

---

# **Ian Castles and the Henry Tax/Transfers Review**

***Andrew Podger***

---

Academy of the Social Sciences  
Canberra 2012

## Ian Castles and the Henry Tax/Transfers Review

*Andrew Podger*

Ian Castles passed away in September 2010. A number of us here attended the service at University House, Australian National University, where we celebrated Ian's many contributions and achievements. He was a man of extraordinary intellect, whose advice to government was always based upon the most careful analysis of the evidence, while also reflecting an amazing sense of political opportunities for reform. We are honoured tonight to have Glenice Castles join us, along with two of Ian and Glenice's children, Richie and Simon.

When Dennis Trewin first suggested to me that we have a roundtable on the social security and personal income tax elements of the Henry Report, I immediately thought of the continuing relevance of Ian Castles' work in this field in the 1970s and 1980s. Dennis, who like me worked closely with Ian (in his case in the Australian Bureau of Statistics (ABS) in the 1980s and 1990s), quickly agreed that such a roundtable should be used to highlight Ian's contribution as well as to explore in some detail these elements of the Henry Report and priorities for action now and in the years ahead.

### **My involvement with Castles' work on income security**

My involvement with Ian began in 1975 when Gough Whitlam established the Income Security Review under Ian's chairmanship. I was seconded to the ISR secretariat from the Social Welfare Commission along with Helen Williams from Treasury, Steve Spooner from Social Security and Michael Goonrey from Repatriation and Compensation. Ian was then a deputy secretary in Prime Minister and Cabinet (PM&C). He was appointed chair of the ISR because he was seen to have some independence, but also because he had been on the Swan Committee that led to Bill Hayden's reforms of personal income tax in the 1975 Budget.

The Fraser Government decided to continue the Income Security Review with Castles in the chair: I remained in the secretariat and Mike Keating and Col McAlister became deputy chairs in 1976 and 1977 respectively. Some time later in a song written for Col's 40<sup>th</sup> birthday, we referred unkindly to the ISR as "an exercise that didn't take us very far", but, as I will explain shortly, much of its work still resonates. I continued working with Ian in PM&C before he moved to head Finance and I moved to Social Security. Ian kept close contact with this group, seconding me at one point for a policy review of aspects of the tax system by Finance and Treasury. I later joined Ian in Finance in 1982, working with him on social security, tax and superannuation reform before Ian moved on to the ABS in 1986.

### **The income security review**

The context of the ISR, established more than 35 years ago, was somewhat different to the context in which we are examining the Henry Report, but both exercises focused on tax and transfers as a 'system'. Our initial reference points were a series of major independent reviews during the 1970s: the Asprey Report on the tax system, the Henderson Report on poverty, the Hancock Report on national superannuation and the Woodhouse Report on national compensation (also the Toose report on the repatriation system for veterans). The ISR was established by Whitlam in part to help sort out the contrasting approaches recommended in these reports, the emphasis on insurance and income maintenance by Hancock and Woodhouse and the emphasis on

poverty alleviation and guaranteed minimum income by Henderson and, to a degree, also by Asprey (influenced by the Treasury Paper on Guaranteed Minimum Income prepared mostly by Daryl Dixon, one of a series of excellent submissions by Treasury to the Asprey Review).

The ISR was a fundamental review though it was conducted wholly within government and its reports and papers kept confidential (the earlier major inquiries having been published after wide consultative processes). It examined in some detail all income security programs and policies across departments, also addressing the role of the minimum wage and labour market programs. It focused in particular on the interaction between cash transfers and personal income tax. Over two years it presented half a dozen reports to Cabinet, drawing on over 30 background papers.

Whitlam was in favour of the grand, national insurance proposals but his original national Woodhouse-inspired compensation legislation had been stymied in the Senate; the ISR was required to take into account a revised proposal then before the Parliament based only on injury compensation. Much to his ire, the Social Welfare Commission had contributed to the Senate's rejection of the original legislation through its evidence to the committee which criticised the costs and the lack of priority given to poverty alleviation. But others in the bureaucracy, including the Priorities Review Staff, had offered similar advice to the Government confidentially. The Government later authorised publication of the Priorities Review Staff's report which advocated a Guaranteed Minimum Income along similar lines to that proposed by Henderson.

I met Ian for the first time at the first meeting of the Inter Departmental Committee (IDC) established to oversee the ISR, before its secretariat in PM&C was set up. Gough Whitlam himself chaired the meeting in the Cabinet Room, Ian sitting at his right hand and officials from Treasury, Social Security, Repatriation and Compensation, Labour and Industrial Relations, the Priorities Review Staff and the Social Welfare Commission seated around the table. The Prime Minister opened with a very pointed criticism of the Commission and the Priorities Review Staff, before the IDC began to discuss how the work of the ISR might be pursued. Towards the end of the meeting, Aussie Holmes from the Priorities Review Staff and EE Payne (then deputy chair of the Social Welfare Commission) asked for the opportunity to respond to the Prime Minister's opening criticisms. I recall this particularly well as the Prime Minister told my boss that he did not know he was from the Social Welfare Commission: he thought his bearded young colleague beside him was the Social Welfare Commission. That was me, the equivalent of an EL1 today, aged 26, in my first ever meeting with a Prime Minister. I nearly slid under the table as I realised Whitlam had personally followed my evidence given at a hearing of the Senate Committee.

While then accepting perhaps that his criticism of the PRS and the Commission might have been a little too harsh, Whitlam turned to Ian Castles and said something like: "But I have full confidence in you, Mr Castles, in chairing this Income Security Review and your ability to properly advise the Government in confidence".

The Income Security Review's first report to Cabinet was lodged with the Cabinet Office on the morning of 11 November 1975 (the day the Whitlam Government was dismissed) with a short covering Submission from the Prime Minister. Obviously the Whitlam Cabinet never had an opportunity to consider its work. But that first report did set a broad framework for the Income Security Review's subsequent work for the Fraser Government.

It suggested a two-pronged approach by identifying the qualifications that would necessarily introduce a degree of complexity into any guaranteed minimum income scheme, and the scope for simplifying and rationalising existing and proposed programs. It noted that earnings related schemes could operate in conjunction with either approach or stand alone. Thus the ideas of Henderson, and the PRS, formed a broad benchmark, but the ISR also highlighted the extent to which the existing social security system provided guaranteed income support for those considered to need assistance with the minimum wage and government family assistance providing protection for others. The report identified a long list of papers under preparation including a tome on 'Inadequacies, Overlaps and Inefficiencies in the Existing Income Security System', known to us as 'Gaps and Craps', which – sadly – I strongly suspect would now be many times the size if updated to 2011.

This practical approach, linked explicitly to a theoretically attractive benchmark such as the Henderson Guaranteed Minimum Income, was quintessentially the Castles' style: it facilitated consideration of principles and exposed the inherent tensions between objectives such as concentrating assistance on those most in need and encouraging self-help, while also ensuring the identification of politically feasible options.

Subsequent ISR reports to the Fraser Government on family allowances, social security income tests, sole parents' pensions and taxation treatment all related in some way to the general idea of a more coherent Guaranteed Minimum Income, but without the naive suggestion that cash assistance should be available without any test of need. While it is best remembered for advising the 1976 family allowances reform, the ISR contributed to many other reforms including the establishment of the sole parents' pension, quite unique internationally, moves to a simpler social security income test and indexation arrangements across social security and tax.

The ISR also confirmed with the Fraser Government its view that the national insurance schemes should not proceed, with the clear implication that further action was needed to reform occupational superannuation and existing workers' and other compensation schemes, to supplement or complement social security. I suspect that was always Ian's preference.

Let me turn now to the three aspects of the tax and social security system to be explored at this roundtable, and Castles' contributions in each area.

### **Personal income tax and family assistance**

The ISR report on family allowances in 1976 was in response to a Treasury proposal to means test child endowment, one of many Treasury savings papers aimed to help the Fraser Government reduce the very rapid growth in outlays under Whitlam. The report included a minor variation of the Treasury proposal as one option, but clearly favoured the alternative option of cashing out tax rebates for dependent children, adding these to universal child endowment, set at rates that achieved the same net budgetary savings as the first option. As Hayden later acknowledged, this proposal was a natural extension of his reform – recommended by the Swan Committee on which Ian had served – to replace tax concessions for dependent children with tax rebates. Castles highlighted its consistency with Henderson's Guaranteed Minimum Income, which necessarily involved universal payments in respect of dependants. He also tellingly demonstrated in a highly influential graph how the cashing out provided increased assistance to families with incomes at or below the tax threshold, including nearly all pensioners and beneficiaries with children. Other benefits of this option included the

transfer "from wallet to purse", the avoidance of high effective marginal tax rates and their impact on women's employment, and the ease of administration.

Of course, the budgetary savings had to come from somewhere: they came from freezing the new rates of family allowances so that, over the ensuing years taxpaying families with children were disadvantaged compared to those without children. This was of increasing concern to ministers like Margaret Guilfoyle as well as to Castles and others of us who contributed to the 1976 reform despite our understanding at the time that some such effect was implicit in the 1976 measure, at least in the short term.

What none of us appreciated sufficiently was the powerful effect of taking out an integral part of the tax system and placing it in the social security system, turning it from a tax offset into an outlay. Notwithstanding the similar net impact, the presentational difference continues to affect policy attitudes of many politicians, officials and public commentators.

Castles highlighted this in the early 1980s, noting that the tax rebates for children still existed for the purposes of zone allowances for those living in remote areas. These had been indexed every year since 1976 while family allowances were frozen. He once suggested that perhaps family allowances could be presented in government accounts as an offset to tax rather than as an outlay, as had been done for a somewhat similar payment in Canada, noting also that tax refunds are treated that way even though they are paid out and appropriated.

Castles' frustration with the presentational problem became most apparent in 1983 when the Hawke Government was looking for budgetary savings and Finance chaired an Inter Departmental Committee reviewing family allowances. Much to the anger of Treasury and PM&C, we in Finance did not support means testing the payments but joined with Social Security in defending their universality. On hearing of (Treasury deputy secretary) David Morgan's advice to Cabinet that he and his wife (Ros Kelly, a Government minister) should not be receiving family allowances, Castles sent a note to the Finance Minister showing that, in a revenue neutral approach, the Morgan family would almost certainly have a net gain from means-testing family allowances if the moneys saved were redistributed via a tax cut. The issue was not whether high-income families like the Morgans should benefit from family allowances, but whether the presence of dependent children affected capacity to pay tax at all income levels.

What was, and remains, frustrating, is the 'topsy-turvy' nature of the arguments caused by this presentational challenge. It was the welfare lobby and the Social Security Department that were left to argue the tax equity argument despite the axiomatic truth that, in terms of their primary interest in poverty alleviation, universal family allowances were inefficient and wasted money that could be better spent on pensions and benefits and means tested family payments. Meanwhile Treasury (along with PM&C) was pressing Finance to argue the poverty alleviation line albeit with some reduction in spending, when their purpose was to find savings to protect taxpayers. At some point, it was inevitable that the welfare lobby, and probably Social Security, would trade-in universal family allowances in order to gain an increase in more targeted welfare spending even if this was at a cost to taxpayers with children.

Under Castles, the Finance view was that our role to promote economy (as well as efficiency and effectiveness) meant we should be questioning and helping governments to contain what I would term 'real welfare' spending, along with other public spending, in order to minimise pressure to increase taxes and, preferably, to

facilitate reductions in tax – and increases in family allowances. (Not that Castles was blindly in favour of containing welfare or reducing taxes: he was always looking to identify a tax-transfers system that was fair and promoted the wellbeing of all.)

Some of this will resonate with those involved in the Social Security Review in the 1980s for the then minister, Brian Howe, as the income-testing of family allowances in 1987 came in spite of that Review arguing for universal payments on the grounds of horizontal equity.

The Henry Report identifies the trade-off between horizontal and vertical equity in discussing family payments. While recognising the tension, I am not sure Castles would have approached the issue the same way. I suspect he would argue that recognising that capacity to pay tax is affected by the presence of dependent children is central to optimising revenue from personal income tax, and hence the funds available for poverty alleviation measures. In other words, some form of universal support should be an integral component of the tax and social security system.

I have told before the story of Castles' 1977 advice to Fraser on personal income tax reform. It began with Doug Anthony, as Acting Prime Minister, giving a speech to a rural constituency advocating a proportional tax system (or a 'flat tax'). Castles called me into his office to discuss what advice we should give, in light of the widespread press criticism of Anthony's speech. We noted that the various Guaranteed Minimum Income schemes all had standard rates of tax over most income levels, but also all involved a high tax threshold where any negative income tax ran out or a demogrand payment was fully offset by tax. We agreed it would be feasible to have a standard tax rate for the vast majority of taxpayers so long as there was a sufficiently high threshold to protect the poor; excessive tax cuts at high income levels could be avoided by surcharges affecting a small minority of taxpayers. Such a scale would, like the original Hayden tax scale, marry well with social security payments if the threshold was significantly higher than those payments.

We set to work on developing such a scale, costing it and testing for winners and losers, using our new Texas Instruments calculator. Within about 24 hours, Castles sent a telex to the Prime Minister who was stopping in Singapore on his way home, advising him not to reject Anthony's idea out of hand when meeting the press at Sydney Airport in the morning, but to agree to officials working further on the matter. Castles included in the telex an illustrative option of a possible scale. Several months later after acrimonious arguments with Treasury, the Government announced the new tax scale to commence in February 1978. It had exactly the same threshold (\$3750) and standard rate (32 per cent) as Castles proposed in his telex. Castles' proposed surcharges (14 per cent and 28 per cent) were taken up, starting at high-income levels almost exactly as Castles suggested.

Importantly, the new tax threshold was well above the pension level, and the standard tax rate applied all the way to incomes well above Average Weekly Earnings, ensuring coherence between tax and social security and appropriate work incentives for most people of workforce age.

I should mention that that threshold is equivalent to over \$24,000 today (comparable to Henry's recommended \$25,000), though the first surcharge came in at the equivalent of just over \$100,000, not the \$180,000 proposed by Henry.

Over subsequent years, Treasury successfully advised against adjusting the tax threshold, failing in my view to appreciate the role of personal income tax, together with

transfers, in achieving a fair distribution of income. This policy also brought more and more pensioners back into the tax system causing them to face high effective marginal tax rates. Complicating matters, governments then reduced marginal tax rates at lower income levels rather than increase the threshold in order to protect middle-income earners. Whenever the opportunity arose, Castles argued for increasing the threshold, retaining the integrity of the 1978 reform.

An even more serious attack on the threshold came in 1986 from Michael Porter from Monash University who presented an influential but essentially nonsensical proposal to "means test" the tax threshold. Castles was, I think, stunned by the proposal and its wide support despite what he thought was its transparently obvious sleight of hand. He provided forceful advice to the minister, Peter Walsh, highlighting the fact that the proposal did not abolish the threshold for high income earners at all, but merely offset an increased threshold (via a new "low income tax offset") with higher effective marginal tax rates at moderate income levels; these applied precisely where efficiency losses were most likely to occur. He also warned that the Porter approach would in time require a replication of the social security system within the tax system if full-rate pensioners and beneficiaries were not to pay tax on their minimum income payments, and involved a very substantial redistribution to the rich.

Notwithstanding this advice, and Walsh's acceptance of it, there has been a steady increase in the level and array of income-tested tax rebates to ensure the effective tax threshold increased in line with social security payments. Our \$6,000 threshold is in reality now over \$16,000 (the recent claim by the Treasurer that his latest proposals will "triple the tax threshold" are almost as misleading as Porter's original suggestion that his proposal would abolish the threshold); moreover, the rebate income tests now involve high effective marginal tax rates over wide ranges of modest incomes.

(Porter also proposed the abolition of family allowances, restricting child payments to pensioner and beneficiary families only. Castles was as scathing about this as he was about the so-called abolition of the tax threshold. He noted Porter's claim was that this would allow marginal tax rates to be reduced, enhancing incentives to work; this of course totally ignored the inevitable increase in effective marginal tax rates for pensioner families. Castles then drew attention to the fact that the much higher workforce participation of sole parents in other developed countries at the time was associated with more universal family assistance, not more means-tested assistance.)

I have no doubt Castles would welcome the Henry personal income tax recommendations which would remove the nonsense-on-stilts that has built up since the mid 1980s and return to a simpler and more sensible scale similar to the one he recommended over 30 years ago.

### **Pensions and benefits**

Henry proposes distinctions between payments for age and disability pensioners and carers, those for people of workforce age, and students. The ISR 35 years ago supported the Henderson Poverty Inquiry's approach to distinguish between those for whom provision needs to be made on a long-term basis (pensioners) and those who are experiencing a loss of income as a result of a short-term contingency such as unemployment or sickness (beneficiaries). It did not address student assistance.

Looking back at the ISR reports, it is clear that the ISR approach has some similarity to Henry's, the differences relating mostly to changes in our society and workforce since the 1970s. The ISR began the questioning of the need for pensions for certain people

of workforce age (wife's pensions and age pensions for women under 65) and whether sole parents' pensions should have work tests.

Importantly, however, the ISR did not suggest different levels of payment for pensioners to that for beneficiaries. The implied assumption was that 'adequacy' required the same rates of minimum income support, as Henderson had recommended and the Whitlam Government had effected. The first step to favour pensioners over beneficiaries came after the ISR when the Fraser Government decided to freeze the single rate of unemployment benefit against the advice from those of us in PM&C. One cannot help but suspect that this reflected an unstated distinction between the 'deserving' and 'undeserving' poor rather than any more objective assessment of need. As Henry highlights, the differences in rates are now very substantial and still growing, and now affect sole parent pensioners as well as the unemployed; this urgently needs to be addressed, and ideally by a single definition of adequacy, not Henry's apparent compromise with unstated notions of 'deserving' and 'less deserving' categories.

I do not know for certain Castles' view on whether pension and benefit payment levels should be exactly the same, but I am not aware he ever suggested varying maximum rates of pensions and benefits to encourage people to work (other than young unemployed); rather, he focused on effective marginal tax rates and also gave more attention to the role of work tests than Henry seems to have done. Work tests play a critical role in promoting genuine workforce participation, offsetting the risk that the welfare payments become a lifestyle. They can also remove much of the need for concern about the impact of high effective marginal tax rates on work incentives. And they have some advantages in their flexibility according to labour market conditions. Castles recommended strengthening the tests firmly as the economy recovered after recessions, expressing less concern when the economy was weak.

The ISR recommended removing the former property test element of the pension means test and applying tests on income only, including income from assets. Ian was also opposed to reintroducing an assets test in the 1980s, preferring to keep closer similarity between tax and social security treatment of income and means. Interestingly Henry proposes returning to an income test, though his 'comprehensive income' definition involves deeming income from assets whether or not interest is earned. Henry does not apply this approach to personal income tax but he does propose other measures to tax income from savings more consistently and appropriately.

The ISR triggered decisions to widen the taxation of social security pensions and benefits. The initial argument was related to the then policy in favour of universal age pensions, taxing them being seen as a reasonable offset to abolishing the means test. The ISR demonstrated that taxing means-tested pensions did not affect those wholly reliant on them because of the tax threshold; others paid additional tax, with their effective marginal tax rates being "smoothed" through the closer interaction between the means test and the tax system. Taxing unemployment and sickness benefits had the added advantage of seamlessly clawing back some of the government assistance if the person was only unemployed or sick for part of the financial year. Castles did not support taxing family allowances and related payments which would detract from their horizontal equity role.

I suspect Castles was still comparing the net impacts of these different tax and social security instruments to what a theoretically ideal system might deliver. Against a Henderson-style Guaranteed Minimum Income, an outcome that smoothed effective



marginal tax rates while ensuring maximum rate pensioners and beneficiaries received adequate total support made considerable sense. He was even sympathetic to the idea of universal age pensions as he saw that this was more likely to facilitate coherence between superannuation and social security.

Henry surprisingly proposes exempting all social security payments from tax. Given the major increase proposed to the tax threshold, this seems to me unnecessarily generous while still leaving some overlaps between tax and income tests causing very high effective marginal tax rates.

### **Superannuation**

While the Fraser Government was never supportive of a government-run, national superannuation scheme, I suspect the work of the ISR and the passage of time following the Hancock Report contributed to a bipartisan view that there was another, better approach to addressing the objective of income maintenance in conjunction with the objective of poverty alleviation.

Castles began to focus on reform of occupational superannuation when he moved to Finance, which had direct responsibility for the Commonwealth's own superannuation schemes. He was particularly annoyed by frequent claims that these unfunded schemes offering indexed lifetime annuities were unaffordable, when they presented far better models for the direction occupational superannuation should take than the schemes more commonly available in the private sector, and provided income replacement rates no more generous than those provided by government schemes in most other developed countries. His advice to successive Finance ministers demonstrated how state governments replacing their public sector schemes' indexed annuities with lump sums were merely cost-shifting to the Commonwealth because of its excessive lump sum tax concessions, and that most individuals' demonstrated preference for lump sums when they had the option only proved that indexed annuities were indeed affordable. He was not particularly concerned about the unfunded nature of the public sector schemes, so long as their liabilities were properly reported and managed, and notional contribution rates included in any assessment of remuneration. He noted the changing fashions over the previous twenty years within the accounting profession about funding, and focused his attention on the fundamental issues of transparency and management of liabilities, as well as the most sensible form of genuine retirement income.

The opportunity to address the lump sum problem came in 1983 when, initially, Hawke gave the Finance Minister, John Dawkins, responsibility for tax. This brief window of opportunity allowed Castles to advise a major savings measure through removal of this tax concession and replacing it with taxes set consistent with the tax applying to annuities. Treasury, influenced by the Campbell Committee Report, initially favoured taxing superannuation contributions. But Ian successfully argued in favour of the more orthodox policy of continuing exemptions for contributions but with a much firmer approach to taxing benefits, attacking directly the then bias in favour of lump sums and against annuities. He also strongly supported Treasury proposals to strengthen vesting and preservation arrangements, and enhance portability.

Castles also argued successfully in favour of issuing indexed bonds, an argument he had been having with Treasury for a decade or more. Treasury's view was that such bonds would cause complacency about inflation. Castles argued that it would do no such thing, only addressing a market failure to offer indexed annuities by facilitating

market trade of the risk of inflation; he also noted the extent to which government was already giving away indexed annuities through social security pensions, and the extent to which the absence of indexed annuities was causing many old people to rely on social security to manage their longevity risk at an unnecessary cost to taxpayers.

The period since Castles left Finance has seen many more superannuation initiatives, many rightly regarded as major reforms building on the 1983 changes. The steady shift to funded superannuation schemes and the introduction of the superannuation guarantee have not only lifted the level of support available for retirees in the future, but also enhanced portability and increased national savings, and contributed to better inter-generational equity. Castles would certainly have supported a move to mandated contributions, as he always favoured compulsion in the public sector schemes and recognised the damage community short-sightedness caused to the welfare of people when they reached old age.

The move to funded schemes has also made possible the former Treasury preference for taxing contributions, but I doubt Castles would have supported the abolition of tax on superannuation benefits. Henry's proposals to change the tax on contributions would reduce the most severe inequities associated with that decision (and the earlier Keating decision to tax contributions), but we are yet to see any sign of political support for these proposals and, in the meantime, the inequities are being locked in together with the associated exacerbation of the costs of an ageing population and the undermining of intergenerational equity gains from the earlier reforms.

The orthodox approach to equitable spreading of lifetime earnings – exempting contributions for genuine superannuation purposes and taxing all benefits – is still the more obvious benchmark approach. How we now get something that more closely reflects that remains a huge challenge.

One priority Castles would strongly support is Henry's advocacy of more effort to promote benefits in the form of lifetime annuities. Inexplicably, at least to me, the Government rejected the option identified by Henry to sell such annuities. Recent reports suggest the NSW Government is contemplating offering some form of lifetime annuities, hopefully encouraging the Commonwealth to reconsider its position. Given the extent to which the Government already gives away lifetime annuities, indexed more generously than in line with the CPI, I do not understand the opposition to sale, at an appropriate price, of lifetime annuities indexed to the CPI, possibly capped at the level of the pension or the pension income test free area, or in the form of deferred annuities from age 75 or 80.

This is a particularly sore point for me. David Knox and I proposed four years ago the replacement of the only remaining open, unfunded Commonwealth superannuation scheme, the Military Superannuation Benefits Scheme, by a fully funded scheme at no more cost to the taxpayer, so long as it allowed longer-term ADF members to buy indexed lifetime annuities at a price set regularly by the Actuary. Our proposals, agreed by the Defence Chiefs and Defence Department, would have stopped all new unfunded liabilities and indeed sharply reduced them, and would also have limited access to government-guaranteed indexed pensions to longer-term ADF members who would be required to pay a full and fair price for them. To my amazement, Finance opposed the idea because of the remaining contingent liability! Four years later, unfunded liabilities continue to grow rapidly, and no price is attached at all to the

government-guaranteed lifetime annuities available to all MSBS members. It was not advice a Castles Finance Department would provide.

### **Final comments**

Ian Castles always considered tax and social security as an integrated system, from a time when this was most rare. The Henry Review therefore would surely have been a welcome initiative.

Castles' approach was pragmatic, but also meticulously analytical and always linked to a theoretically attractive benchmark model. There is much to commend the Henry Review, but I suggest its series of figures of building blocks of payments for different groups lacks the elegance of Castles' graphs of the distributional impact of tax and social security options for different categories of individuals and families, compared both to existing arrangements and to a Guaranteed Minimum Income or other theoretically attractive model.

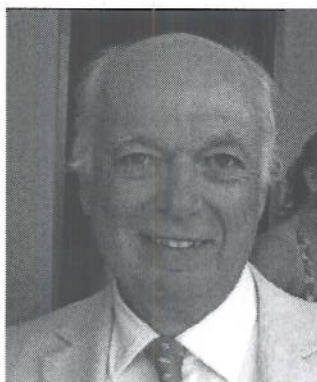
Henry rejected the idea of a fully integrated tax and transfer system, as indeed did Castles, but there is something unsatisfactory in not showing how the Henry proposals compare to a theoretically attractive integrated approach, nor even to current arrangements to highlight the likely winners and losers.

Much has happened since Ian Castles' main contribution to the study and practice of tax and social security policy. Many others have made major contributions over that time, including a number at this roundtable.

But tonight I want to celebrate the unique contribution Ian Castles made. Much of it remains highly relevant. It provides a most useful set of tests to assess the recommendations in the Henry Report. There are other approaches to reviewing Henry's proposals and we shall no doubt hear some of them tomorrow; moreover, the context has changed a great deal over the last 25 years, for example in terms of workforce participation, a less regulated wage system, and increased appreciation of the importance of 'active' welfare to complement social security entitlements and taxation obligations.

Mine is of course a very personal perspective and no doubt my presentation is coloured by my own views on tax and social security. I may even have overstated Castles' likely attitude towards current policy options.

But what I can say with absolute certainty is how much Ian Castles influenced me, and I am sure virtually everyone at this roundtable, either directly or indirectly. For that we should all be enormously grateful.



**Andrew Podger** is Professor of Public Policy at ANU, and Adjunct Professor at Xi'an Jiao-tong University in China. He was Secretary of the Australian Department of Health and Aged Care from 1996 to 2002, and previously headed the Departments of Housing and Regional Development and Administrative Services. He was Public Service Commissioner from 2002 to 2004. Since retiring, Andrew Podger has advised governments in Australia and Asia on aspects of public administration, particularly on social policies and public sector management, and published extensively on these subjects.