JOHN DALEY: Oh, eventually, but it would take a while.

JUDITH SLOAN: I think that's quite problematic because superannuation is peoples' own money, peoples' own balances, right?

JOHN DALEY: Although one of the lovely pieces of analysis that was done for this was something that showed of people who take out their super early, i.e. before 65, essentially it is only people in the top half of income earners. So people in the bottom half of income earners simply don't do it. So I think there's a question about is this really just benefiting people who frankly don't need the money or certainly don't need to take it early?

JUDITH SLOAN: It stands to reason that you'd start to move all this stuff up, but I'm very disinclined to have them at the same rate I think.

JOHN DALEY: We should very briefly talk about superannuation because I know we're going to disagree about this very vigorously. One of the other things that the report suggests is that at the moment if you put in, well, in fact to be very accurate, from 2013/14 if you are over the age of 50 and you put in less than $35,000 to your superannuation in any one year that effectively comes out of pre-tax income and you pay 15% on the way in. If you're 60 or over you can effectively take that money out the next day and the implication of that is that people who are over 60 on, say, incomes of $90,000 or $100,000 wind up paying very little income tax. And in particular, someone who's 60 earning, say, $90,000 is paying a lot, i.e. $10,000 less tax, than someone earning $90,000 a year who's 40 and has two children. Is that an inequity in the system we should be dealing with?

JUDITH SLOAN: Well, look, if you're only going to be able to contribute $25,000 or $35,000, no-one's going to have capital when they turn 60, John, to be generating the kind of incomes that you're suggesting. We've had way, way too many changes, so much so that I think there's a terrible loss of trust in the superannuation system and the regulatory risk involved is enormous. I was saying to you before, you've got to understand that the tax and welfare system in terms of simplicity, efficiency, fairness has to be judged as a whole, right? The superannuation system is not a redistributive arrangement, which is what you are suggesting essentially.

JOHN DALEY: Well -

JUDITH SLOAN: Well, it is.

JOHN DALEY: No, I guess I'm arguing that at the moment it's acting as a redistributive thing that actually redistributes money to people in the top 10%. It means that people in the top 10% wind up paying much less tax than anyone who's younger in the top 10% and indeed means that -

JUDITH SLOAN: But that feature will not persist because no-one will be able to accumulate very much, particularly under your rule, so by the age of 60 they won't be generating much of an income at all. I'm sure if I started mucking around with your figures you'll have a much higher percentage on the age pension with your system. I mean, he wants to limit the contributions capped to $10,000. Okay, so you lot, so your employer, maybe they might put $15,000 around which by law they have to put in.

JOHN DALEY: If you're on $140,000 or whatever.

JUDITH SLOAN: And if you then topped it up by $10,000, so then you're suggesting that will paid at your top marginal tax rate?

JOHN DALEY: Yeah.

JUDITH SLOAN: Yeah, well that's just -

JOHN DALEY: Everybody else pays tax at their top marginal rate of what they do.

JUDITH SLOAN: And oh, by the way, you're going to have it locked up for the next 40 years and it could be 41 years or 42 years because they'll ratch it up when you can get it. No, that's not how the system works. The system was, I mean, what I would like, I was saying, the best system is this: you don't have any tax on the in, you don't have any tax on the earnings, but you just have normal tax on the outgoings. That would be the best. So your rich people would be paying top marginal tax rate on all their earnings, but in that way we maximise the size of the pool. I mean, one of Australia's problems is that we have insufficient funding so we have to use foreign investment, right? But at the moment what's happening is that it's taxed on the way in, the earnings are taxed and then there's some sort of, as you'd say, kind of tax concessions on the way out.

JOHN DALEY: Well, it's essentially free on the way out.

JUDITH SLOAN: Well, not entirely.

JOHN DALEY: If you're over 60.

JUDITH SLOAN: Yeah. Well, you know, if you look at the proportion of the population who are in work at 60, it's still reasonably low.

JOHN DALEY: Yeah.

JUDITH SLOAN: So there are plenty of people who have taken stuff before then. But as we said, the trouble with that, it's sort of the Dublin joke, how we would possibly get from the current system to my system is nobody's business because it basically would mean the government wouldn't have any superannuation taxes for 40 years. So I can't see it happening.

JOHN DALEY: We've probably talked enough and we should throw it open to some questions. So fire away, who would like to be first? The only suggestion I make is if you'd like to say who you are and where you're from that would be terrific but you're not obliged to and, secondly, I can assure you there'll be more people trying to ask questions at the end than at the beginning, so put your hand up very early.

AUDIENCE: Good evening, thanks for your time tonight. Prime Minister Tony Abbott in the election campaign said that his government will be one of "no surprises"; it'd be steady as she goes and no surprises. Are we going to essentially be looking at three wasted years over the next three years until the next election in terms of big reform?

JOHN DALEY: I think the government's on the horns of an absolutely exquisite dilemma here. Either it keeps its promises to do something serious about remedying the current budget situation in its current term, or it winds up going after either tax or superannuation, or all of the spending areas that it's promised not to cut, including health and education and defence. And I don't understand how they can possibly do both of those things. I know that you have a different view.

JUDITH SLOAN: It's too early to tell, I'm foreseeing disappointment. The trouble is is there's a kind of political pressure to keep your promises. I mean, the paid parental leave scheme, is he kidding? He must be kidding, you know? $5.5billion, is he kidding? If you believe in small government and self-reliance you don't even contemplate that kind of thing. But he'll say "Well, I put it to the public, the public voted for me, I'm going to do it". And I know there's all this talk about the GONSKI broken promise, but they're saying we're going keep to the same funding envelope. That's a bit of a pity too because I do think, as I said before, that if they were prepared to bite the bullet and say "Look, some schools are overfunded and over time we're going to bring you back to fair remuneration" that would be very helpful.

I don't know, I mean, I don't know what you think, John? I think the thing is that I don't think we did waste the mining boom, but I think the mining boom gave politicians altogether the wrong ideas about spending money. And it's very hard I think for them to change their mindset. and I think that's true of both sides.

JOHN DALEY: I think that's right.

AUDIENCE: Paul Frijters from writingforeconomics.com said that the "no school disadvantage" policy in GONSKI was a mere $500million lost. Simultaneously, tax exemptions for the spreading of religion being classified as charities are estimated to reach $18billion a year. How is that for his proposal?

JUDITH SLOAN: Sorry, I just didn't catch that. So this is government support for –

AUDIENCE: One of the classifications for charities is if the charity spreads religion, the spreading of religion.

JUDITH SLOAN: Right, through church schools?

AUDIENCE: Oh, not specifically, no. Schooling is an additional $10billion estimate. I say estimate because we don't have good data in this regard because it's difficult to collect it from them because they are not obliged to give a lot of information to the government.

JUDITH SLOAN: It was Archbishop Mannix. You see, in a lot of countries around the world the church schools got absorbed into the state systems, so if you go to New Zealand or the UK or something, there are Catholic schools and the like but they're actually funded within the state system. But of course, Archbishop Mannix wouldn't have a bar of it and so the Catholic system remains separate and then of course the independent schools are not so much a group. I don't know whether Paul Frijters is of this view, is that I really object to the taxpayers' money being handed over the Catholic school system who then decide how to allocate it. I mean, gosh you know, it's taxpayers' money. Who knows? Move over Scotch College, bugger Xavier College frankly. I have seen work done which basically shows you that the Catholic system is over-subsidised, but this is a very, you know, you're too young to remember any of this, but this has been a very fraught political issue, what we call state aid, and basically a Labor party lost an election on the basis of this. And you'd have to say it was probably not a help to Mark Latham either.

I do think there's another issue which I have written about is that there are a lot of subsidies for not-for-profits which I don't really like. So there's this wrinkle in the tax system which means that because a lot of these not-for-profits are FBT exempt there's all this kind of fabulous salary packaging that goes on for the people who work in charities. I wouldn't mind them doing something about that actually, and that's worth a lot of money, that's worth billions.

JOHN DALEY: Yeah. Alright, well, that's one that we should probably think about adding to the list.

JUDITH SLOAN: Make you terribly popular, attacking the charities.

JOHN DALEY: Yeah, exactly, which I think is an illustration of I guess the general point we're trying to make in the report -

JUDITH SLOAN: That's why they don't change.

JOHN DALEY: Is actually anything from here is going be hard and one of the problems is that if governments just say "Well, we're not going to do anything that looks hard" then the budget deficit will just get worse.

AUDIENCE: I was interested in your comment around transfers back to the states. We've been noticing in the work that we do particularly with councils that there's been a lot of pressure being put onto councils which is now being passed down onto rate payers, and that's actually coming right down the chain. And we saw it first in some dramatic fashions in the US with some of those councils that have gone broke and suggestions that there'd be defaults on many bonds. So I'm just wondering what you think the impacts would be likely to be if that actually does come to pass, that there is even more a push down to the states because the states will push it back down to the councils?

JOHN DALEY: I think you're absolutely right. If that does happen it will come out of the rates base, although one of the things that I think's worth noting is as taxes go rates are about as good as it gets in the sense that -

JUDITH SLOAN: As long as they're on unimproved values, then -

JOHN DALEY: Well, yeah.

JUDITH SLOAN: Which is not true of all the states, by the way.

JOHN DALEY: No, that’s true. But even if they’re on improved values they’re still lots better than many of the alternatives. And why is that? Well, because a tax on land 1) it’s incredibly difficult to avoid, 2) precisely because land can’t move it doesn’t have a particularly distorting effect on investment, particularly relative to other taxes, and 3) it’s inherently very progressive, you know, ownership of land. basically rich, high income people tend to own a lot of land; poor low income people by and large own no land at all. So as tax bases go you can do much, much worse than increase rates. Now, of course, I’m with Judith, I’d much rather not be increasing taxes at all, all things being considered, but I guess one of the points about this report is we may not have a huge number of choices given the size of the deficits we’re running, given the difficulty of some of the expenditure cuts we’re talking about. It may well be that some tax increases are inevitable and, if so, increases in rates are probably less bad than many of the alternatives.

JUDITH SLOAN: I guess the trouble is that there’s one thing that might be called deliberate cost shifting, but I think what you’re referring to is that it’s sort of haphazard cost shifting. And I’m a believer in subsidiarity and I think that the level of government most appropriate to delivering a particular service is where it should like. But the thing is that kind of haphazard cost shifting, stuff gets shifted back to the local councils who aren’t in a position to be delivering sophisticated – I mean, they can’t do child protection services I wouldn’t have thought. But I think you’re right and actually I the local government by and large, because I think they’re incompetent - I fight with them a lot. But I think the thing is that if it was in the context of some measured division of responsibilities between levels of government that would be one thing, and John’s right about rates is a relatively efficient form of taxes. But I don’t think that’s what tends to happen, it’s a bit like the dominoes falling and the local government tend – well, actually, the individuals and families end up being kind of the last domino and often they’re just left to fend for themselves.

AUDIENCE: Thank you for the report, it’s a very stimulating report. My question is, I still don’t really understand the logic of making it so that people can’t access their super savings ‘til 70 because in the long term all you’re really going to do is people will substitute super assets for super assets. And the people who’ve got money are going to retire anyway, you’re not going to be able to force them to work, and the people who don’t have money won’t be able to access the pension until 70, so they’ll have a strong incentive to want to work. And those that can’t work will fall back on the social security system, maybe not the age pension, but unemployment benefit, disability support pensions. So I just don’t really understand what the gain is by restricting peoples’ access to super until 70.

JOHN DALEY: Well, if I can respond to that. Look, you’re obviously right, there are a number of people who won’t be able to work aged 65, as indeed there are a number of people who can’t work aged 61 today and, by and large, they go onto disability pensions and indeed of the people who go onto full pensions aged 65, essentially all of them are coming off disability or carer’s pensions. So there’s a substantial group that looks like that. And you’re right, they will not be affected and their behaviour won’t be materially affected and indeed their situation won’t be materially affected by moving the age of access to either the pension or the superannuation essentially because they’re on disability pensions already and that pays more or less and has more or less the same benefits as the age pension.

You’re right, there’s another class at the opposite end who are frankly doing incredibly well, indeed so well that they can afford to pay for their own retirement and if they can afford to retire aged 60 or indeed 55 or indeed 35 then, of course, good luck to them.

JUDITH SLOAN: Although a lot do keep going to them because interesting challenges, running businesses.

JOHN DALEY: All of those things. The people that we are really hoping that this will change their behaviour -

JUDITH SLOAN: Is you.

JOHN DALEY: Is people who are not fabulously wealthy and who are not incapable of working, but who age 62, 63 have choices. They've got some super, often more than enough super to keep them going for, say, five or six years, and who at the moment retire at the age of 60, 61, 62. And you can see from the report, we look at the age at which people retire and you can see there's a big jump up at the age of 60, and I'm sure it is no coincidence that that is the age at which you can start to access the pension. And as the Harmer Review found, about a third of all superannuation balances, not accounts, balances are being spent before people hit the age of 65. And I guess the reason that we are keen to align those two ages is that when you put money into superannuation, as we've been discussing and we can argue about exact rules, but one way or another you get a whole series of tax concessions. And the rationale for those tax concessions is that ultimately it will reduce our age pension liabilities as governments. Of course, the problem is that if you -

JUDITH SLOAN: And that's what the modelling showed.

JOHN DALEY: Yeah, absolutely, but then if you spend that superannuation before you hit 65, by definition you have done nothing to help the government's ultimate age pension liabilities and of course the reality is -

JUDITH SLOAN: But that's an argument for changing the rules, not actually changing the age, to tell you the truth, yeah.

JOHN DALEY: Well, that's an argument for saying that the superannuation age should move up to be the same as the pension age.

JUDITH SLOAN: No, I don't think so. It's just saying that you have to preserve a certain proportion of your superannuation balance, and that's quite common overseas actually and they then have quite deep annuity markets. So there are other ways around it. I think, judging by both the Coalition and the Labor party's response, they're not likely to further increase the pension age. But I think a lot of people would go along with that rule change which said that you can't go and blow your superannuation balance and then pick up the age pension. So I think there's probably some sort of productive debate around that.

AUDIENCE: Judith, you mentioned on the discussion of the age pension that your preference would be to reduce the eligibility age and possibly even move to a CPI indexation and you said that that's obviously really hard for the people that we, I guess referring to Grattan, care about. I completely agree, they're really hard options as well, but it led me to the question of well, who should we really be caring about when we're looking at these options particularly around the age pension? So I'm just interested in your view on that, if not those who are really kind of doing it tough on the age pension, but the broader question around Grattan's suggestion to move to asset testing your home. I kind of wondered, Judith, why you don't support this proposition. Obviously, politically difficult, would create turmoil and you'd want to be phasing it in over a very long period and you'd look at how you actually delivered that, but I am wondering how we can not look at that as an option when it not only has the budgetary potential implication of reducing the cost of the pension over time, but it also has the added benefit of potentially addressing a housing constrain issue where we need actually people to be moving to more appropriately sized housing or downsizing to actually address broader housing market issues. So I'm just interested in your views on both of those.

JUDITH SLOAN: Of course, we have a kind of rule in economics that you have one instrument for one objective, so there's kind of like a lot going on in there. Okay, so you want to bump people out of houses that you judge to be inappropriate to them, you know, you've got to be a bit careful with that I think. And it's interesting, because I think they think us oldies have it on easy street, but actually if you look at the figures, if you're unlucky enough to have to go into some sort of support accommodation a reasonably high proportion are actually selling their homes because they have to raise the bond to enter into low-care accommodation. So that system I think is working reasonably well. And then you'll say "Oh well, why don't they have to sell their homes when they go into high-care accommodation?" I'm telling you, if you qualify for high-care accommodation you're not lucid and rational enough to be going around selling your house. So I think that's a very big call politically too.

But I think it's another program of research about the distortions in the housing market. We were talking about this before, I'm quite interested in Phil Lowe, the Deputy Governor of the Reserve Bank, he's a banker so you would think he's very narrow, but he's interested in the lack of investment in public transport in the major cities, and I think he's probably focusing pretty much on Sydney but it's true of elsewhere. So it really becomes a very big call to live in the outer suburbs because there are no good public transport links. So it might look cheaper, but it's not cheaper. So I think his view is that the lack of investment in public transport has created this huge distortion in the housing market. And also, with dual income earners and small children, do you really want to be spending an hour-and-a-half in the traffic? So then there's additional pressure to live relatively close to the CBD because the jobs are in the CBD. So I think it's a separate program of research and I think you do do work in this area. I mean, whether adding the family home to the assets test for the purposes of calculating the age pension would be a real kicker in terms of changing things, I don't know.

JOHN DALEY: I think the only thing I'd add to that Judith is, look, you're right about the general principle of one instrument, one objective. But I think the issue is that the way that the assets test works at the moment is that it actually creates a very strong disincentive to sell because if you're in a $1million house and you decide to move into something that's small because you don't want a very large house anymore. Let's assume you move from a $1million place to a $600,000 place; that generates $400,000 in assets and immediately you fail the age test and therefore people try not to move.

JUDITH SLOAN: I understand all of that, but there's also social capital for people staying put.

JOHN DALEY: Yeah.

JUDITH SLOAN: So there are pluses and minuses to it really.

AUDIENCE: Previous Grattan reports have identified that the great incentive for tax expenditure on excluding the house from asset testing and whatnot is not so much the ageing of the population as the ageing of voters and politicians are incentivised to have these policies because they win votes.

JUDITH SLOAN: Yeah, your point?

AUDIENCE: Exactly, and so the program John has laid out and that you've elicited on Judith says that we need to claw back some of these goodies so of course older voters will resist this. There are losers and I don't think we can count on politicians to do this just because it's the right thing to do because they're weak bastards. So what I wanted to ask you is, who do you think are the winners of this reform agenda you've proposed and how can they be engaged to support it?

JUDITH SLOAN: I think if you started working through this recipe list there are going to be winners and losers and people are going to be winners and losers. And I think when you think of microeconomic reforms, that's not a bad thing often, so people can smile and frown at the same time; it's like having your foot on the accelerator and the brake at the same time – which is really not a good idea that one. Look, I'm really happy to have this debate because I think John has got a point. It's a bit hard at this stage, but it looks as though a lot of you young 'uns will never own houses and that then I think does change the dynamics. Whereas –

AUDIENCE: That's going to affect our social capital.

JUDITH SLOAN: I know, it's very bad for your social capital, although you do travel and do other fun things. So that may well change the dynamics but if you think of people in my cohort who are old but young at heart, we have very high rates of home ownership. John thinks we got a free kick because house prices were relatively cheap, but we struggled. Well, hello, we had 17% interest rates at one point, so, you know, don't forget that. But it may be that if the paradigm changes then the politics will change too. If you begin to have cohorts which are not predominantly home owners, because I agree with one point you're making, I think certainly right through the welfare system, if you own your own home as opposed to rent you're much better off, particularly private renters, really done in the eye by and large.

AUDIENCE: I'd like to ask each of the panellists if they could identify each of the measures they would wish to see implemented to raise the $30billion that's needed and if they can put a figure to each measure, I'd appreciate that as well?

JUDITH SLOAN: That's a very big question. Go and read the report.

JOHN DALEY: Go read the report. That's exactly what we do do and our argument is look, you could raise $37billion which is more than you need in the short term but less than you need in the long term, and of that you can get something like $13billion from broadening the GST; $12billion by raising the age pension and super age; $6billion from tightening the amount that you can contribute to super; and $7billion from tightening the age pension asset test. Now, Judith I know doesn't like any of those, or many of them

AUDIENCE: Do you agree with all of those?

JUDITH SLOAN: No, I don't. I don't.

AUDIENCE: What's your?

JUDITH SLOAN: Well, first of all I don't accept the $30billion, but the thing is I'm wanting for us to have a discussion about how we improve the growth of the economy and productivity growth, because that will sort out a lot of the problems. I point you in the direction of the work that Nicholas Barr did in the UK which posed the question about the impact of ageing on the UK budgetary position. And essentially, if you have strong enough productivity growth the problems are solved. So the question then has to become how do you do that? And that's the trouble - we're a very circular lot economists - that if you start taxing the bejesus out of everyone, particularly older people, you run the risk of actually shrinking the pie and reducing the growth of productivity.

AUDIENCE: What I wanted to ask was do you see a great deal of what's called moral hazards playing out? It doesn't matter whether Abbott wants or can't, he can't do it through the Senate anyway, so he's hiding behind his finger on that one, but is there a moral hazard being played out where governments are looking at these record low interest rates around the world and saying "Oh, to hell with it, we'll just put it on the card. Let the future generations pay it off"? We can do this because it's cheap to do it now and the economy since before Howard has grown by whatever factor it has, I don't know how much is real growth and how much is just fluff. What are your feelings, what are your thoughts on that moral hazard angle that they're just putting it on the card, it's not 18%?

JUDITH SLOAN: Yeah, and I guess those sort of left-wing economists would make that point. I'm glad John hasn't made that point, you know, that basically what's the big deal, Australia's got low levels of growth in the debt, so what? I can ask you this question, when did France last run a budget surplus? The answer, 1973. I mean, seriously, 1973. So they have run a budget deficit every year since then and now the thing is every year seems "Oh, it's only a little bit, it's just a little deficit" and next year "Oh, well, I can't cut back". So at the end you end up with an enormous government debt and ultimately you are doing two things, you're actually spending a tremendous amount of money, current money, servicing that debt. I mean, we're spending $10billion a year servicing our debt. $10billion buys you a lot, doesn't it? And secondly, they run the risk of being re-rated by those terrible rating agencies and they will actually have to pay more interest on the debt and ultimately you can be like Greece or Portugal and stuff and find it very hard to raise any more money at all and that's when you have enforced austerity.

So I don't think anyone wants us to go down that route and the Grattan Institute clearly doesn't want to go down that route. That's why I think you call it moral hazard, I call it weak bastards and it's really, really tempting to put this on the tab for your children and your grandchildren, but I think there is an issue of morality there and it seems to me that we have to make sure that each generation in itself is funding itself.

JOHN DALEY: I'd only add, that's such a respectable argument that there is an entire school of economics in political economy and people like Pat Buchanan have written on exactly that problem and exactly the way that most governments have an incentive to run deficits. And indeed, as we've seen in Europe and for that matter the United States, that's exactly what they've done.

JUDITH SLOAN: And Japan.

JOHN DALEY: And they keep doing it until they hit the hard limits that Greece has hit and, boy, that's unpleasant. And I think Australia is a very unusual country because we have had this historical aversion to government debt that has essentially made it politically very costly for governments to run deficits is for any significant period of time.

JUDITH SLOAN: But they also have a current account deficit and high household debt, so the ratings agencies will look at those things in totality. So we're always more restricted than a lot of those countries.

JOHN DALEY: Absolutely, but I'd suggest that's been a very good attitude in the past, it's served us well, it's kept us relative to the rest of the OECD, much lower levels of government debt, and I guess this report is part of an effort to say look, we'd like to stay that way, it's much better than the alternatives.

That might be an appropriate place to conclude. I'd like to do a couple of things, firstly, to thank Judith very, very much for your participation tonight. You've been, as I knew you would be, an entertaining, provocative, very thoughtful interlocutor and it's been an absolute pleasure.

JUDITH SLOAN: I thought he might give me a copy of the report or a tie.

JOHN DALEY: No, Judith I know can download it for free from the Grattan website. Obviously I would like to thank my co-authors on the report, Cassie McGannon, Jim Savage and Amelie Hunter. It's a tremendously detailed piece of work, they've put in a huge number of hours over the last 12 months. Even if one, like Judith, doesn't agree with absolutely everything that's in the report, we hope it's a tremendous resource for promoting public debate and public thought and ultimately getting better policy on this topic.

And I'd also like to thank everybody at Grattan Institute. We worked out that of the researchers at Grattan Institute every single one of them is in the bibliography because it has covered so much territory and has drawn on the work of so many programs, with the exception of one person, but then given that they only started working for us two weeks ago that's not surprising. So enormous thanks to everyone at Grattan Institute who, one way or another, has contributed to the body of work that this draws on, as well as a huge number of people in the policy community outside of Grattan. We've benefited from some tremendous input and thought and we've obviously built on the work of a number of academics, of people working in government departments, of other people who are commenting on public policy, and we're acutely aware that to the extent we've made a contribution it's because we've very much stood on their shoulders.

So with that, I'd like to thank you all very much for coming. Thank you for your interest in Grattan Institute's work. We are now a deductible gift recipient - and we can argue about whether that's a good thing but for the moment it's the rules - and if you would like to exploit that you can go to the Grattan Institute website and contribute. And otherwise, we look forward to seeing you at our next event and I think the very next one will be a discussion of the Prime Ministers summer reading list on the 4th of December in Melbourne which I'll be conducting with Lucy Turnbull. Hope many of you can be there and otherwise have a very safe and happy holiday season and we look forward to seeing you in the New Year. Thank you.

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