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TRANSCRIPT OF EVENT

PUBLIC POLICY LESSONS FROM THE GLOBAL FINANCIAL CRISIS

Dr Ken Henry AC, former Secretary of The Treasury (Panellist)

Dr Malcolm Edey, former Assistant Governor (Economic) of the Reserve Bank of Australia (Panellist)

David Tune AO PSM, former Associate Secretary of the Department of the Prime Minister and Cabinet and former Secretary of the Department of Finance (Panellist)

Meghan Quinn PSM, Deputy Secretary of the Markets Group at The Treasury (Panellist)

Dr David Gruen, Australian Statistician, Australian Bureau of Statistics (Opening Remarks)

Dr Steven Kennedy PSM, Secretary of The Treasury, IPAA ACT President (Host)

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STEVEN KENNEDY: Good morning everyone, and welcome to today's event, Public Policy Lessons from the Global Financial Crisis. My name is Steven Kennedy, and I'm the Secretary of the Treasury. I'm also IPPA ACT's President and I'm pleased to introduce today's event. I'd like to start by acknowledging the Ngunnawal people, the Traditional Custodians of the land on which we meet, and pay my respects to their Elders past, present and future. I would like to acknowledge and welcome any Aboriginal and Torres Strait Islander peoples present today.

STEVEN KENNEDY: We are honoured to be joined by three of Australia's former, I'm sure they don't like being called former, eminent policymakers. Dr Ken Henry, AC, former secretary to the Treasury. Dr Malcolm Edey, former Assistant-Governor of the Reserve Bank of Australia, and David Tune, AO PSM, former Secretary of the Department of Finance, and former associate Secretary of the Department of Prime Minister and Cabinet. We're also joined by two of my colleagues, my Treasury colleague Meghan Quinn, PSM, Deputy Secretary of Markets Group, and Dr David Gruen, the Australian Statistician.

STEVEN KENNEDY: Let me introduce our speakers. Dr Ken Henry AC served as the Secretary of the Treasury from 2001 to 2011. He's currently a Non-Executive Director of the Australian Securities Exchange, Kate York Partnership and Accounting for Nature Limited, and was until recently the Chair of the Sir Roland Wilson Foundation at the Australian National University. Ken is a member of the CEDA Leadership group, a council member for Voiceless, and a former chair of the National Australia Bank. Ken was awarded the Companion of the Order of Australia in 2007 for his service to the development and implementation of economic and taxation policy and Ken was obviously a key or central player one might say, during the Global Financial Crisis.

STEVEN KENNEDY: Dr Malcolm Edey is a former senior executive of the Reserve Bank of Australia where he served as an Assistant Governor for 14 years, before retiring in late 2016. Malcolm has held a number of senior representational roles in international policy, including as chair of the OECD Financial Markets Committee and as a member of the Basel Committee on banking supervision. Malcolm's paper that's accompanying today's conversation is an excellent paper with some real challenges and insights for monetary policy which I look forward to hearing today.

STEVEN KENNEDY: David Tune, AO PSM, served as the Secretary of the Department of Finance from August 2009 to June 2014. David also held many senior positions in the Australian public service, including as the associate Secretary domestic policy group, and Australian G20 Sherpa during his time at the Department of Prime Minister and Cabinet. David was awarded the Public Service Medal in 2009, and became an Officer in the General Division of the Order of Australia in 2015 for his distinguished service to public administration. Throughout the GFC, David sat closely with the then Prime Minister, Kevin Rudd, as policies were formed and was a key advisor through that period.

STEVEN KENNEDY: Dr David Gruen was appointed Australian Statistician at the Australia Bureau of Statistics in December 2019. His previous roles include Deputy Secretary Economic and Australia's G20 Sherpa at the Department of Prime Minister and Cabinet, Executive Director of the Macroeconomic Group at the Department of Treasury, and Head of Economic Research Department at the Reserve Bank of Australia. David currently holds PhD degrees in physiology from Cambridge University and in Economics from the Australian National University. David played a crucial role in Treasury during the Global Financial Crisis and his papers and presentations after the Global Financial Crisis, I think, formed the basis of the history really now that's being recorded of the GFC.

STEVEN KENNEDY: And my colleague Meghan Quinn, PSM, is Deputy Secretary Markets Group at the Department of Treasury, a position Meghan was appointed to in June 2020. Meghan's previous roles include Deputy Secretary Macroeconomic group, and structural reform group at the Treasury, and head of Secretariat for the Government's Australia and the Asian Century White Paper at the Department of Prime Minister and Cabinet. Meghan was awarded the Public Service Medal in 2009 and has a Masters of Economics from the London School of Economics, as well as a Bachelor of Economics from the University of Western Australia. Meghan also played a crucial role during the Global Financial Crisis, contributing to the intellectual foundations of decision making throughout that entire period.

STEVEN KENNEDY: A very warm welcome to all our speakers. I'll now hand over to David to make some opening remarks. As I said, David will then facilitate some conversation across the panel and then open up to questions. Thank you for joining us today.

DAVID GRUEN: Thanks very much Steven. What challenges did the Global Financial Crisis pose for key public policy agencies, Treasury, the Department of Prime Minister and Cabinet, and the Reserve Bank of Australia? I pitched the idea for this project to the authors at the beginning of 2019, which feels like a long time ago. That was around the 10 year anniversary of the Global Financial Crisis, when I was in Prime Minister and Cabinet, and I have been ably supported by Megan Edwards throughout this project, and Megan joins David Tune as co-author of his paper.

DAVID GRUEN: As Steven made clear, these papers have been written by people who were central figures at the time in the three key agencies that we're going to be talking about, and they were written with the benefit of access to documents from the time, as you will discover if you've had a chance to have a look at the papers. The three papers in an earlier form were presented at a workshop at the Reserve Bank in August 2019, which was attended by the authors, as well as people who held senior positions in Treasury, PM&C and the Reserve Bank, APRA and AOFM, and as advisors in the then Prime Ministers and Treasurers offices, so the papers benefited from being discussed by people who had different roles throughout the period.

DAVID GRUEN: As is clear if you've had a chance to read them, they all represent a substantial amount of work. They were completed in February 2020 and we were going to launch them in April of 2020, but I think you know what happened. Postscripts have been added to the papers just last month, and I'll talk a little bit about them. So let me introduce the three papers. The first one is by Ken Henry, Fiscal Response to the Global Financial Crisis. The second is Lessons from the Global Financial Crisis: The Department of Prime Minister and Cabinet Perspective by David and Megan, there are two Megan's here, so don't confuse them. Meghan Quinn is the discussant, but not the co-author. And the third paper is the Role of the Reserve Bank in Australia's Crisis Response. So I'm going to give you a sense of what I see as the highlights of the three papers. I will of course give the authors a chance to say "You've got it all wrong", when we have the panel discussion, but I'm going to give you a sense of what I think of as being the highlights of the papers.

DAVID GRUEN: So starting with Ken's paper, Ken presents a detailed discussion of the proper role of fiscal policy and lessons from earlier episodes, and he says this, "I came out of the 2004 internal Treasury war games determined that if Australia were to confront a large negative shock during my tenure as Secretary, the Treasury would seek to put itself front and centre in advising the government on an appropriate policy response. We would not be taking seats in the back row by counselling a government to rely on monetary policy, the exchange rate or the operation of the automatic stabilisers".

DAVID GRUEN: He then goes onto talk about the events of the Global Financial Crisis, and I just want to relay one of the more dramatic ones which was he found himself on a plane on Leap Day 2008, that's the 29th of February, when Prime Minister Rudd asked him, as the plane levelled out "What's the worst thing that can happen?" And Ken answered, "It would be that the world overnight stopped funding our current account deficit. If that were to happen, it would most likely show up first in Australia's banks being denied access to offshore funding and if bank balance sheets had to shrink, the reduction in lending would most likely result in a deep recession". This has become known as the issue of funding pessimism of the Australian current account deficit, and Malcolm Edey presents quite a detailed discussion of the Bank's view of funding pessimism of the Australian current account.

DAVID GRUEN: One of the more arresting things that Ken says is this, "At a time of international economic and financial crisis, it is important that the government of the day have access to an apolitical body of expert advisors whom they can trust to have no motive other than the national interest. The Australian public service uniquely plays this role, especially in time of crisis, the APS is duty bound to advise the government what course of action it considers to be in the national interest. That advice should in no way be considered tainted by the government's making it public".

DAVID GRUEN: Ken goes onto say that the circumstances that we found ourselves in with the risks posed to Australian living standards should in his view have been enough to motivate agreement on concerted action in the national interest. As he says, one might have expected less partisan mischief from the political opposition and elements of the media, instead just about everything was contested. The governments' response to the crisis provided an opportunity for the rerunning of ideological debates that should have been consigned to the dustbin of history.

DAVID GRUEN: He also goes onto say this, which I think is also a telling quote, "Whenever unusual policy measures are taken, the government will be criticised by its political opponents and their media supporters. The experience of the GFC demonstrates that academics will join the debate, often with unhelpful propositions. The line between policy analysis and political posturing is wafer thin and frequently crossed. Senior Treasury officials can expect to find themselves ambushed by arcane propositions in parliamentary inquiries and other public appearances. The public won't have confidence in highly unusual economic and financial policy initiatives if Treasury officials aren't able to deal effectively with critical commentary".

DAVID GRUEN: The final comment of Ken's that I want to draw attention to is his suggestion that in responding to a crisis, it's important to act early and to err on the side of doing too much rather than too little, and as he says in his postscript on the current crisis, "As the current crisis has unfolded, I have been reminded frequently of this lesson. It's difficult to avoid the conclusion that crises are bet met with speed and overwhelming force. Malcolm Edey reminds us in his paper that Ben Bernanke, Tim Geithner and Hank Paulson wrote a book just in 2019 on the Global Financial Crisis, and they make exactly the same point, that it's important to respond quickly and with a substantial amount of force".

DAVID GRUEN: Let me turn to the next paper, the lessons from the Global Financial Crisis from the perspective of Prime Minister and Cabinet, and the context here is important. So as the Global Financial Crisis was building, PM&C were briefing a new government, following the 24th of November 2007 election, for the first time in 11 years, and a new secretary Terry Moran started in March 2008, so PM&C was occupied at a time when the Global Financial Crisis was gathering power. And incoming Prime Minister Rudd was keen to get a lot done in a short time. So David and Megan draw ten lessons for PM&C, and the wider public service, from the Global Financial Crisis.

DAVID GRUEN: In my remarks, I'll highlight five of them plus one as a postscript to COVID-19. So their first lesson is that real time information and intelligence has a heightened value in a crisis. Invest in relationships during peacetime to ensure that these can be drawn on when needed. And there is a clear difference between the current crisis, from the point of view of real time information, there's a clear difference from this crisis compared to the Global Financial Crisis. So both the Bureau of Statistics, but also a bunch of private sector organisations have been in a position to provide near to real time information this time, which wasn't available in the Global Financial Crisis, and quite a lot of people have drawn attention to that as being an important element of the current crisis.

DAVID GRUEN: David and Megan say it's hard to do other things during a crisis. It's important for the public service to provide sequencing options for governments in light of a crisis, because there's only so much bandwidth. Their third lessons, or at least the third in my list, is if direct investment proposals are in the mix, they must be led by policy and implementation experts. They make the point that central agencies are well placed to advice on measures to stabilise the financial system and shift money quickly into the hands of households, but if the crisis requires further expansionary measures, broader expertise must be sought with PM&C providing its core function of marshalling advice rather than being the source of that advice.

DAVID GRUEN: The fourth in my list is it's the economy, stupid. Pursuing broader policy objective through crisis measures can have benefits but also increases risks. And I make the point that the public service has an important role to play, ensuring that stimulating economic activity in the short run remains the central objective of any policies being developed. And then my fifth of their ten lessons is messaging matters. Consider communication strategy early and revisit often. And they suggest that the public service could have played a greater role in providing regular detailed briefings to the media and stakeholders on economic conditions and the rationale for policy measures, and they go on to say that the issue of communication strategy in a future crisis is also tied to broader debates around trust in public institutions.

DAVID GRUEN: And let me end by giving you their rather upbeat COVID-19 postscript which is that the global pandemic has demonstrated that expert advice remains a highly valued commodity in Australia. When the chips are down, the political system turns to and values expert advice. This was seen both in the health response and the economic response, and we have seen devastating impacts in other parts of the world that have not been as willing to heed advice. And they go onto say, "Those involved in advising the government on the crisis response have many reasons to be proud of their efforts".

DAVID GRUEN: So now let me turn, finally, to Malcolm's paper on the role of the Reserve Bank. Malcolm makes the important point that Australia's prudential oversight frameworks had been significantly toughened in the years before the crisis, and successfully discouraged banks from doing what they did overseas and engaging in a bunch of risky practises, such as sub-prime lending. This meant that Australian banking institutions entered the crisis in much stronger position. He also makes the point that's also been made by others, that the accumulation of risky behaviour in the lead up to the GFC was largely missed. That was certainly true of the statements made by the IMF, but it's also true of the statements made in the financial stability reviews issued by the Reserve Bank before the crisis. And he provides some quotes to demonstrate that the Reserve Bank was broadly satisfied with the stability of the financial system just before it blew up.

DAVID GRUEN: The other interesting point that he makes is that it was unclear at each of the Global Financial Crisis's key phases whether it was about to go away or whether there was about to be a further intensification. There were a series of steps where you just didn't know whether the worst had passed or whether it was about to get worse, and he makes the point, which I think is also important, that there's a challenge to communicating the risks. As he says, "Like other central banks, the RBA sought to use its communication in a way that would provide realistic risk assessments, but also by trying to foster some recovery in confidence".

DAVID GRUEN: I want to just touch briefly on three elements of the Australian experience in the Global Financial Crisis that Malcolm draws attention to, just because with the benefit of hindsight they just struck me as powerful elements. One is the fact that the RBA was in a position to cut the cash rate by 400 basis points in the six months after Lehman Brothers collapsed, which is the most concentrated series of moves since cash rate changes were formally announced, which was in January of 1990. The second that I thought was striking was just how much volatility there was in the system. So in October 2008, on average in any given day, the Australian dollar moved 3.7 cents against the US dollar, compared to a long run average of .7. That's through the whole month. And the third, which also struck me, is that the GFC was largely a banking crisis, but the major Australian banks annual return on equity was more than 10% in every year of the Global Financial Crisis. That's quite something.

DAVID GRUEN: Okay. So then Malcolm turns to what I see as the central elements of his paper, which is with policy interest rates near zero, what have been the main options put forward to achieve further stimulus. So he talks about expanding the central banks balance sheet, quantitative easing, forward guidance about the central banks' policy intentions, policy actions to lower the exchange rate, deeply negative nominal interest rates which require some institutional change to the current arrangements, raising the inflation target in order to lower real interest rates, conventional debt finance, fiscal expansion and finally direct money financed fiscal expansion. And he says, somewhat understated sentence, "Policy makers have been understandably reluctant to focus on the last item on the menu". Nonetheless, as he says, "A number of prominent figures have argued that this should be in the armoury as a weapon of last resort."

DAVID GRUEN: In an extensive postscript, he makes two comments which I want to tell you about. One is on modern monetary theory, where Malcolm approvingly quotes two very well known economists, William Boyter and Catherine Mann, who summarise modern monetary theory this way, "What's right is not new, what's new is not right, and what's left is too simplistic". I think you can get the sense that Malcolm's not a fan. And then I'm going to end with the final paragraph of Malcolm's paper, which is this, and he's talking about the policies that he's been talking about, about what do you do in a world where you've got ultra low interest rates, what are the mechanisms that you put forward to generate further stimulus?

DAVID GRUEN: And he says, "Given the unconventional nature of these policies, there's much work still to be done in building a robust framework for calibrating these measures, ensuring that proper governance safeguards remain in place and thinking ahead about the eventual exit path. But that should not obscure the answer to the more immediate question which was posed earlier, has monetary policy run out of firepower? Properly understood, a central bank with responsibility for its own currency, and with the capacity to cooperate with the fiscal authority, never truly runs out of firepower. The challenge is to make sure it is used responsibly".

DAVID GRUEN: All right, so that's my summary of the three papers. So I ought to give the authors at least an opportunity to tell me where I've got it wrong. Or to add things that they think I didn't sufficiently highlight. Ken?

KEN HENRY: Well as you were talking I was thinking well this all makes sense and I really don't have anything to add, but there is one thing that popped into my mind, concerning the financing of the current account. This of course has been a subject of policy debate in Australia, or had been, it is no longer. It should be. But it was in the 1980s a matter of intense policy debate, and political discussion, the Hawke government, particularly with Keating as Treasurer, actually had a target for current account deficit, for Gods sake. Or to put it another way, had a target for the capital account surplus, because of concerns with the funding of the current account and that is of course where Australia's political systems infatuation with debt and deficit came from, and we're still paying the price of that.

KEN HENRY: But to kick it forward to the first decade of this century, we kind of, as officials, got used to the idea that we'd done everything right, and we probably had the worlds best policy settings in place for fiscal policy and monetary policy, and not quite there on taxation policy, but not too bad. We had at least introduced evaluated tax to match at least 130 other countries in the world by that time. So we thought we were pretty good, by the first decade of this century, and then as I kind of long echo from the Asian financial crisis of 1998 and 1999, or 97, 98 rather, the IMF published, at long last, its first financial sector assessment program report on the Australian financial system. Published this in 2006, so one of the decisions the IMF had taken after the Asian financial crisis was that the IMF team should go around the world, and should investigate the strength and integrity of the financial systems of member countries.

KEN HENRY: The reason for this was that there was an assumption that the Asian financial crisis occurred because of the poor policy frameworks, and poor financial system settings that existed in the Asian countries, that had up until late 1990s been benefiting from massive capital inflows from the wealthy countries of the world, but in particular from the United States. So the view was that these things had to be interrogated, and they eventually got around to Australia and published their report in 2006, and this is the thing they chose to draw attention to. So this was the key thing that the IMF identified, the key risk to the Australian financial system was the domestic banks reliance upon offshore wholesale funding.

KEN HENRY: And I remember a discussion, we discussed it in the Council of Financial Regulators, I remember the discussion around the table, I can't remember who else from Treasury was there, probably nobody, but we were discussing it around the table and I remember saying to the guy who led the IMF team, I said "But you've said that we've got the worlds best financial system, really, it's terrific, fiscal policy's in good shape, monetary policy's in good shape", I said "Can you seriously imagine a circumstance in which Australia would not be able to rely on, or the Australian banks, would not be able to rely upon funding from the rest of the world?" And we tossed this around a bit and eventually I said "Look, I think what you're saying is that we'd be at risk only if the global financial system were to melt down". They nevertheless put it in the report, and what do you know, two years later and that's exactly what was happening. The global financial system was in meltdown, so it looked like it was on.

KEN HENRY: By the way, and just a little postscript to that, ironically, maybe it's not ironic, but by the time the Global Financial Crisis hit, of the 183 members of the IMF at that time, there were only three that had not had an FSAP undertaken-

DAVID GRUEN: Yeah that's right.

KEN HENRY: And of course one of them was the United States. For political reasons, obviously. That's the one that badly needed being done.

DAVID GRUEN: Okay. David?

DAVID TUNE: Yeah thanks David. You've faithfully gone through five of the ten lessons that Meghan and I drew out of our experience during that period. I might just give a bit more flavour to some of them perhaps. First, our paper focused more on the processes surrounding decision making, providing advice, rather than the details of the policies themselves. Ken and Malcolm obviously closely involved from that perspective on the fiscal and monetary side, although PM&C did have a role, particularly in advising on the fiscal policy side of things as well.

DAVID TUNE: One of the key institutions that was created at the beginning of the crisis was a thing called the SPBC, Strategic Policy and Budget Committee, which was a very small committee of the Cabinet, comprising the Prime Minister, the Deputy Prime Minister Gillard, Treasurer Swan and the Minister for Finance, Tanner, accompanied by the secretaries of those agencies and also senior officials from their offices. And in the early stages, that was a really effective mechanism for making decisions. Decisions had been taken really quickly, we were able to sit around the table with the Prime Minister and other senior Ministers and toss the ideas around, toss options around, so we were able to come to an agreement fairly quickly about things.

DAVID TUNE: That was a real plus, and I don't think if traditional Cabinet processes had been followed during that period of the immediate crisis, we would have got the results that we did. However, over time, the SPBC became sort of the dominant decision making forum inside the government, and a lot of business as usual was actually going through that committee. Cabinet processes, if I can be frank, were being bypassed to a fair extent and I think some of the results speak for themselves as a result of that. I'll give you a couple of examples, you'll know them well. First one was the home insulation program, the second one is the building the education revolution. And David pointed out a couple of things that relate to those.

DAVID TUNE: One, the HIP program, the home insulation program in particular, was developed largely inside the Prime Minister's department, not the line agency that was responsible for implementing it. They were basically given the policy, and told to implement it. We all know what happened with the home insulation program, so there's a real lesson there about ensuring that line agencies involved in being required to implement something are involved from the very start, intimately involved, if not leading the policy development process, rather than it being inside a central agency like PM&C.

DAVID TUNE: The other thing that occurred is that people were trying to kill two birds with one stone. So once again, the HIP program and the big BER program, they were trying to do things that were presumably good for the environment on the home insulation front, good for schools and education on the education front, whereas the focus was deviating away from the short term stimulus that was meant to be provided in terms of meeting the objectives of dealing with the GFC, GST, that was 10 years earlier.

DAVID TUNE: So there's some real lessons there, I think, that are worth reflecting on. I think some of them have been learnt. David mentioned the stuff around real time data, which has been really important in the COVID crisis. I think there were some things that COVID's done better, that people involved in the COVID side have done better. I think the National Cabinet process has been a success. There's been barnies here and there, but overall you'd have to say it was a success, and I think one of the things we didn't do sufficiently well back in the GFC was we didn't involve the states sufficiently in the process, they were given things to do and required to report on them through a coordinated general process that was a bit arcane and probably stopped things happening as quickly as they could have. But I might leave it at that.

DAVID GRUEN: Thanks David. Malcolm?

MALCOLM EDEY: Thanks David. I might just try and bring out an important point about the nature of financial crises. There's basically two things that can get a bank into trouble, in simplified terms, and that is either asset quality or some kind of liquidity problem on the liabilities side of the balance sheet. A lot of the international contagion that happened early on in the crisis was to do with asset quality, it was banks holding dodgy securities or engaging in risky lending practises, and then there were cross-bank claims that went bad and the crisis could spread that way. That's asset quality, and our banks were doing some of that but it wasn't the main problem.

MALCOLM EDEY: The other thing that can get a bank into trouble is a liquidity shortage. Now, normally if a bank is short of liquidity in its own currency and it's got a central bank that's willing to provide funds and it's got an otherwise sound balance sheet, you can always get through that problem by central bank liquidity provision, and that was a big part of the role of the Reserve Bank, it was providing Australian dollar liquidity to banks that needed it.

MALCOLM EDEY: And that brings me to the point that Ken made, about these IMF concerns about the Australian banks. They were worried about the Australian banks borrowing offshore. The RBA never brought into those concerns, because what we recognised was even though the Australian banks were doing a lot of borrowing offshore, all of that was swapped back into Australian dollars, APRAs risk management framework basically required them to do that. So we had a lot of those similar sorts of discussions that Ken's talked about with the IMF about the liquidity issues for the Australian banks and we kept on pointing out this is ultimately Australian dollar borrowing by the Australian banks and that can always be replaced from some other source domestically, including as a last resort from the central bank if need be.

MALCOLM EDEY: When banks are borrowing offshore, the thing that really gets you into trouble is when the debt's denominated in a foreign currency, because then when you get a loss of confidence in that country, the currency can depreciate and then suddenly it becomes a lot more expensive to repay the debt or you can't roll over the debt but that was not the problem that the Australian banks had. And that was why I included that section in the paper about funding pessimism because the Australian banks were actually piggybacking on the funding pessimism idea to try and get some regulatory concessions to do some things that they wanted to do at the time, in the aftermath of the GFC.

MALCOLM EDEY: And the RBA did a lot of analysis to try and at least convince people within the policy family that this was not a problem, and the data that I presented which was from some Council of Financial Regulators papers actually showed that ever year that this problem was allegedly going on, the apparent projected funding shortfalls of the bank would miraculously disappear, because markets would make adjustments that would then allow things to continue as normal.

MALCOLM EDEY: That's probably enough for now but I'll have some more to say about that later perhaps.

DAVID GRUEN: Good. Meghan?

MEGHAN QUINN: So not having written a paper, having read them, and from a perspective of someone in the hot seat in February, March last year, I was incredibly grateful that this project had occurred. So the contribution to intellectual stewardship and analysis is significant, the workshop that David mentioned happened in August 2019 was incredibly prescient with a set of people passing on lessons from a crisis past to those who might be sitting at the table for a crisis present, and so I think we should just mark that these projects of reflection and learnings are incredibly important.

MEGHAN QUINN: I think they're important because they add to institutional strength and one theme that I pick up in the papers and in our current situation is the role of institutions, both internationally and domestically. The institutions of government, institutions of central banks, and institutions in the pandemic more broadly, our health system, but not just our health system. If the NBN had of fallen over in March last year, our education system would have fallen over. If our education system had of fallen over, there would have been chaos in families and then a whole bunch of other things would have fallen over at the same time. So the role of institutions, and just to pick up on Ken's point about the FSAP and the IMF not reviewing the United States, the G20 decided that the IMF might not be up to it and the Financial Stability Board decided it would review international financial systems over time to get round the problem of big countries such as Europe and the United States not reviewing themselves.

MEGHAN QUINN: And I happened to be on one of the committees when they were reviewing the United States financial system, well and truly after the GFC, so eight years after, and the thing that I came away from that meeting thinking about the United States is just how weak their institutions were, because it took three pages to explain all the financial sector regulatory authorities and it was like an alphabet soup. And I think that that's a lesson that Australia has learnt, which is strong institutions are incredibly important for crises, and not just in the crisis but after a crisis, in terms of making things different, and preparing for the future.

MEGHAN QUINN: So we did change an awful lot in Australia after the Global Financial Crisis. Even though we didn't have a bank failure, even though we did manage the liquidity crisis and other elements, we did significantly change our financial system architecture and our banks stood up incredibly well in this pandemic. If they had of fallen over, we would have been in a world of pain.

DAVID GRUEN: Thanks Meghan. So I was going to ask just a few questions before throwing it open to the audience for their questions. And the first question I was going to ask the panellists to reflect on is what do you think the lessons that came out of the experience of the GFC, which of these lessons have been applied to the response to the COVID pandemic?

KEN HENRY: Do you want?

DAVID GRUEN: Anyone, but if you'd like to start Ken?

KEN HENRY: I think a couple of things that strike me immediately, first is getting the experts in and listening to the experts, and that point's been made. It's a shame governments don't listen to the experts all the time. But at least in a crisis they do, at least in Australia they do. And by the way, they were doing this whilst the political leaders in other countries were decidedly not listening to their experts, presidents and prime ministers who were talking about the importance of getting herd immunity as soon as possible, and we could only get that by having whatever proportion of the population infected and so on, all this crazy nonsense.

KEN HENRY: But the Australian government acted in the way that it acted in the Global Financial Crisis, which is to, as soon as possible, get the experts in the room and I wasn't in the room obviously, but I can imagine how that discussion went. And the second point which occurs to me as well is in the design of the fiscal response, which ... so if you think about the Global Financial Crisis, of course there was the fiscal stimulus, but there were all of those measures that were directed at ensuring that the financial system continued to operate as well as possible and that included taking out the insurance that was taken out on the guaranteeing of the term borrowing of the banks that we've been discussing. That was really a form of insurance.

KEN HENRY: In the present crisis of course, rather than the financial system being the source of peril, it's the health system, or the public health system as the source of peril, so there's been two parts to the management of the present crisis as well, the fiscal stimulus but also the bit that's focused on ensuring high public health outcomes. But then of course there's the bit that bridges the two, and the real spark of genius in Job Keeper, that is specifically designed to ensure that the economy continued to function as well as possible whilst the public health issues could be attended to. And so I think the two notions of one, going in hard and early with the response, on the advice of experts, and then secondly attending to as much of the underlying infrastructure as you possibly can to ensure that it remains in good health, despite all of the challenges. I think those are the two features that strike me.

DAVID TUNE: I might add just that I certainly agree with the points that Ken's made, but one thing I think is a bit different this time is I think the current government has been a bit more single minded about attacking the issue, COVID-19. One of the things we draw out in our paper is that the government was doing a huge amount of things, or trying to do a whole stack of things simultaneously as the the GFC hit. They were developing this policy on NBN, they were [inaudible 00:42:37] climate change policy or the carbon price, they were trying to reform Commonwealth state relations, they were thinking about taking over the hospital system from the states, all huge massive issues that were all coming in all at once, at the same time as we were trying to deal with this, with the GFC.

DAVID TUNE: And I think it averted their attentions somewhat, whereas my impression, once again from outside is the government, whilst it obviously has dealt with other agendas and other issues that have cropped up, they've always had in their mind the COVID impacts, even the aged care package that was in the Budget last week, it's got a strong COVID element to it and some of the spending is around stimulus for that very reason, so I think that is a lesson that's probably been learnt well.

MALCOLM EDEY: Perhaps I might add to that, I think I'd like to make two points which is to do with what we've done well and what I don't think we've sorted out yet. What we've done well I think is we've worked out we can provide stimulus quickly, and there was probably some doubt about that for reasons I talked about in my paper. After the GFC, the government quickly made decisions that it could spend a lot of money, the RBA put some public support behind that and backed that up with government security purchases, all of that. A lot of it's been done through transfer payments which is the fastest way of getting the government into the economy.

MALCOLM EDEY: And I think we've worked out that we can do that quickly for reasons that David talked about earlier, which I alluded to in my paper, we haven't really worked out a well articulated public framework for thinking about how you coordinate the monetary and fiscal response when you want to have that kind of stimulus so I think that's something that more needs to be thought about.

MALCOLM EDEY: What haven't we learnt, or what's there some doubt about? Well, it's to do with the fact that the GFC was very different from the COVID impact in one important way, which is it's a financial crisis so it's about confidence in the financial system and a big part of that is the way that panic can become self-fulfilling. When people lose confidence in banks, then all sorts of terrible things can happen because banks can suffer from runs and panics, banks might have to get engaged in a fire sale of their assets, that can put their solvency at risk, then governments have to come in and do much more unpopular things than what they're doing at the moment to stop banks from failing.

MALCOLM EDEY: I mentioned the book by Bernanke, Geithner and Paulson and this is one of their big conclusions is that globally, so this isn't really an Australian issue, but globally the way that policy makers have readjusted their thinking following the GFC has been to try to say that this must never happen again and we must never get involved in using these emergency powers to stop financial institutions from failing, and so those authors worry about what happens next time there's a financial panic? Because the economics of financial panics says you need to swamp a fair equilibrium by providing enough overwhelming support to restore confidence and end the panic. So that's a lesson that I think still needs to be thought about.

DAVID GRUEN: Thanks Malcolm. Meghan, do you have anything?

MEGHAN QUINN: So I think quite a lot of lessons were learnt, partly because they were written down and you could pick them up and read them, but the pandemic certainly helped. The fact that everybody had to stop and think about what they were doing because of the restrictions that state governments put in place meant that everybody had to think about what they were doing and prioritising and rearrange work, partly because people were doing it from a different location, their living room as opposed to their offices. So certainly the pandemic focused peoples minds in a way that the Global Financial Crisis didn't, partly because it was a rolling series of crises, and people as you articulate very well in your article Malcolm, weren't quite sure whether it was finished or it was going to continue.

MEGHAN QUINN: So the difference between it was incredibly obvious to everybody that had access to social media and mainstream media by the end of March that the world was in trouble with the pandemic, and everybody downed tools and was focused as opposed to the Global Financial Crisis where there was still people arguing in 2009 whether the government should or shouldn't have done something and whether it was or wasn't a necessary public policy focus. So that singular focus across the system, I think was quite important.

MEGHAN QUINN: And of the lessons of the pandemic, I think, is that people were all pulling in the same direction. So it wasn't just governments and official institutions, institutions such as the banks, in this case, with more than $250 billion worth of deferrals on their balance sheets and you had private and public health systems working together in a way that people wouldn't have thought was possible before the pandemic. So there were a lot of regulatory changes as well, in terms of coordinating that was supported in the pandemic, and it was because of the singular focus on making sure that the country came through. And Ken, you mentioned the social licence and the public commentary about whether there should be a response to a crisis, I think the difference between the pandemic and the GFC, it was very clear that people were responding to the pandemic. People are still arguing over whether we should or shouldn't have done something in terms of saving financial institutions.

DAVID TUNE: Can I just add one other thing David, it's around confidence and one of the things I thinks been done well during COVID is the appearance of public officials with politicians in talking about the impacts and providing their expertise directly to the public, so we all know that Brendan Murphy was on the TV everyday with the Prime Minister, sometimes by himself. Chief Medical Officers in the states were on the TV all the time, press conferences with their Premiers. And we probably could have done a bit more as public servants back in the GFC of actually accompanying the political talk to help give people confidence that things were basically under control and avoid the sort of panic that Malcolm's just been talking about so I think that's something that is a big plus from this current episode.

DAVID GRUEN: Good. So I was going to ask, one of the things that we've talked about, and Ken talks about in his paper is the idea of meeting crises with speed and overwhelming force and Malcolm points out that Bernanke, Geithner and Paulson made the similar point. Do you think that's now conventional wisdom?

KEN HENRY: Look, I don't know. I still hear people talking about this concept of proportionate, using this adjective proportionate. Proportionate is an adjective that sits pretty well in front of response, not preemption, right? So I'm not sure. I think if you want to preempt something, you don't talk about a proportionate response to something that's already happened, obviously. So I think we've still got aways to go on that. I think though that governments have demonstrated that they will err on the side of preemption and the use of overwhelming force so maybe it doesn't matter that we still have these somewhat curious debates.

KEN HENRY: And the Global Financial Crisis, the history has been written and rewritten so many times it's difficult to know what really happened. And my memory's not once it was, but I do remember, even after the first stimulus package, so this is the one that was developed in October of 2008, just a few weeks after the Lehman's collapse, there was a debate in public and the politicians joined in, that was precisely on this point. I remember some of the commentators saying "You shouldn't act until you see the white of its eyes", this monster, wait until you see the white of its eyes and then you'll know what sort of action to take. I presume it would be to turn tail and run as fast as you bloody could, but I don't know. It was just a nonsense but it was argued forcefully, and with great passion and conviction.

KEN HENRY: And I'm sure there's been muttering of that sort in respect of the present crisis as well. I haven't seen a lot on the front pages of newspapers, so maybe that's the difference. Maybe that's simply because it's a different party in power, probably is. But I suspect there's still that muttering going on.

DAVID GRUEN: Right. Anyone else want to comment on that? No? Okay. So one more question before I throw it open to the floor. Malcolm, you talk quite a lot as I said in my remarks about this new world of near zero policy interest rates and the implications for monetary policy. I just wanted to give you an opportunity to reflect on whether we've though through enough the new role for monetary policy in this world where interest rates, some significant proportion of the time are kind of nailed to the floor?

MALCOLM EDEY: I don't think we have sorted it through in any sort of definitive way. If you think back over the last few decades of monetary policy, which I've spent a bit of time doing, there was a period of time when central bankers around the world thought that they'd got to a kind of end of history regime, where the inflation target, we got rid of all the superfluous things to do with money supply and monetary targeting and all of that, then we just had a single instrument which is the policy interest rate and we know what the objectives are, and then we just systematically link those two things together, that's the inflation target.

MALCOLM EDEY: And for a long time, almost nobody thought about well what happens when you hit the zero lower bound? Then you can't do that. Japan actually hit that problem in the late nineties and people did start to think about it in that context. Bernanke made a famous speech about it in 2002, which is where this minimum options first came from, he sort of thought that through and people have fleshed it out since then, but now the whole world has gone to that position and we don't really have a clearly articulated framework for thinking about it.

MALCOLM EDEY: What I've tried to set out in my paper, not in a way that's particularly original because I've drawn on other people that have thought about this as well, is go back to earlier monetary orthodoxy and Milton Friedman, if you're a monetary economist, is the person who epitomises monetary orthodoxy, and in his way of thinking about things what you need to do is have a consistent policy that prevents excessive monetary creation, if inflation is the problem but is ready to create money if you need to resist deflation. And the way you create money is through a money financed fiscal deficit, that's the mechanism that does it.

MALCOLM EDEY: So what I'm suggesting is we've needed to think about that. De facto we're doing it now anyway without really talking about it explicitly because it's still a bit too much of a taboo subject. But we need to do it in a way that's responsible because the reason people don't want to talk about it is that the way financing budget deficits through the central bank is also the way that you get Weimar hyper inflation and Zimbabwe hyper inflation and nobody wants that. But what you do want is a framework that allows you to do just the right amount to resist a deflation problem when you're at the zero interest bound which is where we've been recently.

MALCOLM EDEY: Now because de facto we're actually already doing some of that, we're already starting to get some economists around the world saying "Well maybe we've calibrated this wrong and we've overdone it and there's some latent inflation there ready to burst out". I don't know how to evaluate that argument, I haven't got a strong view on that, but what I'm suggesting is we need to be thinking systematically about those sorts of issues.

MEGHAN QUINN: So David can I just-

DAVID GRUEN: Yes-

MEGHAN QUINN: Just add, so we've talked about monetary and fiscal policy and the question about calibration between the two. There is macro-credential policy as well, which is an additional toolkit that we think about now, and Malcolm in talking about money, the other element is the banking system which can create money as well, and macro-credential policy leans into the banking system.

MALCOLM EDEY: True.

MEGHAN QUINN: And thinks about the creation of money and particular parts of the banking system which addresses asset price bubbles potentially. So there is an extra element to the policy framework that we need to think about, in terms of low interest rates. It's not just fiscal policy, of which we haven't mentioned explicitly but clearly the view that fiscal policy needs to do more heavy lifting is, I think, more well established now than it has been over the last ten years.

MEGHAN QUINN: Second, we've got monetary policy still being effective, but working through different mechanisms, which requires us to have a third set of calibrations which is around macro-credential, to think about the distribution impacts of that monetary policy.

MALCOLM EDEY: I think there's an interesting further point that just comes out of that, which is one criticism I've seen around the place sometimes is people are saying "Well look, you've got your foot to the accelerator with interest rate policy, you've got interest rates on zero, and then you're trying to counteract that with macro-credential policies, why are you doing that?" And I think this is part of it, it's part of this uncertainty about how do you deal with zero bound? We're trying to get maximum stimulus in a period when rates are zero, we've got this huge debt overhang around the world left over from the GFC, and so we want people to spend but we don't want to encourage excessive further risk taking, building on a base where the amount of global debt is already historically at record levels compared to the rest of the economy.

MALCOLM EDEY: So again, I think this is part of this set of issues that needs to be thought through systematically.

DAVID GRUEN: Good. Yeah, do you want to state your name, and then your question?

PETER LUNN: Yeah, Peter Lunn from Department of Science, Industry and Resources from the Vaccine Manufacturing Taskforce. My question's to the panel, what are the most effective arguments to politicians about preparing for the next time? So I'm thinking in the context of the GFC, the banking laws, and it's also relevant to my work so ...

KEN HENRY: That's a really tough one. It's a tough one because there's always a risk that in ... it's more than a risk. There's absolute certainty that of course, when you go to the politicians after the crisis has passed, you're talking to them about preparing for the last war. What you really want to be doing, of course, is imagining the next war, and offering advice that prepares for the next war, but that's incredibly difficult. One of the things that stood us in good stead in the Global Financial Crisis was, I think, was the fact that at least within the Treasury department we'd been thinking about what the next war might look like, having lived through and some of us carried scars from previous wars.

KEN HENRY: I still remember Martin digging me in the ribs, thank you Martin, he was sitting on my right, he dug me in the ribs with his left elbow when we were sitting in a room with senior Treasury people one day in 2004, I think it was, wasn't it Martin? We were discussing, I can't remember what the issue was but it was some big macroeconomic topic and Martin said "It's just occurred to me that you and I are the only people in this room who have any lived experience of the last recession. Maybe we should have a workshop on that?" What you'd do if there was another crisis and what form might that crisis take, what would be a sensible response? And so we work shopped it, we had a couple workshops within the Treasury on it.

KEN HENRY: I think you've got to be asking yourself that sort of question, I think all the time. And you've got to have a good imagination, right? Because the next crisis is going to be different. But then translating that into a conversation with Minsters, I think, is incredibly difficult. And I'm not sure how you go about that, other than ensuring that as much as possible that you've got a set of policies that give maximum flexibility. You want to retain maximum flexibility, but I can't be any more specific than that.

DAVID GRUEN: Anyone else?

DAVID TUNE: Yeah, I'll just make a quick comment. I think Ken's right, the war game [inaudible 01:01:38] incredibly important in terms of the official response to the crisis, it was utilised quite extensively. I think the other thing that's important is going and building on the being prepared context, that agencies to the extent they can, should be putting time aside and resources aside to think about these sorts of things, and there's always a tendency to focus on the short term and ... sorry, always a tendency to focus on the short term, but if resourcing can be put aside, it doesn't have to be huge, but there's some sort of think tank involvement inside an agency, thinking about what a future crisis might be, so when the time comes, if it comes, that you're ready to provide the advice. You don't just throw your hands up when the politicians ask you "What are we going to do?" You've got some sort of, not a blueprint, but some sort of ideas in your head about what you might do.

MALCOLM EDEY: Can I just?

DAVID GRUEN: Yes, absolutely.

MALCOLM EDEY: I've raised a few things that I'm worried about obviously, but I'm actually quite optimistic about this particular question of can we be ready for the next crisis? The COVID event was something that came seemingly out of nowhere, very different from earlier crises, people worked out fairly quickly how to deal with it. I left the Reserve Bank in 2016 and since then I've been teaching courses at Sydney University and one of the main themes of the course that I teach has been we're not ready for the next crisis, but the next crisis has now come and we've handled it okay. So I think policy advisors are actually pretty good at working out what to do.

MALCOLM EDEY: One important thing that I would emphasise is the value of studying financial history, because what you see from that is that every crisis is different. We can't see the future but the more different perspectives we can get on things that can go wrong from historical experience, it just helps the policy makers and advisors to know the sorts of things that can go wrong and the sorts of things that have worked in dealing with that.

MEGHAN QUINN: And I'll add very briefly that the most important thing as a policy advisor you need to know is what tools do you have? How to use them, how to implement them, how to make it happen. That craft, and talking to your Ministers about what levers and powers they have, so they understand exactly what they need to do in a crisis, before a crisis and I just wanted to add implementation was a much larger focus, I think, given the incredible speed that we needed to get money out the door in the pandemic, and institutions such as the Tax Office stepping up and being able to deliver quite quickly and in a very efficient manner, it was fundamentally important. But understanding exactly how to do that legally, is actually a quite complicated question.

DAVID GRUEN: Sure. John?

JOHN KEHOE: Thank you, John Kehoe from the Australian Financial Review. In this zero lower bound world where monetary policy is constrained, is the medium term fiscal framework of balancing the budget over the cycle still the correct one? Is it outdated? Does it need to be tweaked? And just looking ahead at the medium term structure of the Budget, there is still deficits of 1.5, 2% of GDP out for the next five to 10 years. Is that fine in this new world that we're in, or at some point does that need to be addressed by government, and if so, how?

DAVID GRUEN: Who wants to opine on this?

KEN HENRY: Well. I'll try to be careful in the way that I answer the question because there's a minefield in that question. And it's a very good question. So first, the medium term fiscal framework, as a reader, not somebody involved in it at all, but as I read the Budget papers, the medium term fiscal framework has been suspended for now. It's not being followed for now. As I read the Budget papers, the medium term fiscal framework is something that will be readopted when the circumstances are right. So that's a way of saying, I think, that the times demand something different, medium term fiscal framework is not appropriate for the present circumstances, that's how I read it.

KEN HENRY: Moreover, the way I read the Budget, and I haven't seen any commentator write this but then I don't read that much these days, although I do read your stuff John, is that it does seem to me, as a reader of the Budget papers, that fiscal policy is trying to rehabilitate monetary policy. That's how I read the focus on getting the rate of unemployment down closer to the [inaudible 01:07:05]. You only know when you've reached that, when you see some unexpected inflation, that's the tort ology. Seems to me the government is prepared to test that, and it has seemed to me for many years now that the Reserve Bank would like to see more inflation and would like to see the government do its bit to create a bit of inflation.

KEN HENRY: So, I can see some structure in that. I think that kind of makes some short term sense, yep, and could be quite helpful to the Reserve Bank, and helpful to monetary policy. I'm sure Malcolm's got views on this. As to the second part of the question, should we be in due course targeting balance on average over the cycle, look, I think the answer to that question is yes. But let me explain. The medium term fiscal strategy is something that politicians ... it comes out of the charter of budget honesty, of course, so politicians legislated that Act in order to constrain their own actions. They wanted some guard rails to guide fiscal policy in normal circumstances, and the reasons they wanted to do that was not to make their jobs harder but to make their jobs easier. And also, to support or to enhance the credibility of Australia's fiscal policy framework, which took a long time to build, and I'm not going to say it's at risk, but we've got to be careful that we don't put the integrity of Australia's fiscal policy at risk.

KEN HENRY: And I still think a medium term framework is the best mechanism for anchoring expectations about the conduct of fiscal policy and therefore making a significant contribution to the integrity of policy. But there's going to be a hell of a challenge for whatever government's in power. Actually, it'll probably be a succession of governments, it'll take that long to get to a position where somebody will be able to say credibly, "Look at that, we have actually achieved balance in average over the cycle".

DAVID GRUEN: Anyone else?

MALCOLM EDEY: Yeah, I think having a framework of restraint for fiscal policy has served us well. I don't know whether the particular rule we had was the optimal, or what's the optimal rule going forward. But I think restraint served us well over a period of time, and one of the reasons that served us well is because then when a crisis comes, which the GFC was one and then COVID, the reason we can afford to spend a lot of money on counteracting that is because successive governments have stuck to a framework that kept government debt low, so I don't think we would want to abandon that.

MALCOLM EDEY: But to come back to the remarks I made earlier, when the financial system has evolved into a position where we're seemingly stuck at the zero interest trap with a huge legacy of debt in both the private and public sectors, that's where we are now, we need some bigger framework for growing our way out of that, for getting nominal GDP to grow relative to the size of the debt legacy so that we can get things back into a better balance. And I think that probably does involve some de facto coordination between what's happening in monetary and fiscal policies. That's really hard to do, because central bank independence is such an important safeguard against inflationary abuse most of the time. So that's going to be hard to work through, but I think that's a big challenge for the period ahead.

JUDY SCHNEIDER: Hello. I'm Judy Schneider. I think you've all been incredibly modest, in my opinion, in terms of the impact that you've had in growing knowledge within Treasury and transmitting it to the next generation and the extent to which they've actually implemented it as well, so I think Treasury infrastructure's looking really good, and it's been a very impressive set of papers and the COVID response reflects that.

JUDY SCHNEIDER: The question I have is consistent with Ken's lesson number seven, which is know the distributional impact of your interventions before you do it, and I was wondering, do we have a feel for the distributional impact of the RBA quantitative easing, particularly amongst wealth of households?

MALCOLM EDEY: I could make a general comment on that-

DAVID GRUEN: Please do-

MALCOLM EDEY: But because I'm not working in the bank, I don't know what the bank might be doing on that. But I think what you're getting at is this environment of ultra low interest rates and easy money is stimulating one part of the economy, which ... it's the housing market, and so if you've got a house you're in a better position than if you're someone who wants a house. I think that relates to the more general question of are we using our policy instruments to overstimulate the part of the economy that's already expanded too much, which is the financial sector. That would be my view, and that's why we've got into this policy configuration where we've got maximum stimulus from monetary policy and then trying to counteract the worst impacts of that with macro-credential policies to limit financial risk taking.

MALCOLM EDEY: I think the long run game, and this isn't really answering your question but this is where I think things need to evolve is that globally the financial system has become too big compared to the non-financial economy, and there's too much accumulation of financial risk. Part of the recovery strategy from the GFC was monetary stimulus which we needed to do, but part of the effect of that was to stimulate another round of borrowing and spending on top of the debt legacy that already existed and I think we need to find ways of getting that back into balance.

MALCOLM EDEY: One interesting thought, which I don't know if anyone's really working on this, is in the central banking world, they tend to talk as through the strategy is push interest rate to zero as step one when you need to stimulate the economy, then think about QE and these other ideas about fiscal coordination and so on, but actually there's no logical reason why you have to go all the way to zero before you start doing those other things. So that's just an idea that I think people should be thinking about as well.

MEGHAN QUINN: Just in terms of do we know the distribution impacts, we know more about what's happening in the economy now than we ever have before, and in terms of being able to bring it to the table for policy discussions, in terms of real time data, the distribution of data, being able to stitch together different datasets from private sector and public sector sources to get a picture of what's happening in peoples lives. We are swimming in data, and our analytical tools have enormously improved. One aspect of the distributional analysis that we don't have such a good impact on is the intergenerational distributional implications of policy. And so that is an area for future work, because we've talked about debt and all debt is is we're borrowing from our future selves, but whether I'm borrowing from myself or I'm borrowing from my children is a separate question.

MEGHAN QUINN: So at the moment we know an awful lot and there's a lot we can do to understand the immediate impact, it's the intergenerational distribution that is something academics could really help with.

DAVID GRUEN: Phil.

PHIL GAETJENS: Just trying to get the views from the panel on the thinking, the policy advising and the doing, which has been raised by a couple of people, and the balance, if you like, between that in the Australian public service and between the Commonwealth and the states. David made the point National Cabinet was useful, I think it has been and that partly is because a lot the doers in a health crisis are obviously the states that run health departments and the health workforce, so that realisation was made very, very early.

PHIL GAETJENS: But just your views, again, on the thinkers and the doers and the balance of that in the public service, and also acknowledging that the work we're now doing on digital and data is actually doing stuff that will prepare us better for the next issue, so just some general thoughts about that and the capabilities of the public service.

DAVID TUNE: I'll start quickly if you like. Is this one working?

DAVID GRUEN: Yes.

DAVID TUNE: Yeah, okay. Yeah I actually think the balance is a bit out of kilter Phil. I think we've got a tendency to under utilise the analytics side, and that's been a trend over the last 10, 15 years I'd say. So I guess I'd like to see it balanced a little bit better. The hint I was trying to give earlier in response to the question was we need to invest more in long term thinking, rather than just short term analytic stuff, we need to actually have some think tanks around the place that will do these sorts of things, not just about the future crisis but about policy in general. So I'd be in favour of, not massively, but slightly changing the balance, I think.

MEGHAN QUINN: So my view on this Phil, is that you always need a mix of the thinkers, the doers and the implementers, because the doers are not always the same as the implementers either. You can build a system but people then have to pick up the system and respond and they're often outside the public service and so the public private partnership element of policy, I think was incredibly important in this COVID episode. We have the National Cabinet, but the national coordination mechanism that was put in place and the architecture of the back room engine of the public service which were daily phone calls, even intra-daily phone calls between state officials, Commonwealth officials and the private sector, and all our regulators. That's how we managed to get toilet paper on the shelves, get trucks moving and solve some of those issues.

MEGHAN QUINN: So there was very much a focus on implementation, and not just in the public service. So I think one of the lessons for me is that the public service can't do everything, we shouldn't try to do everything, we need to think about what our role is, and how we connect efficiently to other parts of the system.

KEN HENRY: The only thing I'd add Phil, and you've raised it in the question really is that I don't think you can seriously think about these issues without also thinking about the Commonwealth state dimension, and therefore roles and responsibilities as between the Commonwealth and the state. Just a little anecdote, I remember in the very early days of the Global Financial Crisis, so this is late 2008 I'm talking about with the then Prime Minister Rudd, expressing considerable frustration at the Commonwealth's lack of expertise in the delivery of major projects. And we just weren't in that business, really, the Commonwealth. The states were. Should it have been like that? Who knows, but it had been like that. We didn't have the states in the room, we had the Commonwealth in the room. The Commonwealth was under pressures to deliver something it had no expertise to deliver.

KEN HENRY: And David has referred to that in respect of a couple of programs that were eventually designed, I think. And it's hard to do, I know, but I think you've got to have a good hard think about the allocation of roles and responsibilities, and then think about the sorts of people you need at each level of government and then you've got to ensure that you've got the right communication linkages, coordination linkages, between both levels of government. But you know all that, it was implicit in your question.

STEVEN KENNEDY: Well thanks David for facilitating today and Ken, Malcolm, David and Meghan for your comments. I found it really insightful, I'll just pick up a couple of quick comments, or make a couple of quick comments. I was sitting here thinking how remarkably well Australia did in response to the GFC, and to date to the pandemic, and that would there be many other countries in the world that would be able to have this type of conversation? Certainly very few at the moment that would be seated without masks on, being able to opine on how well we're going. So I think Australia can ... all governments and officials can take a lot of heart in how well we've performed. And in some ways the at times ruthless, contested debate over exactly how well we're doing or how good we are at it is helpful because it keeps us moving along.

STEVEN KENNEDY: But there's no doubt, for example, that we're not over the pandemic and that's possibly another very clear distinguishing feature between the pandemic and the GFC, it was a rolling series of events. I experienced them from being an advisor in Kevin Rudd's office but it did, at some stage Malcolm, begin to roll itself out and come to an end whereas this one, we're still even a little bit unsure how it is going to come to an end. There's no doubt that the forward thinking that Ken referred to is incredibly helpful and David's comments about think tanks are also important there. We did do some thinking ahead on pandemics in Australia, and that proved to be valuable. I saw a lot of parallels between the SPBC, though David I couldn't remember what it stood for, you did very well, and there were a lot of acronyms in those days, and the formation of National Cabinet. Those mechanisms, those decision making mechanisms, become incredibly important in fast moving events.

STEVEN KENNEDY: And I suppose the last thing I would say, and it's also a reflection on David Tune's comment is the kind of want or tendency to want to quickly, while it's very exciting and you're making lots of decisions, rush off and solve the next perceived crisis or undertake the next reform, the capacity of government to make decisions is limited just by the sheer complexity of the trade offs they're going to consider in all of those decisions, and to do those wisely takes time and takes effort, and in the midst of a pandemic, while I've noted many calls for wide ranging reform, quite frankly sitting inside government it's a pretty difficult task to be thinking about how one might go about wide ranging reform whilst you're in the midst of the pandemic. And it's worth that singular focus, I think, is something that's standing us in good stead and is a lesson, frankly, that I took from our response to the GFC.

STEVEN KENNEDY: Please join me in thanking our panellists today.