



Priorities for the returned Morrison government

John Daley, CEO, Grattan Institute
Urbis, Sydney
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Priorities for the Morrison government

A miracle victory

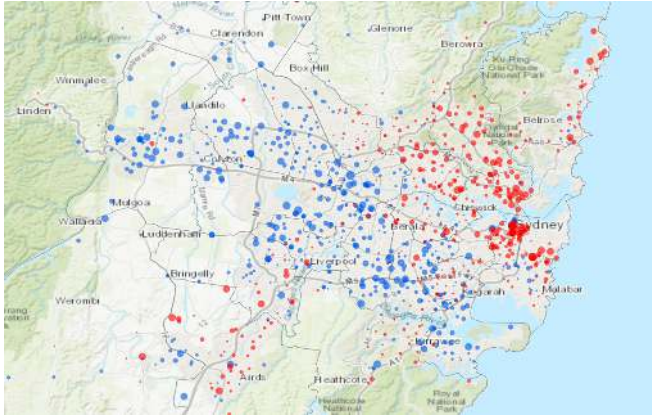
The signs for serious policy reform aren't promising

On several issues inaction will be politically unwise

What will Morrison do with unprecedented internal authority?

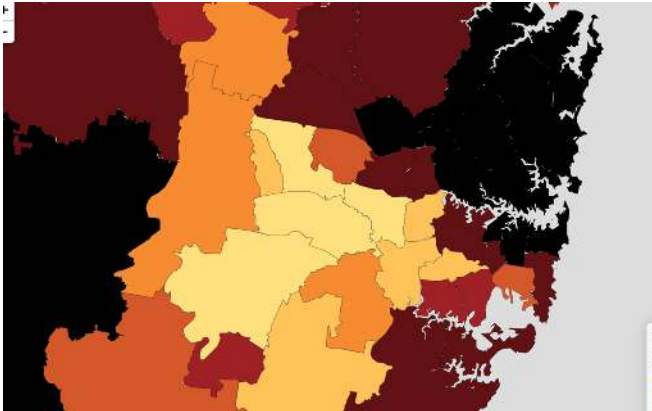


What does the win mean? Negative gearing, franking credits, or education levels?



2PP swing, House of Representatives,
2019 election

Nathan Rubis, ASPI, via Twitter

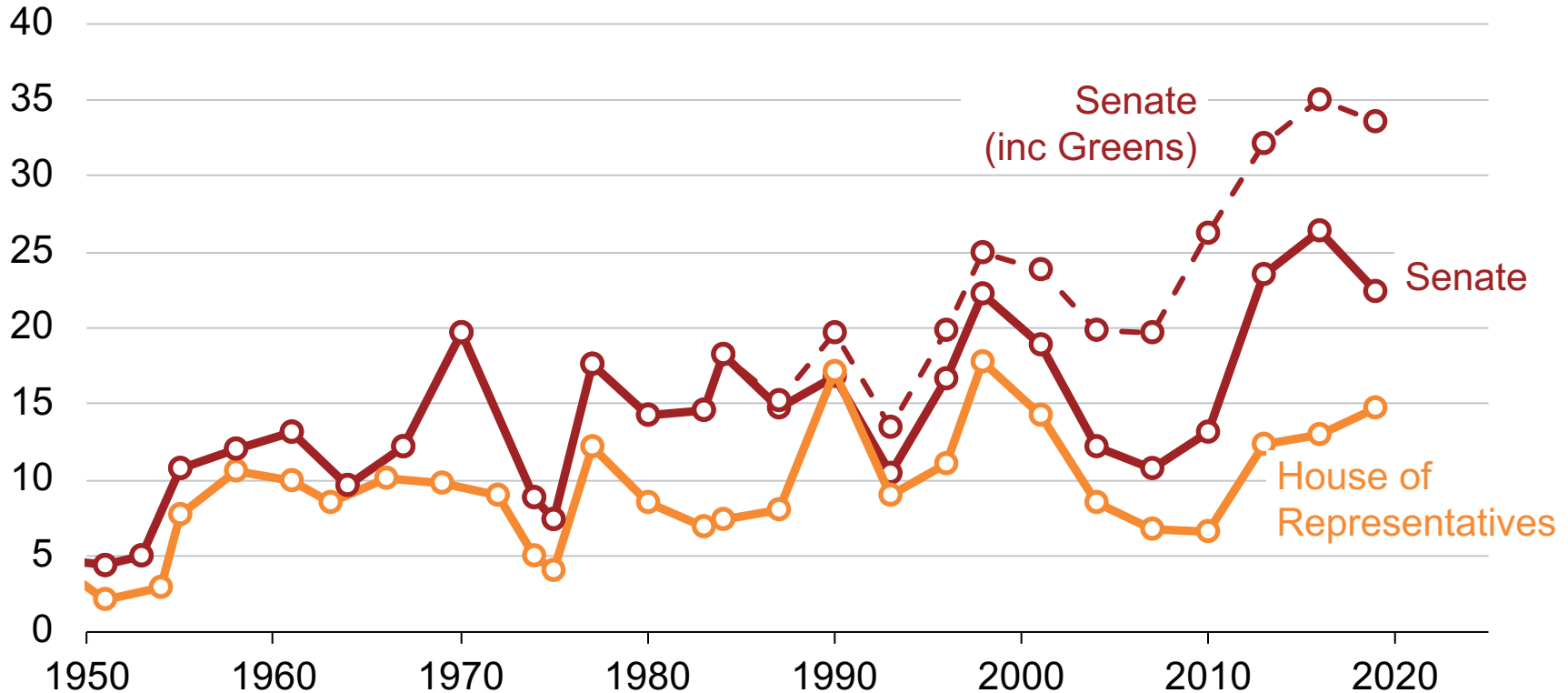


Proportion of population with tertiary
degree, 2016

Grattan Institute, *Regional patterns of Australia's economy and population*

The minor party vote stayed high

First preference votes to minor parties as a share of the formal vote



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Like most election campaigns there were lots of bad ideas

Bad Coalition ideas

- 1st loss housing loan guarantee
- Tax cut very large, regressive, and announced too far in advance
- Many transport projects with no business case
- Regional university international student visas

Bad ALP ideas

- NRAS 2.0 for low-income housing poorly designed
- “living wage”
- Many transport projects with no business case
- Parent visas expanded
- 20% boost to childcare wages with no plausible mechanism
- Cancer co-payments – more gvt spending, no price pressure
- 3yo child education expanded before quality issues addressed

There were also some good ideas...

There hasn't been much reform for the last 11 years

Major policy changes by policy area and government

	Hawke/Keating 1983–1996				Howard 1996–2007			Rudd/Gillard 2008–2013		A/T/M 2013–2019	
Trade and currency	Float A\$	International students	Tariff reductions							FTAs	End auto assistance
Macro/budget policy			RBA inflation targets		Balanced budget commitment			PBO			
Labour markets	Accord		Enterprise Bargaining		Workplace Relations Act	Skilled migration	Work Choices	Fair Work	Age pension access 67	Age pension access 70	
Competition policy			Hilmer review		National Competition Policy			Demand-driven higher ed			
Privatisation	GBE reform	CBA sale	Elec Water	Airline IPO		Telstra sale (1, 2 & 3)				Medibank sale	
Regulation	Foreign bank entry		Telco dereg.			Bank capital reform		National Reform Agenda			
Tax	Capital Gains Tax	Dividend imputation	Super-annuation		GST	Personal income tax cuts	Company tax cut		Carbon pricing	Super tax	Company tax
Federalism	Medicare					Federal/state financial reform		Federal/state health reform		NDIS	School funding

Notes: Reforms that were not passed, or that were subsequently substantially wound back or repealed, are shown shaded out. 'Airline IPO' is the sale and IPO of Qantas in 1993 and 1995. Sources: Access Economics (2019) and The Economist (2011); Grattan analysis

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There are many issues government cannot ignore, or there will be angry losers

Approaching trains

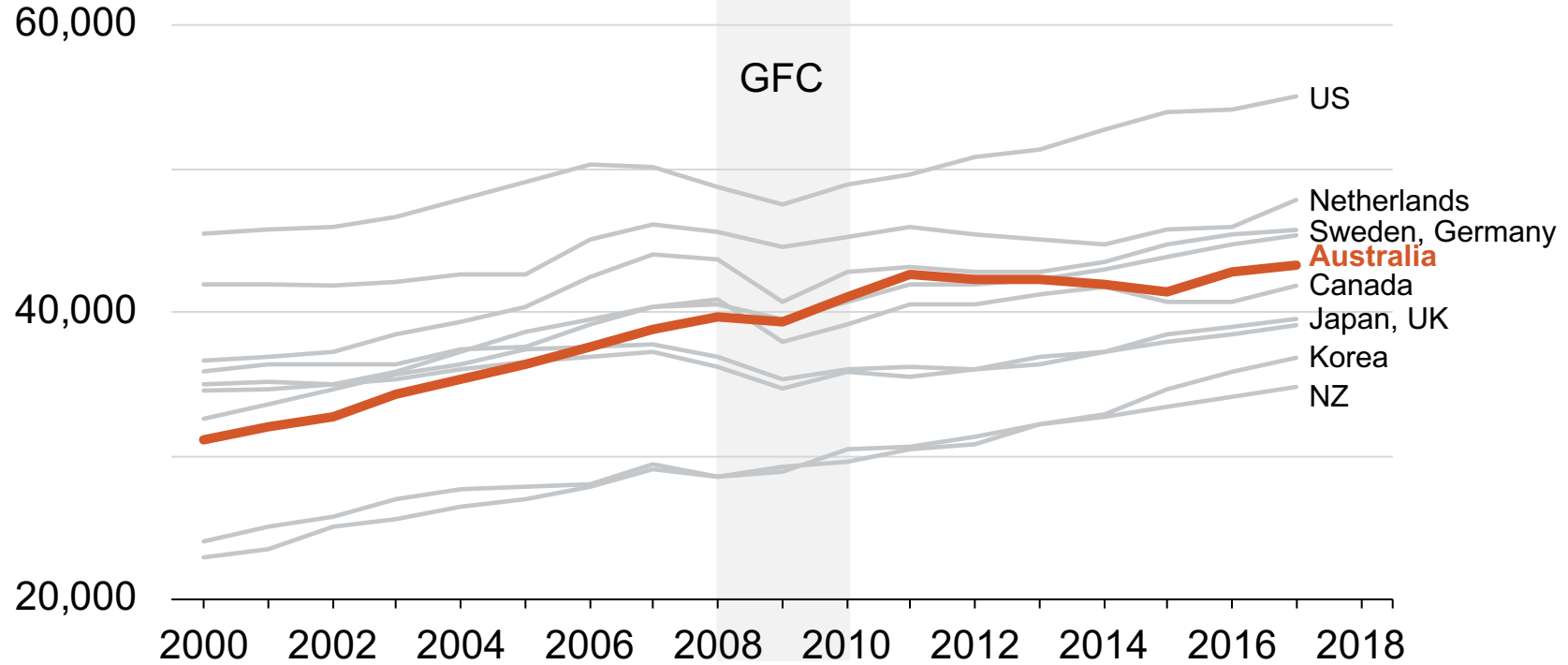
- Economic growth slowing quickly
- Budget (forecast) surplus is dicey
- Increasing school leavers
- Foreign student concerns
- Private health death spiral; out of pockets
- Housing ownership, inequality and homelessness
- Transport project selection
- Energy costs and emissions too high

Sensible responses

- Delay super guarantee increase to 12%
- Childcare subsidies
- Aged care cost recovery
- Restore demand-driven system
- Increase HELP recovery
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Australia's income growth has been slow since 2013

Real GNI per capita, PPP adjusted

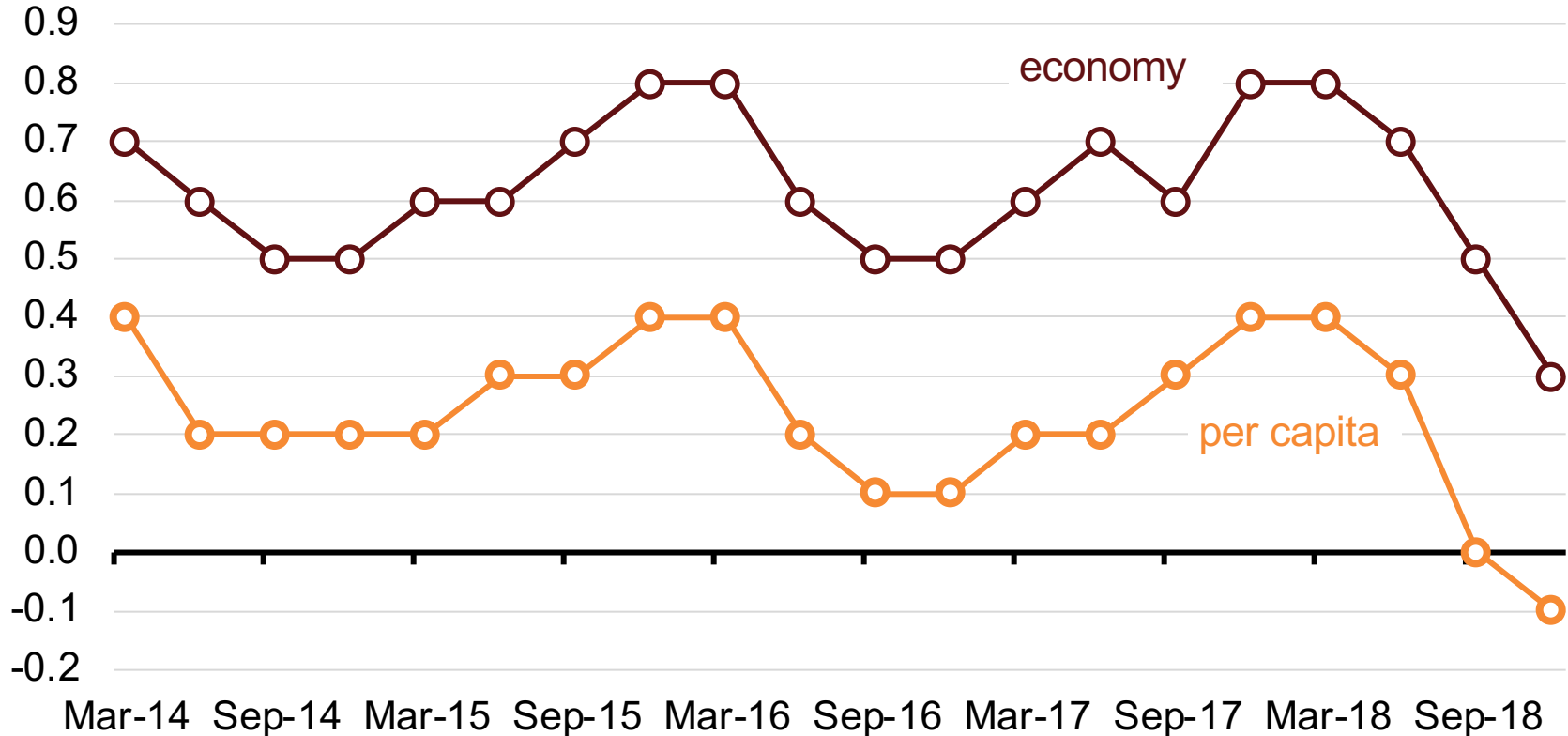


Notes: Constant PPPs, constant prices, OECD base year. Income data for Korea is an OECD estimate. Derived from OECD National Accounts.

Source: OECD (2019), Gross national income (indicator).

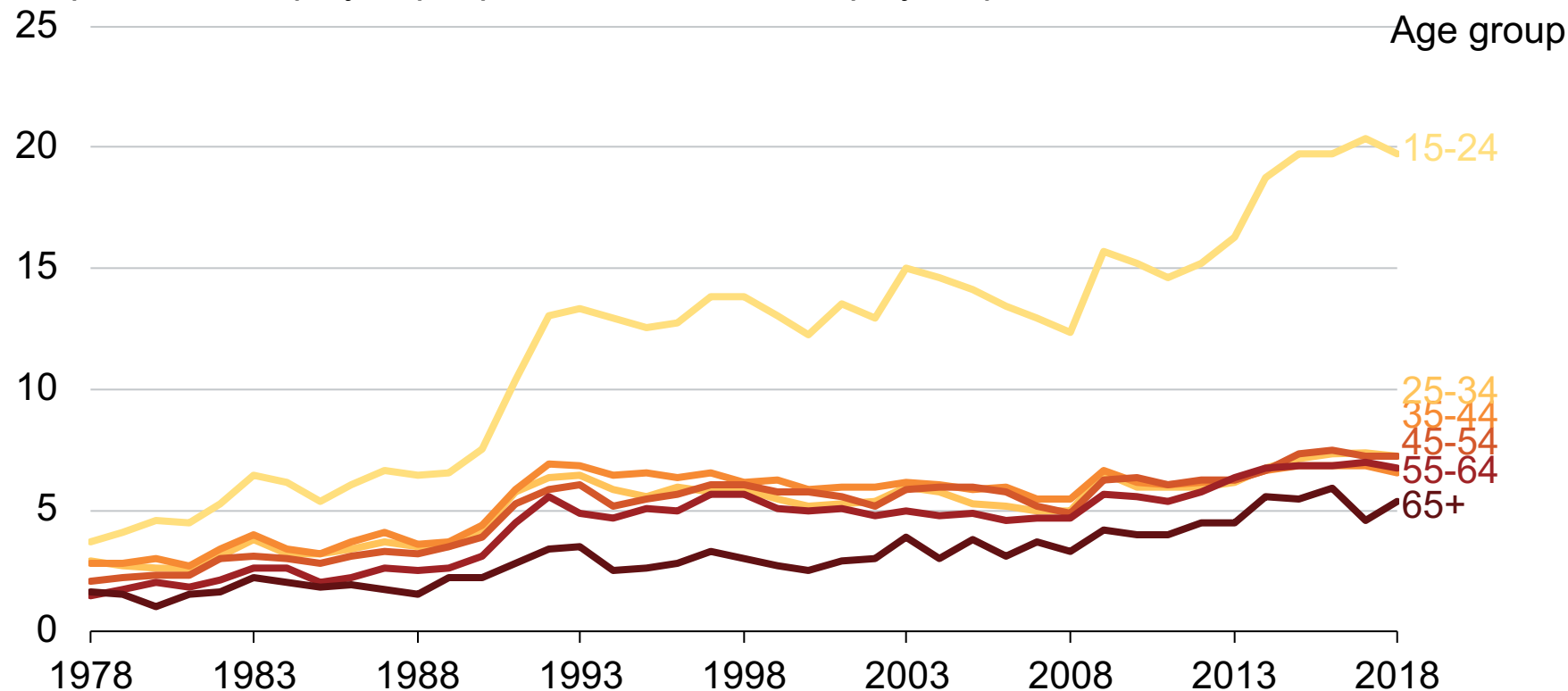
Was this a good election to lose?

Quarterly GDP growth, chain volume measure, percent



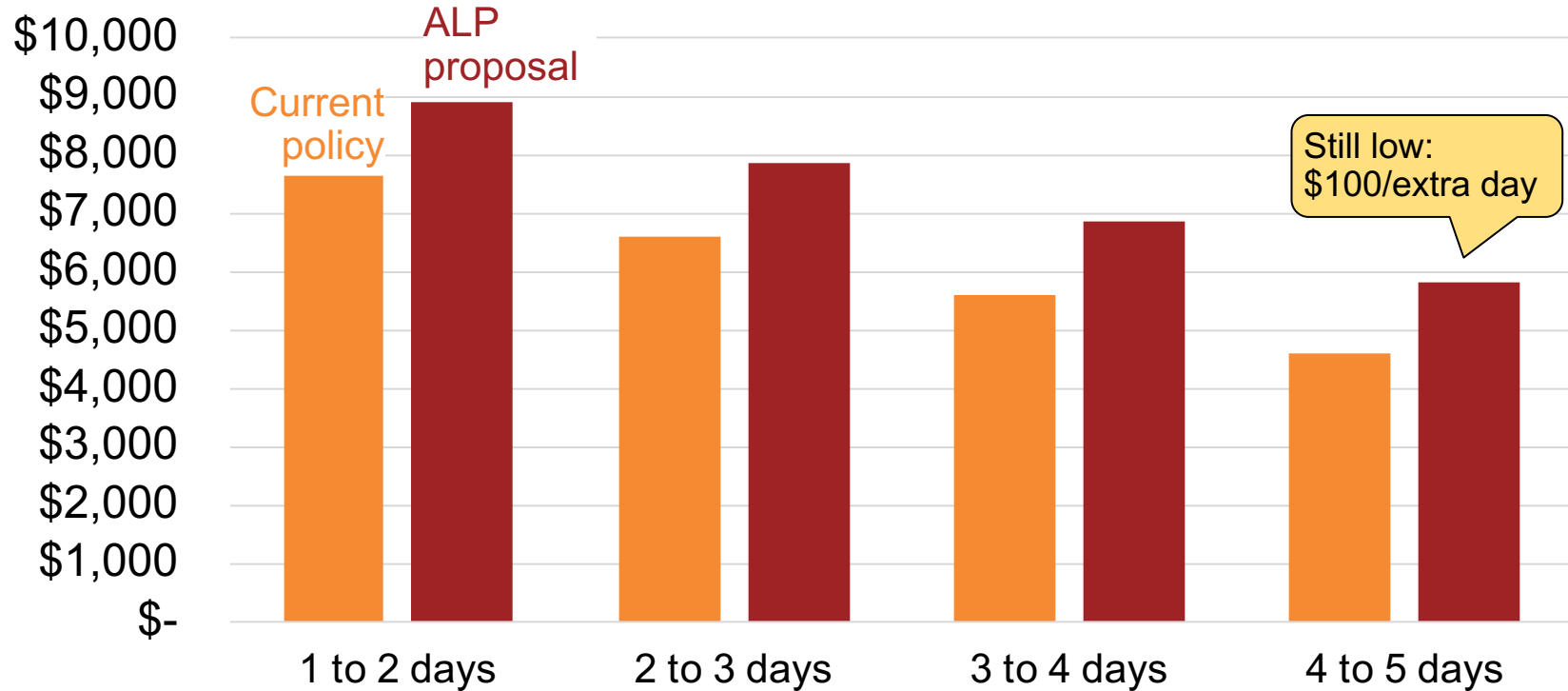
Underemployment has become a big issue for young people

Proportion of employed people who are under-employed, per cent



More childcare subsidy, such as the ALP proposed, would increase economic growth

Gross earnings less childcare costs net of subsidy if second earner works an extra day



Notes: Primary earner on \$95,102 a year; Secondary earner makes \$12,200 a year for each extra day of work (\$60,999 if working full time). Assumes families pay for ten hours of childcare per day, at the hourly rate cap. Source: Grattan analysis

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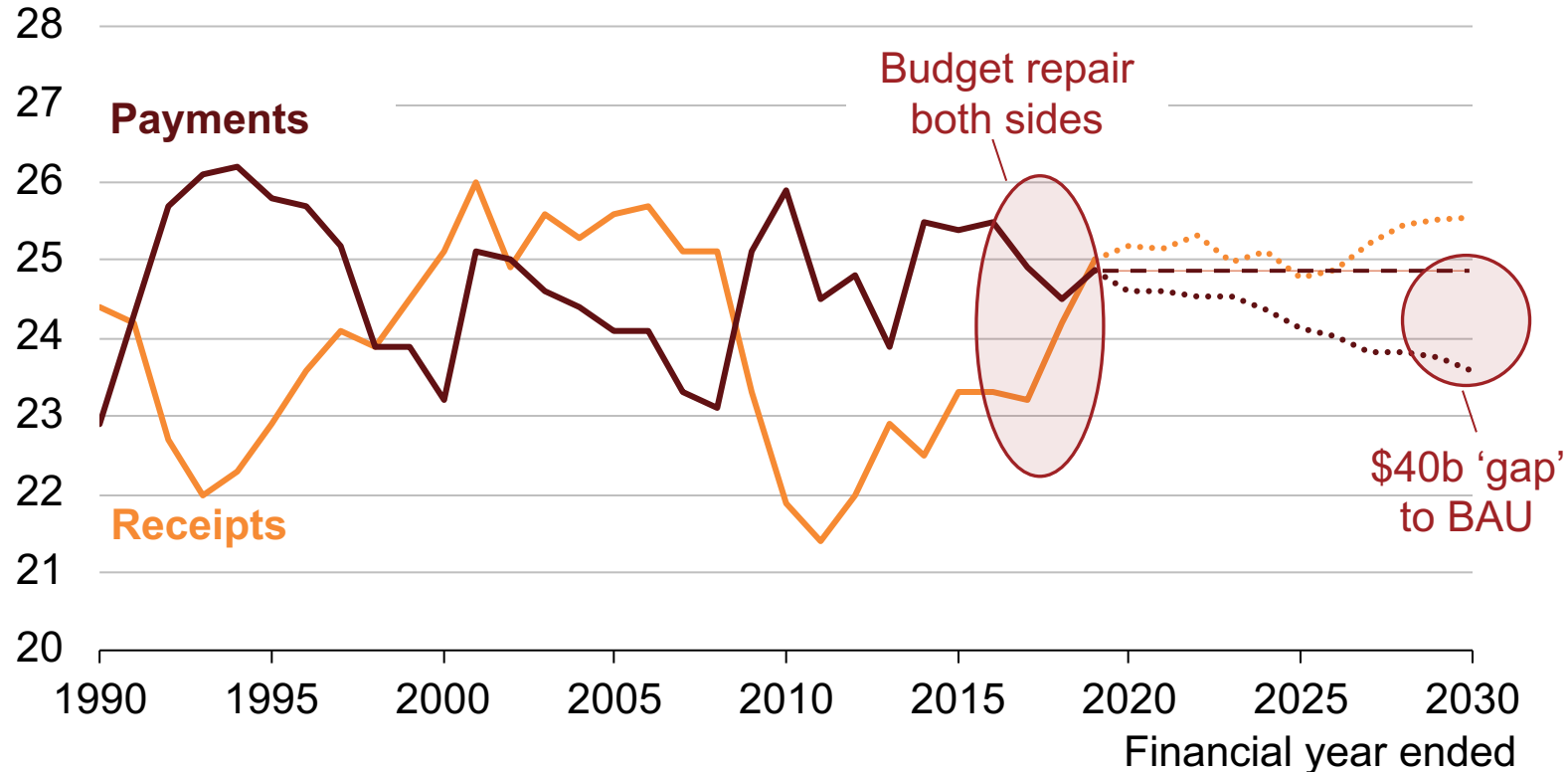
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Budget has recovered on both sides; future surplus depends on declining payments

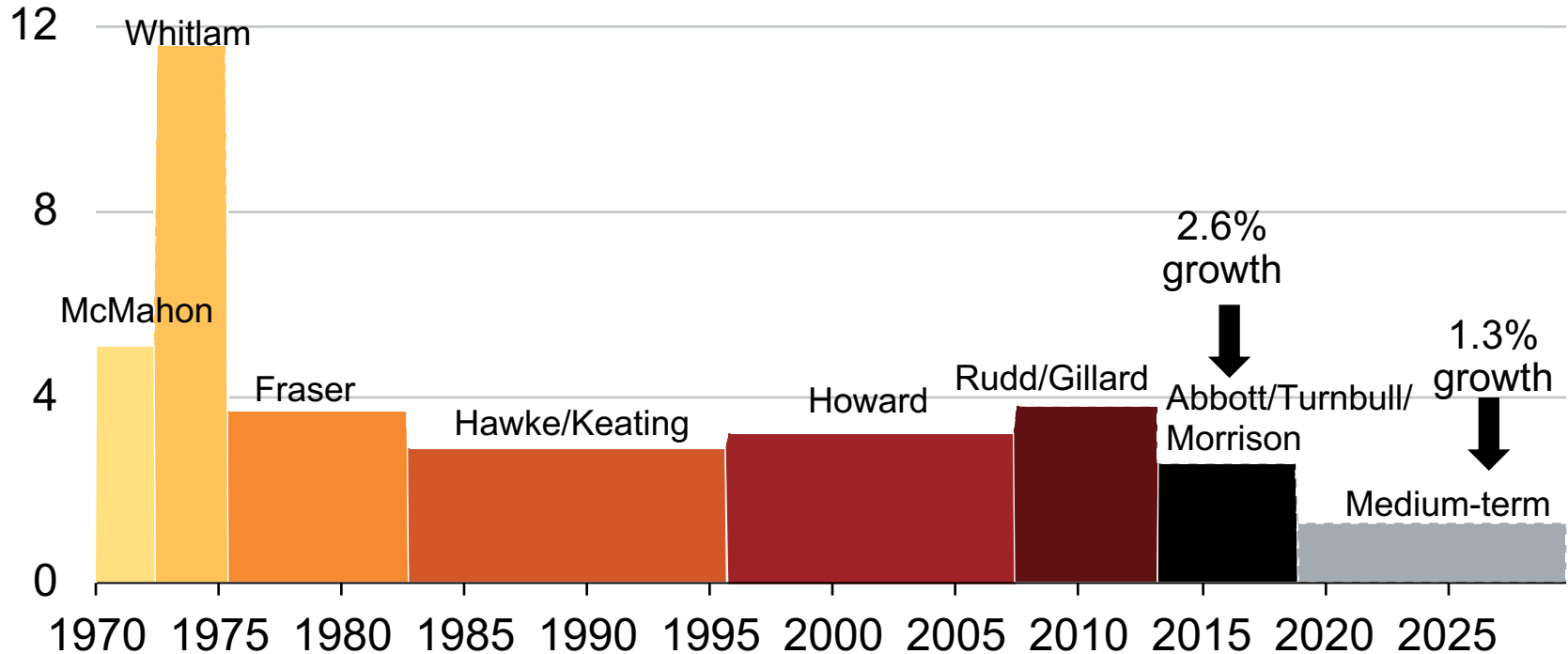
Commonwealth payments and receipts, per cent of GDP



Source: Budget 2019-20

Spending growth forecasts are unusual by historical standards

Average real spending growth over term (per cent)



Notes: Spending growth in cross-over years (years in which government changed hands) are allocated across the governments in proportion to the share of the year in which they held government (to the nearest calendar month). Source: Grattan analysis of Commonwealth Budget Papers

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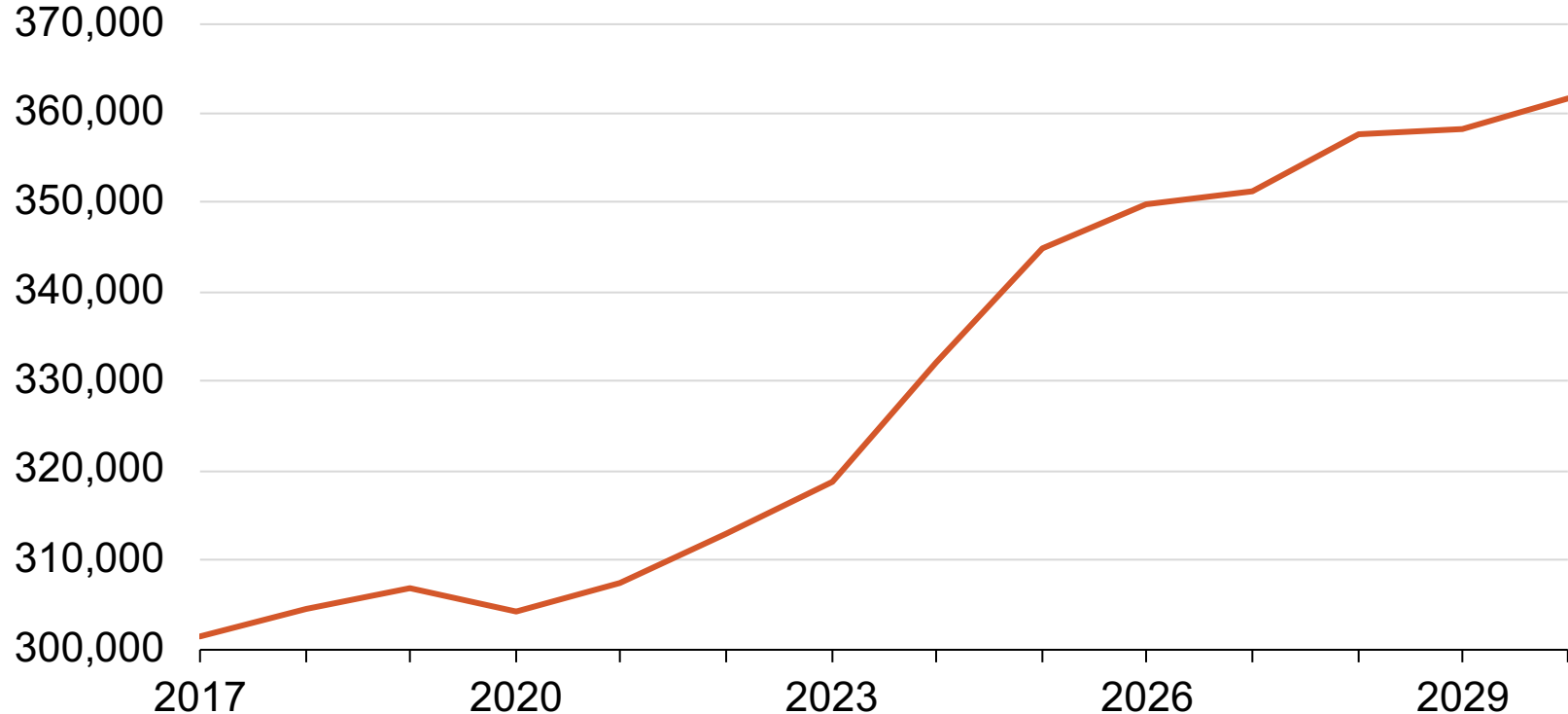
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Demand for tertiary education places will start to jump in 2021

School-leavers



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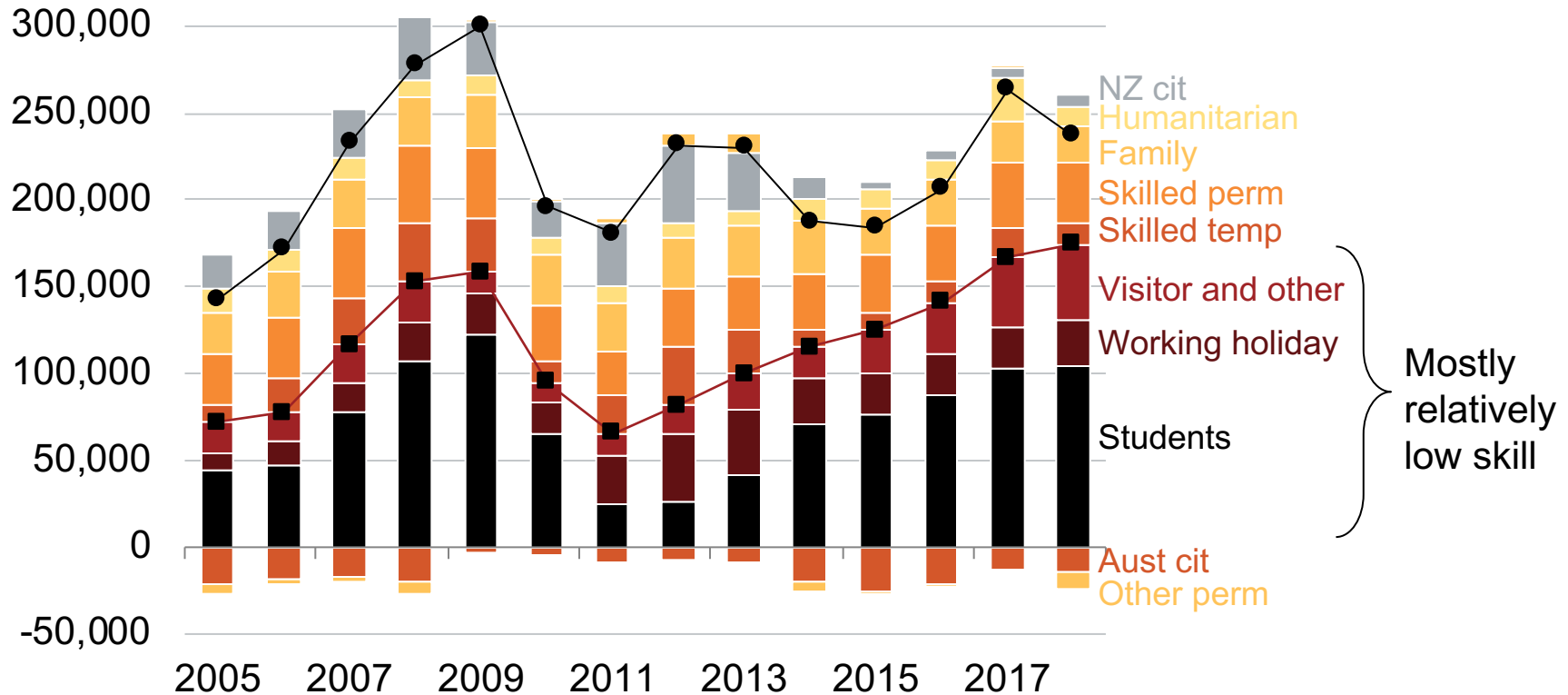
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An increasing proportion of migration to Australia is relatively low skill

Net overseas migration, financial year ended



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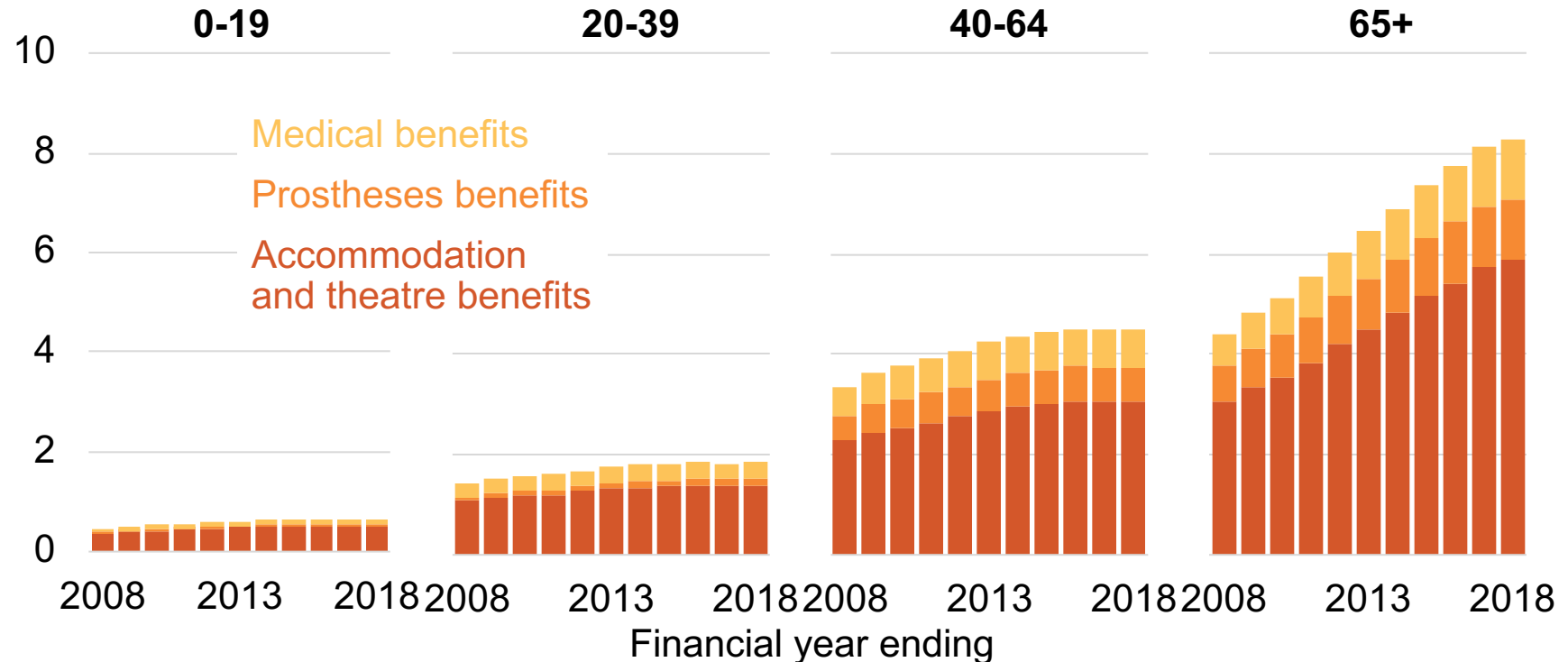
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PHI benefits are booming for baby boomers

Benefit payments by PHI funds for hospital treatment, 2018\$b

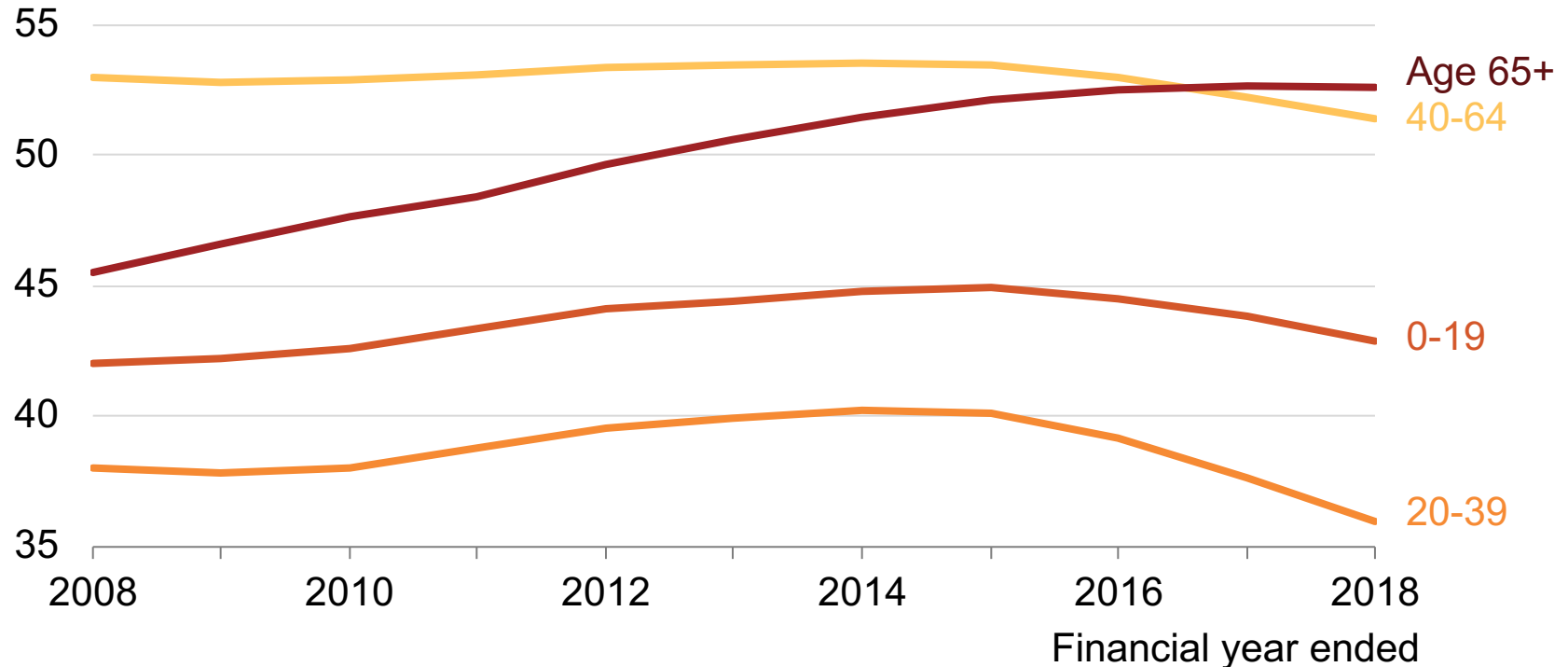


Note: Includes benefits paid for hospital and hospital-substitute treatments. Deflated using the CPI.

Source: APRA Private Health Insurance Membership and Benefits Statistics; and ABS 6401.0, Consumer Price Index

Younger people are rapidly dropping out of PHI; older people are staying in

Proportion of people in each age group that have private health insurance hospital cover (per cent)



Note: Figures as at June quarter of each financial year.

Sources: APRA PHI Statistical Trends and ABS 3101.0 Demographic Statistics.

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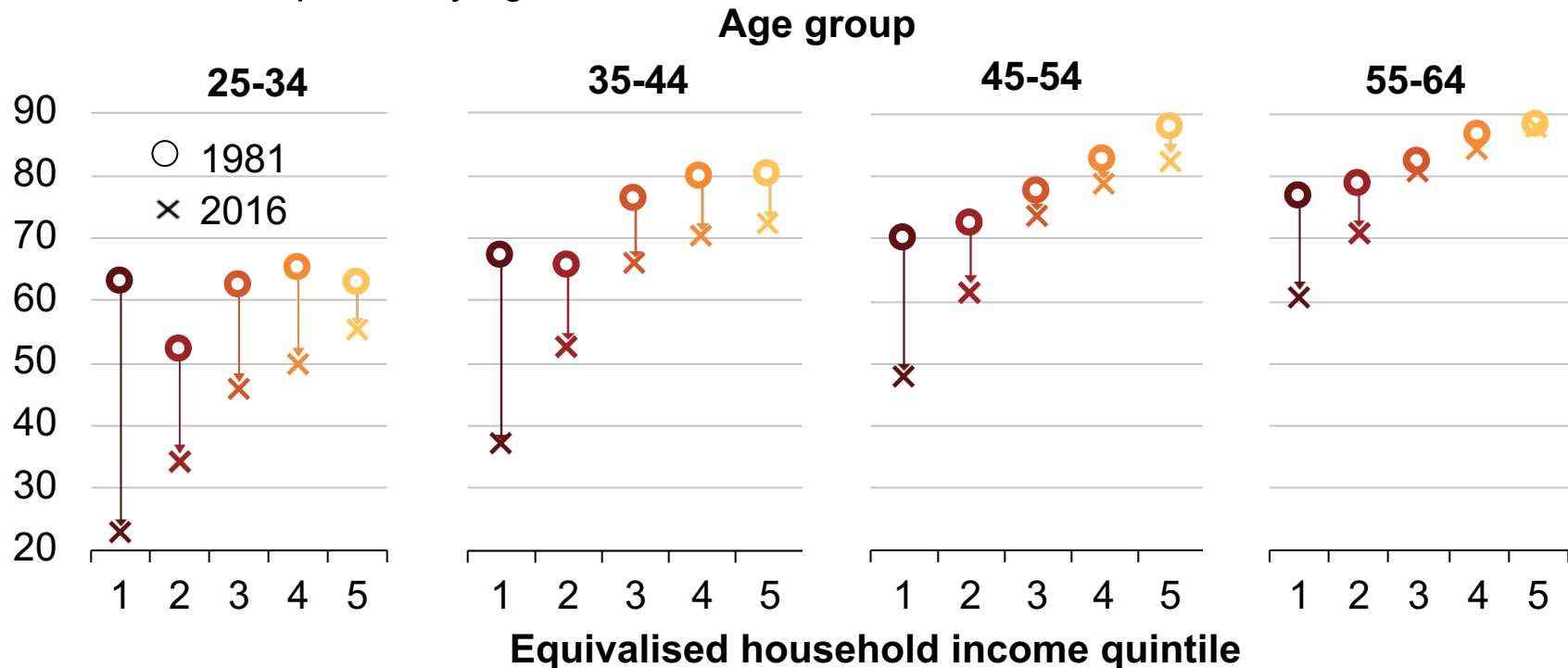
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Home ownership is falling particularly fast among younger low-income earners

Home ownership rates by age and income, 1981 and 2016

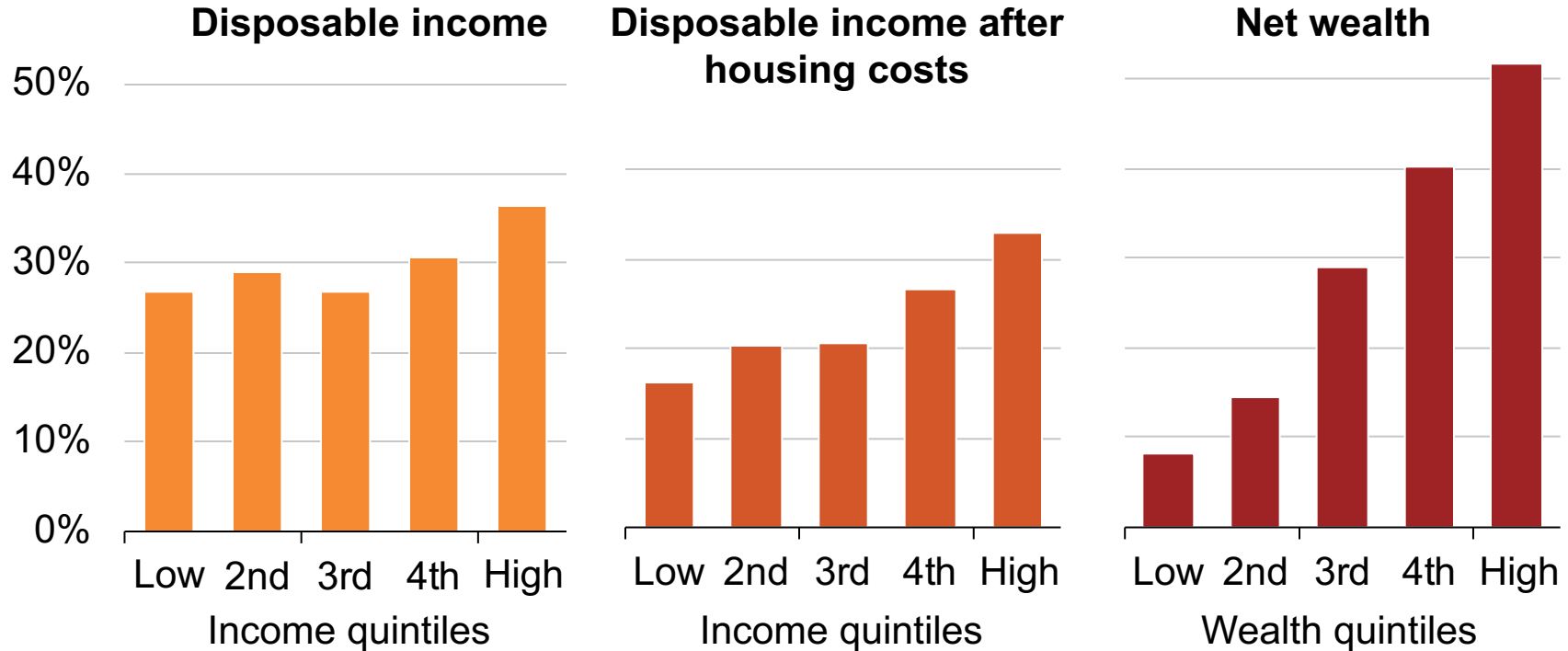


Notes: This graph updates Burke et al 2014 using Census data obtained from the ABS. Limitations in Census calculations of household incomes means that changes in home ownership rates by age and income are indicative and small changes in ownership rates should be ignored. Excludes households with tenancy not stated (for 2016) and incomes not stated. Uses age of household reference person and equivalised household income quintiles.

Source: ABS Census; Burke et al 2014 'Generational change in home purchase opportunity in Australia'; Grattan Institute

Inequality is a result of housing costs, not differences in income

Real growth from 2003-04 to 2015-16 per equivalised household

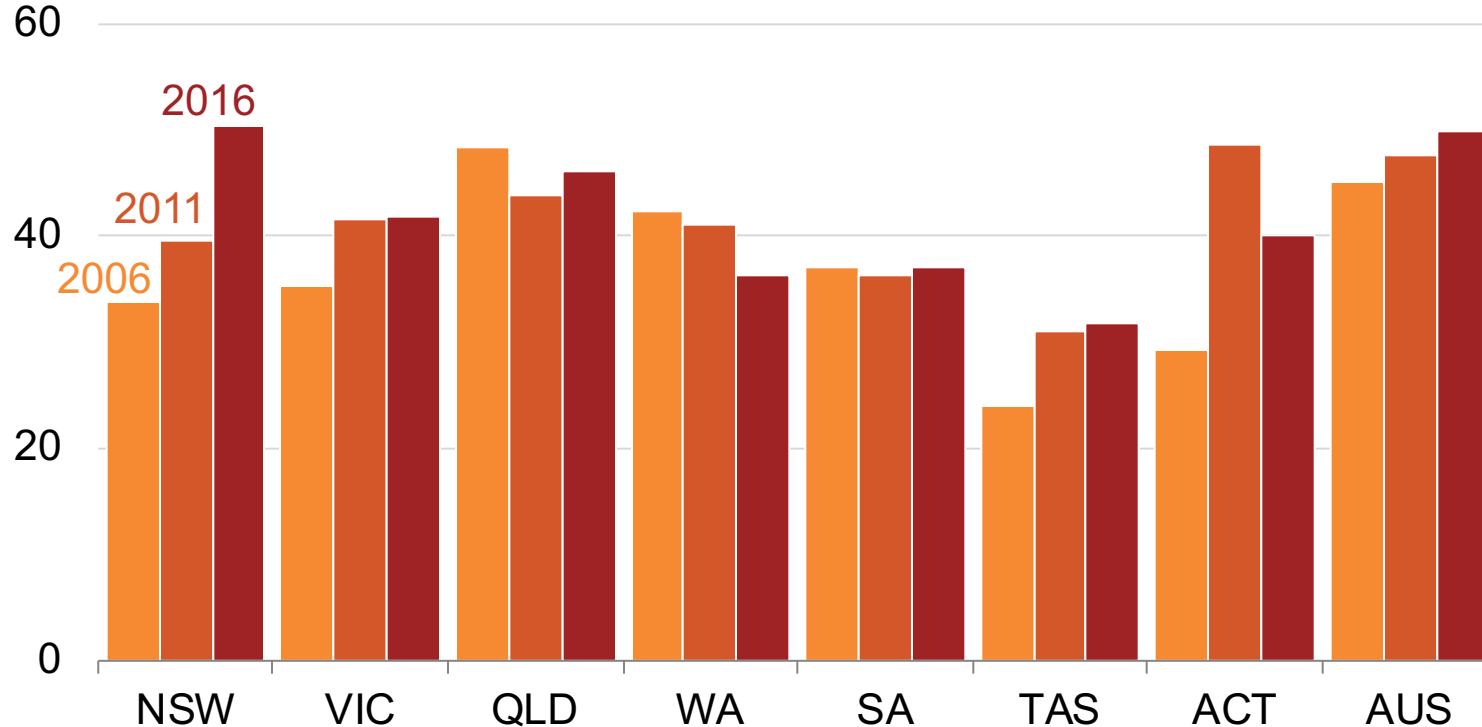


Notes: Income estimates for 2003–04 onwards are not perfectly comparable with estimates for 2015-16 due to improvements in measuring income introduced in the 2007–08 cycle.

Source: for income, ABS SIH 2003-04 and SIH 2015-16; for wealth, ABS 6523.0 Household Income and Wealth

Australia's homelessness problem is getting worse

Number of homeless per 10,000 of population, per state, 2006 to 2016



Note: Excludes NT for readability.

Sources: Estimating Homelessness, ABS (2016)

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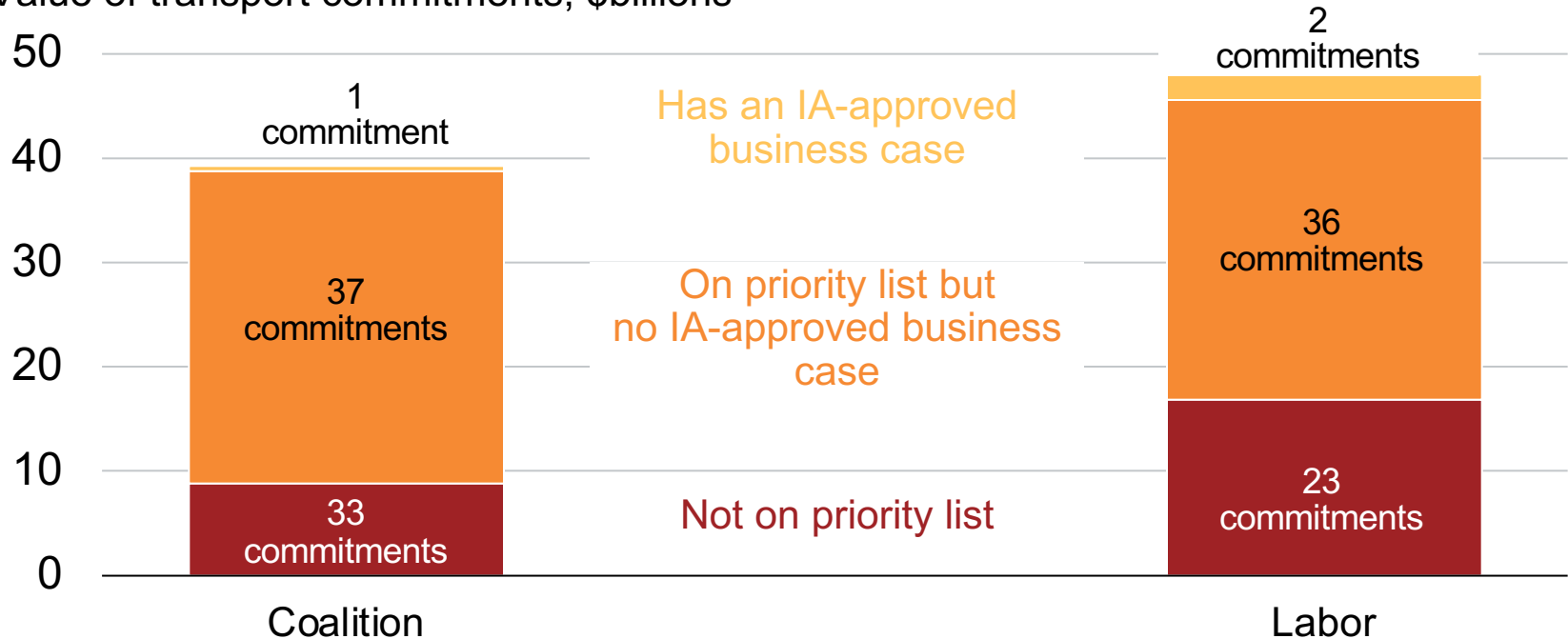
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Most election commitments lacked a business case approved by Infrastructure Australia

Value of transport commitments, \$billions



Notes: Only commitments worth \$100 million or more have been included. 'On priority list but not IA-approved business case' includes projects that appear closely related to items that are specifically on the list. We could not determine whether a number of commitments to improving regional roads would satisfy IA priorities on regional road safety so these are included in 'Not on priority list'. Excludes projects already under construction or with Australian Government funding announced in a previous years budget.

Sources: IA Infrastructure Priority List; 2019 budget; media releases, news articles, policy platforms and party websites as of 12 May 2019. 30

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