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The Future of the Intergenerational Report

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As the chapters in this volume individually and collectively make clear, the intergenerational report (IGR) is now part of the fabric of fiscal policy discussion in Australia. That said, this volume has also pointed out that a number of structural changes need to be made to the IGR to make it a central guide to the conduct of fiscal and perhaps wider policy.

Newly minted treasurer Jim Chalmers has announced that the next IGR will be published this year (2023) (Chalmers 2022). He has also argued for some time that annual budgets—and thus presumably the IGR—should adopt some form of 'wellbeing' framework. Exactly what such a framework will look like remains to be seen, and the details will matter for the usefulness of such a framework. The idea that economic measures of output do not provide a complete picture of social value is hardly a new one. It was known to the very economists who first constructed measures such as GDP (gross domestic product), but it was perhaps put most eloquently by Robert Kennedy in 1968:

> Our Gross National Product, now, is over $800 billion dollars a year, but that Gross National Product—if we judge the United States of America by that—that Gross National Product counts air pollution and cigarette advertising, and ambulances to clear our highways of carnage … Yet the gross national product does not allow for the health of our children, the quality of their education or the joy of their play. It does not include the beauty of our poetry or the

> strength of our marriages, the intelligence of our public debate or the integrity of our public officials. It measures neither our wit nor our courage, neither our wisdom nor our learning, neither our compassion nor our devotion to our country, it measures everything in short, except that which makes life worthwhile. (Kennedy 1968)

Yet it is hard to deny that material wealth is important. It provides the resources to educate our children, care for the sick and infirm, to protect the natural environment and remedy existing harms caused by economic activity, and to provide the standard of living that permits human flourishing rather than constant toil for survival. There is also a spectrum of measurability running from the relatively easy to the ephemeral. Yet it is not only economic measures such as GDP that are easy to measure—so are life expectancy, infant mortality and a variety of other health measures. Various measures of human capital are slightly more challenging to measure well, but there are established and consistent ways to do so. At the other end of the spectrum are concepts like 'happiness' that are contested at best, and undefined at worst.

The challenge in using such wellbeing measures is to find measurable and meaningful measures that are stable enough across subpopulations and over time to make them a useful guide to what policies are 'working'. This is particularly important for the IGR, which, by its nature, takes a multi-decade perspective and is designed, in no small part, to act as a counterweight to the short-termism of annual budget and three-year political cycles. If the IGR is to incorporate a wellbeing framework, renewed investment will be needed into the capacity of the Australian Bureau of Statistics (ABS) to provide such measures.

Who should be in charge?

Indeed, the central purpose of the IGR is to focus the attention of both government and the public on the key long-term issues, particularly those that determine our fiscal sustainability. This can only be achieved if the authors of the IGR have the capability, freedom and incentives to identify these long-term issues. This raises squarely the question of who should be responsible for the report. The current practice is, of course, that the treasurer is responsible for the IGR. This inevitably constrains what is contained in the report and the government's response to it. If the chief

failure the IGR seeks to address is excessive short-termism, then putting the same people, facing the same incentives, responsible for that short-termism in charge cannot magically lead to long-term thinking simply because the report is longer in focus than a federal budget.

One step away from this would be to make Treasury, rather than the treasurer, responsible for the IGR. To the extent that Treasury has some degree of independence this would be preferable. But there are good reasons to question that independence in modern politics. New Zealand provides a potential template for Treasury independence on these matters. But, as Podger, Hall, Woods and Trewin noted in the introduction to this volume, New Zealand has quite different institutional arrangements. There is legislation that requires the Treasury secretary in New Zealand to sign a statement certifying that Treasury has used its best professional judgement in preparing the report. Moreover, in New Zealand, departmental secretaries are appointed by the public service commissioner rather than being appointed by the prime minister.

An alternative is for the Productivity Commission (PC) to be given responsibility for the IGR, which would add a further degree of independence. One might also imagine a hybrid option where Treasury outsources part of the IGR work to the PC in order to give Treasury some degree of plausible deniability about responsibility for any politically inconvenient findings. The Parliamentary Budget Office is another option. None of these options offer a complete resolution to the problem of independence in preparing an IGR that provides an accurate and candid picture of Australia's long-term fiscal position.

What should the IGR cover?

This volume has also pointed to a series of other improvements that should be made to the IGR. The first is to properly incorporate state, territory and local government projections. This is particularly important in those sectors, such as health, where state and territory governments have major funding responsibilities; and it would provide a 'bottom-up' analysis that would complement the current 'top-down' approach. In so doing, this would offer an important check on the high-level assumptions made. This links to the second obvious improvement: incorporating more extensive sensitivity analysis to the critical assumptions that drive conclusions about

fiscal sustainability. In particular, assumptions concerning migration, productivity and workforce participation are critical to the conclusions drawn by the report. Third, the IGR should take a less deterministic approach and incorporate the impact of possible future shocks such as pandemics, international economic crises, environmental crises and major trade disruptions, including from armed conflicts. Recent experiences with the health and supply-chain-disruption effects of COVID-19, the war in Ukraine and associated energy shocks, and the impact of bushfires and floods in Australia, all point to the impact of such events. Importantly, such events do not just have short-term impacts, but can have persistent effects through a change in net debt, long-run supply-chain changes, or workforce composition.

The various chapters in this volume, along with the experience of the 2021 IGR, point to a series of crucial long-term policy issues with which the Australian public and its political and civil society leadership need to engage. And this engagement needs to be informed by rigorous, independent, expert analysis—the type of analysis that differs from the type of think-tank lobbying and talking points that currently occupies a large portion of the public conversation about these issue.

Some of the most pressing issues facing the nation include the following:

1. Whether and how revenues should be increased to finance expenditure requirements in the most efficient, robust and transparent manner, while being sensitive to reliance interests.
2. The future direction of Australia's migration program, paying specific attention to the size and composition of skilled migration, and also the infrastructure needs to accommodate sustained increases in the population without undue impact on housing affordability, congestion and the provision of public goods.
3. How to continue Australia's proud tradition of a strong social safety net or, as Dixon and Holden (2022) put it, 'a generous social minimum', while maintaining the dynamism of Australian society and the Australian economy. The IGR has a crucial role to play in guiding the public narrative around issues such as inequality, for instance by pointing to Australia's post-tax-and-transfer Gini coefficient rather than the less relevant pre-tax-and-transfer version.

4. How best to manage the fiscal impact of projected growth in expenditures on health, aged care and disability support, while ensuring access. Given the projected growth in such expenditures, there will be an inevitable discussion of efficiency of provision and equity of access.
5. How best to respond as the direct impact of climate change becomes starker, including how to mitigate future climate change as well as adapt to the change that occurs.
6. Addressing education and training, labour force participation and productivity growth in an integrated fashion, taking account of all relevant policy areas across government departments.
7. Ensuring economic resilience in the face of possible future shocks.

In summary, the academy suggests the following changes to the approach Australia now takes to its IGRs.

- First, the IGR needs to be made more independent of the standard political cycle and political incentives so that it can provide a candid picture of Australia's long-term fiscal position and policy challenges.
- Second, the scope of the IGR should be national and not limited to the Commonwealth.
- Third, the analysis underpinning the IGR should be made publicly available in detail, including all data sources and code for any economic models used. Treasury or PC models should be viewed as open-source property of the Australian public, not proprietary intellectual property.
- Finally, the IGR should incorporate broader measures of so-called 'wellbeing' beyond purely economic measures such as GDP and net debt. But these additional measures should be tangible, easily quantifiable and comparable over time. The ABS should be asked to build such measures.

These reforms would help the IGR live up to its promise of providing a candid picture of Australia's long-term social and economic position that acts as a counterpoint to the short-term thinking that permeates our contemporary politics.

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