

# Reset: Restoring Australia After the Pandemic Recession

## Speakers:

**Professor Ross Garnaut**, Economist and Energy Expert

**Dr Richard Denniss**, Chief Economist at The Australia Institute

**Ebony Bennett**, Deputy Director at the Australia Institute

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**Ebony Bennett** 00:02 G'day, everyone. Welcome to the Australia Institute's webinar series. I'm Ebony Bennett, Deputy Director at the Australia Institute and we're so glad to have you all along with us today. I'd like to begin by acknowledging the traditional owners of the land on which I live and work. Canberra is Ngunnawal Country and they are the traditional owners of this land. And I'd like to pay my respects to elders past and present. I acknowledge that sovereignty was never ceded and this always was and always will be Aboriginal land. As with last year, the Australia Institute is putting on these webinars at least weekly, about the days and times do vary, so head on over to our website at [australiainstitute.org.au](http://australiainstitute.org.au) to the Events tab so you don't miss out on upcoming webinars. And just a few tips before we begin to help things run smoothly. If you hover over the bottom of your screen, you should be able to see a Q and A function where you can ask questions of our panellists and you should also be able to upload questions and make comments. Please keep things civil and on topic in the chat or we'll boot you out. It's very rare that we've done that, but we will if we have to. And lastly, a reminder that this discussion is being recorded and it will be posted up on our website and on the Australia Institute's YouTube channel after this. And we'll email it to everyone as well. So today we're talking to Professor Ross Garnaut, economist and author of the new book "Reset", which explores the opportunities Australia has to reset its economy in the wake of the pandemic and why the old approaches aren't going to work. Last year, the Institute spoke to Professor Ross Garnaut about some of the Centre for Future Work's research on the opportunities for Australian manufacturing through transitioning away from fossil fuels, and this book too develops the ideas in that space and the opportunities of Australia becoming a renewable energy superpower, which was also the title of Ross's last book. But today he'll also be talking about the essential role of truth, trust in politics, and calls for replacing the corporate income tax with a tax on cash flows, amongst other ideas, all of which connect directly to issues facing Parliament as we speak. Whether that's about accountability, the debate around raising the rate of

JobSeeker or the "gas-fired" recovery. Ross Garnaut is Professorial Research Fellow in Economics at the University of Melbourne. In 2009, you might remember, he produced the Garnaut Climate Change Review for the Australian government. And he's the author of many books, including the best-selling Superpower as discussed, all of which have come from Black Inc Books. And he'll be in conversation today with our Chief Economist, Richard Denniss. Welcome, Professor Garnaut. Thank you so much for joining us. Welcome, Richard.

**Dr Richard Denniss** Thanks, Eb.

02:55

**Prof. Ross Garnaut** Good to be back in Canberra.

02:56

**Ebony Bennett** So your book title talks about the pandemic recession, Ross, but you're quite clear from the very first pages that the Australian economy was performing pretty poorly long before the pandemic hit our shores. Can you tell us about what you describe as the dog days and why we don't just want to snap back to how things were?

03:00

**Prof. Ross Garnaut** Yes, Australia had 28 years of economic growth, unbroken by recession from 1991 until the pandemic recession hit in the first half of last year. But it wasn't a uniform or uniformly prosperous 28 years. I divided it into three periods: the first period, the productivity boom during the 90s, up to about 2002, where we got rising incomes, rising output per person, very rapidly-growing productivity, faster than any other country in the developed world. And that was the productivity boom of the first decade. The second decade was the China resources boom, where incomes kept growing in Australia, but overwhelmingly from growth in prices of minerals and energy that we export and investment in those industries. Productivity growth wasn't strong, but incomes rose because of the China resources boom. China's model of economic growth that changed from from about 2013, and we entered the dog days. We kept growing through the dog days. But almost all of the growth was population growth from a higher rate of immigration. We had the lowest growth in output per person in the developed world, lower even than Japan, which is pretty amazing when you pointed out to Australians, because a lot of Australians are accustomed to thinking of Japan as a bit of an economic basket case. Well, if Japan was a basket case, we were at a lower level of basket. Of course, Japan isn't a basket case, but that's a different question. So during that period, 2013 to 2019, the seven years leading up to the pandemic output per person didn't increase in Australia, unlike other developed countries, and average incomes of ordinary people actually fell. Real per capita household income was pretty stagnant, but that includes quite strong rises at the top of the income distribution. So there were falls for

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the median, the lower half of the income distribution. So these were pretty bad times. And so I think it's a very unattractive thing to aim to get back to what we had before. We've got to do better than that and we can do better than that.

**Ebony Bennett** 06:02 Yeah, so you've got a whole bunch of policy prescriptions in the book that we'll get into in a minute, but I did just want to pick up on one of the ones that you kind of talked a lot about with your last book, which is *The Superpower Opportunity*. Can you tell us a little bit about what that opportunity is for Australia and why now is the most imperative time to do it?

**Prof. Ross Garnaut** 06:30 Well, the whole world moving to zero emissions is an imperative, very important for the whole world, but more important for Australia than any other developed country, because we're the most vulnerable to climate change of all developed countries, that's been a constant for a long time. Reducing emissions reduces the rate of increase in trend temperatures. It doesn't actually reduce that trend temperature. It's only when we get to zero emissions that the forcing that leads to higher temperatures ceases to grow. So zero emissions has to be the objective. In *Superpower*, the book I put out at the end of 2019, I pointed out that a world of zero emissions is a very good world for Australia economically for two big reasons. One is we've got a richer endowment of natural resources for renewable energy than any other developed country. Per capita is what matters in international trade terms and we're very much richer in our combinations of wind and solar resources than other developed countries or for that matter, most of the developing world. And so, in a zero emissions world economy where all economies are having to use zero emissions processes to reduce energy to produce manufactured goods, we should have a powerful competitive advantage. Of course, we can always muck it up by bad policy or an ignorant business leadership. But if we don't muck it up, we're the low cost energy producer of the world, and that gives us very large advantages in energy-using industries and in particular, the processing of Australian minerals uses a lot of energy. In the world in which minerals were processed from energy or from carbon or hydrocarbons using fossil energy, sure, we had rich coal and gas resources that didn't give us an industrial advantage because these goods are tradable. Once we started exporting gas from Gladstone, Australian domestic gas prices in eastern Australia rose to international levels. And once we stopped giving the Electricity Commissions of Queensland, New South Wales, Victoria privileged access to coal resources and made it all exportable, the costs of coal for electricity were no lower in Australia than in the countries that import our coal - Japan, Korea, China - and with the very big industry, our biggest export industry, iron ore, one of our biggest export industries,

metallurgical coal for turning iron ore into iron and steel, we didn't have - we've got the best metallurgical coal resources in the world - we didn't have an advantage from for industry from that because it was just as cheap to use Australian coal in Kobe or Shanghai as it was in Whyalla, cheaper actually comparing the transport cost. So that wasn't an advantage. But it is an advantage with renewable energy, because when the whole world has to have zero emissions energy, it will not be economic to take Australian renewable energy, either by cable or in the form of hydrogen or hydrogen-carried carriers to countries to use it for manufacturing purposes. It will be much cheaper to process Australian minerals in Australia. The other very big advantage is that we've got far more land and and woodland and coast per head of population than any other developed country. The difference is huge and we've got a chart on that in Superpower and in the world of zero emissions, that's going to have huge value from two points of view. Sequestering, capturing carbon in soils and plants will have huge value. That's negative emissions and the world's going to need a lot of that. And in a world of trading rights to emit carbon in a zero emissions world, we'd be exporting a lot of permits from use of our land, a lot of our plants, the natural Australian acacias and and eucalypts highly suited for these purposes. And in the zero emissions world, we won't be using coal or gas or petroleum for making plastics and manufactures, so to the extent you need carbon and hydrocarbon for that, for chemical purposes, we'll be using biomass and we'll have a big advantage and a sustainable one. So we'll do very well in that world. Now, in the challenge we face today in Australia, we're going to need a lot of growth in investment in and production in our export industries to achieve full employment and rising incomes. We're going to have to have growth in exports faster than growth in output if we're going to have rising incomes and a lot of our old export industries will be blocked - fossil energy, 22% of our exports, that's actually going to decline. Coal will decline, gas will, and so that the superpower opportunities are not only a path to full employment and incomes growth, I think that in the world we're facing now, they're the only path.

**Ebony Bennett** 12:31 The only path, that's quite an imperative. And I think a bit of a change of tune from when it was one of perhaps many paths that we had open to us a while back but perhaps we've squandered the time that we had to deal with some of these things. So I'll just tell people that this is what the book looks like, "Reset". It should be available in all good bookstores across Australia now. Thanks to everyone for letting us know about the some of the echoes that we had. Richard, just letting you know, we think that that was, yeah, because you need to mute yourself when you're not speaking. Much appreciated. Richard, I'll come to you just quickly, if you can, unmute yourself for a minute now. Talking about those opportunities. (I think we're going to get that

problem again. I'll come back to you, Ross...) The next thing that I was going to ask about, is you mentioned there, returning to full employment. The fact that due to the pandemic recession and the way that we've closed our borders, we're not going to have, for example, high rates of immigration that we've been able to rely on in the past. Why is now a really good time to be having these kinds of big policy discussions compared to during any regular time of politics?

**Prof. Ross Garnaut** 13:58 Well you mentioned immigration Ebony. Immigration policy changed without Australians much knowing about it. The immigration policy that we've debated was about asylum seekers, a tiny proportion of total population growth. But what affected the economy, what affected the living standards of Australians was a shift in immigration policy away from the successful post-war emphasis on permanent migration, where people coming to Australia as immigrants came on a path to citizenship, on a confident path to citizenship and they absorbed an Australian orientation from an early stage. That changed a couple of decades ago and the emphasis shifted to temporary migration - a lot of a relatively unskilled although it was presented as being skilled migration. In fact, it wasn't. And the temporary migration became very large, became a big pressure, for a source of downward pressure on wages for relatively unskilled people in rural and in urban areas. And all that happened without much discussion in Australia. Now immigration stopped, actually was a little bit negative last year, and it's not going to be very positive this year. Things have changed, been put on hold by the pandemic, that makes it a good time to reassess the immigration policy and its effects on the economy, I'm suggesting that we should return to immigration, but to a moderate level, and again, with an emphasis on permanent migration rather than temporary migration. The other reason why it's a good time to sit and look is that the emergency lead to the breaking of a lot of shibboleths on policy. We had a lot of emphasis on the primacy of removing debt and deficit during the dog days. It was misplaced. But now all that's been broken aside, we've got the highest deficit we've ever had in our peacetime history. So that creates an environment in which we can think about what is really the appropriate level of debt and deficit. Similarly, in monetary policy. During the dog days, Australia ran tighter monetary policy than the rest of the developed world even though we didn't have a stronger economy than the rest of the developed world. I can compare what happened in the US with Australia. Australia entered the dog days with much lower unemployment than the US because we hadn't had a recession during the global financial crisis. The US had a deep recession, because they didn't have such expansionary policies as we did. And they started with much higher unemployment than us in 2013. But by 2019, they had much lower unemployment than us, and we were still stuck at the same unemployment

level we had in 2013. The difference, well a number of differences, but the biggest difference was monetary policy. They quickly reduced, the Federal Reserve, quickly reduced interest rates set by the bank, short term rates down to near zero, and kept them there until unemployment was significantly lower than Australia's rate of unemployment, whereas we jacked up rates and kept them higher than the rest of the developed world. That kept the exchange rate high, made our export industries uncompetitive and was a big headwind against recovery.

**Ebony Bennett** 18:00 Yeah. Richard, I might come to you now. Ross, I will ask if you can mute yourself so we can try and limit this feedback. I'm sorry about this problem. Thank you. Richard, coming to you now, I just want to talk about the moment that we find ourselves in and why this time of, you know, crisis, when a lot of things have been up-ended, as Ross said, a lot of the old shibboleths kind of went by the wayside very quickly, why is now a good time to be making big changes and big reforms?

**Dr Richard Denniss** 18:31 Thanks Eb. And thanks to Ross. Sorry about the feedback. Hope it's a bit better now. All my fault. Yeah, look, I mean, we talk so much about the economy in Australia, we talk so much about economic policy, that it's rare we get the opportunity, unfortunately, to step back and ask big interesting questions. And Ross does a great job of that in this book, and provides a lot of interesting answers as well. But in terms of why now, well, one of the, let's start at the beginning, Economics is about efficient allocation of scarce resources. What we want to do is organise all of our resources as efficiently as we can so we can make as much of the stuff that we want the most. And that's really what we're trying to do in economics. So when you got a million people who don't have work, giving them work to do is about the most efficient thing you can do. Like the most inefficient thing you can do is sit by while a million people wait for someone else to create a job. So we're at this wonderful point, a terrible point in economic history, because the crisis has created all this spare labour - it's actually in our economic interests, as well as our social interests, to actually employ that labour and if, as Ross suggests, that we make a lot of that investment into things like renewable energy, we don't just help our economy and help inequality and society, we actually help the economy because we help the environment because what would come out of this pandemic crisis with, is a whole bunch of stuff that we're going to be able to use for decades to come. So unfortunately, and I'm interested in Ross's thoughts on this, but so much of what passes for commentary or analysis of economic policy in Australia is just kind of some aping of something we did 20 or 30 years ago. And I think one of the most interesting things about Ross's book, as he says, look, look at what happened in those early Paul Keating years, and it worked, then. But what we see 30 years later,



is people still kind of trying to do the same stuff, or saying the same magic words, and hoping that it will work in an entirely different setting. So I think the obvious example is industrial relations reform. We did a lot of industrial relations reform in the 90s, a lot of it under Labor, some of it under the Coalition, and some of that needed to happen, but we kind of think that just doing it again, and again and again, for decades, we keep expecting the same big outcomes. And as Ross makes clear in the book, that's not happening. So I think we need to have quite a different conversation about what happened in the good old days. Because I don't think what we need to do today is copy what we did back then. What we need to copy is the idea that we can actually do new things, we can roll out big new things that are being a bit unconventional, that disrupt some of the status quo. That's the lesson that we need to take out of the 80s. Not oh, we did IR reform then, so we should do it again now. Or we cut the company tax rate then, so we should do it again now. All of the big reforms that happened in that sort of golden era that Ross was describing, all of them were, all of them were uncontroversial, or controversial, all of them disrupted things, all of them upset power, all of them upset the status quo. That's what changing the economy feels like. Whereas today, we have this kind of nonsensical conversation about giving business certainty, which is the exact opposite of what those big reforms were doing. What the big reforms were doing was opening Australia up to a whole bunch of risk and opportunity. But you know, we've got a very, very lazy corporate culture in Australia today that's very profitable, often sitting on top of very big oligopolies. The last thing they want is genuine economic reform. That's why they're obsessed with getting their wage costs down by 1%, or their tax rate down by 2%. That means they can just sit on top of their oligopoly profits. And let government, you know, pump a little bit more in.

**Ebony Bennett** Ross, did you want to respond to that?

22:57

**Prof. Ross Garnaut** Yeah, lots of points there from Richard. I'll start with the first one. The importance of full employment, you said that I said it's important to restore full employment. I didn't actually say that, I said, it's important to achieve full employment because we didn't have it before the pandemic recession. It's a long time since we have had it, in fact, we nearly had it in on the eve of the global financial crisis, we had an employment down to four, but even then there was no sign of inflationary pressures in the labour market. So we know that we could have gone lower than that. And would have, I think if the GFC hadn't hit. We had full employment in the 50s and 60s and the beginning of the 70s and measured unemployment was mostly less than 2%, or one and a half percent. People who wanted a job would quickly find one, and lots of advantages that for our society. So I'm saying we should achieve full employment and not restore full employment because restoring full

employment means going back half a century. I think that is, that has to be a central objective, for the reasons that Richard says. It's an awful waste of economic opportunity to have all of those people wanting to be productive in the society and economy and not being able to. And at the same time it's dreadful, and its social implications and implications for income distribution. So, strong emphasis on full employment. And in the book, I've got a whole chapter on full employment. And I say that we won't have full employment until we see pressures for upward movement of wages in the labour market. And you can't work that out theoretically, you know, you're there when you're there. And the Reserve Bank and the government, through the Dog Days, seemed to have in their minds that we were more or less at full employment with unemployment of five point something, which we were at at that time. Well, we know that full employment wasn't there, that we weren't even reaching our inflation targets. Unemployment was definitely lower than that. Belatedly, the Reserve Bank started to recognise that in 2019, started talking about four and a half percent being full employment, but that's still just a modeling outcome, a theoretical construct. We've got to find out what full employment is by continuing expanding employment until wages start to rise. That's really the centerpiece of our objectives. And incomes can start rising once we've got full employment. So long as we've made investments in the industries in the future, and that's where the Superpower narrative joins the narrative of increasing prosperity. And no point in creating jobs in, or not much point in, creating jobs and investment in industries that won't be prosperous in the 2030s and 2040s. An investment now in say, in coal production, or coal use, will create jobs now, just like John Maynard Keynes, in his great book, the General Theory on Employment, Incomes and Money, he said that you do some good for employment by burying banknotes and getting people to dig them up. That's the advantage you'd get from investment in coal now. It might be better than nothing but nowhere near as good as investing in something that's going to create jobs and rising incomes in the 30s and 40s. And you have to think ahead to the industries that will be flourishing in the 30s and 40s. And in these days, when the US president, the Prime Minister of Britain, all of the main leaders of the European Union, the leaders of Japan, Korea, China, the non-EU member countries in Europe are all committed to zero emissions around the middle of the century, I could add New Zealand and Canada to that - we're the odd country out amongst developed countries - in that world, the zero emissions world that everyone else is moving towards now that you've had the change in the United States, to be productive in future investment now has to be in zero emissions industries.

**Ebony Bennett** 27:47 Yeah. So we've got more than 1500 people on the line with us today. Thank you so much for joining us. I'll come to questions from the audience in just a



second. But just before we do go to that Ross, I was, I guess, struck by the very hopeful tone that the book strikes overall, but particularly at the end, you were talking about how, during the pandemic, Australians really turned to knowledge for guidance and the democratic institutions and our government seem to fare much better during the immediate public health crisis. I just wonder if you could comment on that. And why you thought that was important to emphasise in the book and you know, how well Australia did compared to say, the UK and the United States.

**Prof. Ross Garnaut**

28:34

Yeah. And I'll go back to Richard's comment, very important comments, that drawing the right lessons from the successful economic policies of the 80s doesn't mean going back exactly to the same agenda as that time. But what we can go back to, in looking, in drawing lessons from successful periods in Australian economic policy, and I emphasise too, one was post-war reconstruction, we faced a very big challenge, demobilizing a huge Defence Force and reorienting industry away from arms production. That was a huge adjustment after the Second World War. And we faced another big adjustment in the 80s as we faced up to the stagnation of incomes, inflation and high unemployment, the issues that the Hawke government had to address. From both those periods, the lessons I draw up first, that successful economic policy in our democracy has got to be based on first of all on knowledge. Leaders of the community have to be open to knowledge and it has to be broadly-shared knowledge: you have to talk about these things and the community has to share knowledge. Secondly, one strong lesson from those periods and also from those parts of economic policy that worked on our way out of the Great Depression under the Lyons government is that in our democratic polity, you don't get community buy-in to structural change unless there's widespread acceptance and understanding in the community, that what's being done, will bring benefits for the country as a whole, but also equitable sharing of those benefits. And these successful periods of economic policy in Australia have been within a social democratic framework, and I'd include the many elements of the approach of the Menzies government continuing those of the Curtin and Chifley governments with a strong emphasis on equity. We won't make the big changes that we need to make unless we do that, and so the lessons from the successful periods of Australian economic policy up first, you've got to use knowledge effectively. Second, you've got to have a strong focus on equity. Now, one of the things that's changed in Australia and in the developed world in the 21st century is we've downgraded the role of knowledge. I've got a chapter called the Tree of Knowledge about that sad phenomenon. It's dragging down our democracies, it's what used to be, what should be an advantage of democracy that it allows knowledge to be highly influential, has for the time being become a disadvantage, because we've had a systematic denial of

knowledge in many areas, in health, in climate policy, and economic policy and international relations. That's gone further in some countries than other. Sadly, it had gone so far in the United States under President Trump, with his supporters in NewsCorp and other parts of the establishment in the United States, had gone so far in the United States with Trump, and sadly, in the UK, that it became habitual to deny scientific knowledge. And so the things that could have been done quickly to blunt the damage from the pandemic weren't done. And as a result, our English-speaking friends in the Northern Hemisphere suffered great damage. Well, it is a mercy that the denial of knowledge has not gone as far in Australia, as in the US. And we did respect knowledge in relation to the pandemic and we got good results as a result. Australian management of the crisis has led to much less sickness, much less death, than in the US and the UK. Y And that respect for knowledge is an important element of that. If we take that renewed respect for knowledge into other spheres, like economic policy and climate policy, and then we've got a chance of achieving full employment and rising incomes.

**Ebony Bennett** 33:38 Richard, I might come to you for a response to that. And then we'll go to questions from the audience.

**Dr Richard Denniss** 33:43 Yeah, look, just two points there that I want to kind of expand on that Ross made. First, we went through, and most developed countries did post-World War 2, this incredible post-war demobilisation, which if we think about it, you know, it was hundreds of 1000s of people directly involved in the war effort, hundreds of 1000s more involved in supporting them. And they were often young men, and they were going to come back and need work. And we did it. Like we actually transformed the economy to fight a war, which was an enormous feat and then we transformed the economy very quickly away from fighting a war to building infrastructure and building housing. So we can do that in the 1950s. And we didn't even have a smartphone to help contact people. So the idea that that's harder to do today is of course, ridiculous. It's about creativity and confidence, not capacity. And the other thing in terms of drawing on knowledge, I think we have to be really careful. One thing we know with recessions is the first thing that happens is firms stop employing new people. And a lot of the new hires are young. So we know young people are gonna get hit hardest by this recession in the medium term. We know who got thrown out of their jobs straight away, disproportionately casual, disproportionately women. But what we don't notice as much is the new entrants to the labor market, primarily young people finishing school, finishing uni, we're just not employing them. And it takes years before they can actually push their way back into the labor market. We know this is true. We know this is happening. It's not as emotional or spectacular as watching other groups of people get sacked. But watching young people come out of

school and come out of uni and just quietly, invisibly, not getting a job is a terrible thing. And again, you know, I think if we want to draw on the tree of knowledge that Ross refers to, we know that young people bear the brunt of his pain. What better time to be giving them free education? What better time to be making university courses cheaper or even free? Even if it's only temporary, to say to these young people: look, we know there's no work for you at the moment but at least let us give you all the other things that you might be able to benefit from. But of course, we're not doing that. We're coming up with hotlines that do in dole bludgers, it's obscene. And history tells us, you know, yeah, we need to look back at that tree of knowledge.

**Ebony Bennett** 36:18 Yeah, thanks, Richard. I'll go to questions from the audience. Now the first one is from Darryl Fellow. He says the government seems intent on a gas led recovery, which seems to be largely a subsidy to the gas industry. And their argument is renewables probably don't need subsidies. What would your alternative priority areas be for spending the money that the government intends to spend on expanding gas?

**Prof. Ross Garnaut** 36:47 The emphasis on gas is misplaced. We are not going to have globally-competitive prices for gas. We could have had it with the export reservation, but the government doesn't seem to be enthusiastic about that. And if we don't have globally-competitive prices for gas in eastern Australia, then we're not going to have new investment in gas export industries, processing industries based on gas. So it's simply economically not feasible to expect much in the way of investment and gas. And in the new world that's emerging a very strong commitment to zero emissions, the fact that gas is not a zero emissions industrial feedstock or fuel, counts strongly against it. Sure it's better than coal - half the emissions if you burn it for electricity of coal - but still high emissions, unless you capture the carbon dioxide emissions and take them out of the atmosphere permanently. Now, you can do that technically. And I think we should be looking at doing everything we can to do that, exploring those technologies. But it's not going to be cheap. And so it's not going to be competitive with zero emissions manufacturing. So it's not a path to the future. There might be some niches where it's important, and let's use those, but it's not going to be a big story. So for all those reasons, emphasis on gas as a base for recovery is misplaced. On the other hand, positioning ourselves to be the natural supplier of zero emissions manufactured goods to the world has a very strong foundation to achieve strong results from that. I put a lot of emphasis initially on government support for innovation in the new technologies in industry. In the early days of building renewable energy capacity in Australia, we had that, we had for a couple of years a carbon price that was very successful in all of its objectives. We also set up the Australian Renewable Energy Agency, the Clean Energy

Finance Corporation, which supported the new technologies. To its credit, the government is expanding the role of the Renewable Energy Agency to support for industries using zero emissions inputs, using renewable energy. Some of the other proposed extensions of the mandate are less laudible but certainly that element is valid, but we're doing that on a tiny scale. The US has said that it will commit 1.7 USD trillion to the zero emissions transformation. Scaling that back on a per capita basis, you know, that's 50 billion or more a year, in Australia over the next few years. What we're putting into support for the new industries for innovation is trivial compared with that. I just saw an announcement in France, the French government is going to make a major commitment towards supporting the first hydrogen-based zero emissions iron processing in France. Well, economically for the world as a whole, much more efficient for that to be in Australia. But if the French government is paying for the innovation, and the Australian Government is not, then it'll happen in France. So the very first thing I would do is make sure that we've got support, fiscal support, for innovation comparable with what's going on in France, in Germany in Britain, in Korea, Japan, China, the United States, Canada. Now, it would be much more successful, would go much more smoothly and quickly, if we had a carbon price. But I've taken the position that the horrible political history of carbon pricing in Australia has poisoned that well, for the time being. It's still there, a well of sweet water, but it's been poisoned. The sooner we can get rid of the toxins and get back to using it, the better. But I don't think that'll be very easy, very quickly. But there's one thing we can do, and that's establish price incentives for sequestration of carbon in the soils and land. And I suggest in the book that we could do that by requiring fugitive emissions, emissions that produced incidentally, alongside coal production and natural gas production, to be offset by purchase of offsets from Australian farmers.

**Ebony Bennett** Yeah, thanks for that. Richard, did you have any response to that question?

42:09

**Dr Richard Denniss**

42:13

Yeah, look, just you know, when Ross talks, big numbers like that, it's easy in Australia to say we'll never do anything like that. That's not how we roll. Yes, it is. We're in the middle of spending \$200 billion, 200,000 million dollars, to build 12 new submarines to replace the 6 we haven't sent to war yet. \$200 billion, and when pushed on, is that a lot of money? We hear "oh, it'll create jobs and ooh, there'll be technology". So we love spending large amounts of money on big things in Australia. We just haven't wanted to do it in relation to climate change. And, of course, the ultimate irony is that the conservatives in Australia are the ones who rage against the cost of renewable energy. You wave a bit of nuclear energy in front of them and they go crazy with "Oh, it doesn't matter how much we spend". Oh, if we can tackle climate change spending far more on nuclear energy, I'd been into it like a rat up a drainpipe. So we'd have to be clear what deliberate appalling decision-making is kind of

driving this in Australia. We're one of the richest countries in the world. We spend enormous amounts of money on speculative things like submarines, and I'm not anti-submarines. I just think that, you know, if you think they're going to deliver world peace, you're crazy. We're told, well, we can't invest \$200 billion in renewable energy because it won't guarantee a safe climate. Well submarines won't guarantee a safe Australia. 200 billion invested in renewables won't save climate change but by gee, it'll take us a long way. It will set us up for the future. And again, the people who say "Oh, we need to be fiscally responsible, whatever that means, or, or we can't do it", the same people drop all those objections when you say would it be okay, if we took a speculative bet on nuclear? So it's a policy choice to not do what Ross is saying. It's not that they don't know. It's that they really want to do anything else.

**Ebony Bennett** 44:17 Yeah, thanks Richard. The next question - and I've actually got a couple of questions on this theme Ross - is from Diane Wicks. She says I'm very interested in Russell's vision for a universal basic income and what that would achieve.

**Prof. Ross Garnaut** 44:33 Yeah. The problem I'm seeking to address is a very large disincentive to labor force participation that comes from the interaction of income tax and the withdrawal of social security benefits as you earn income. And try as we might to address this issue by small incremental things, we've still ended up with dreadful poverty traps, lots of circumstances in which someone who's on unemployment benefits, or other Social Security payments, loses a lot, sometimes all of the incremental income as they take a decision to go into paid employment and have those benefits withdrawn. So that's the essential purpose of integrating the tax on social security systems by replacing them with a universal basic income payment. I've got a lot of details of that in the chapter. And on that subject, I don't have time to go into all of that now. But you give up the idea that bureaucrats should be hounding people to look for jobs that may not be there, taking a lot of the time of hard working people in companies evaluating employment applications for jobs that aren't there. And Centrelink can see its role as actually helping people find jobs rather than hounding them for not looking hard enough. And put this in place, and the time when this yields benefits is when we've got genuine full employment. So people are working, when they want to, for the number of hours they want to, and it becomes a top-up for low incomes and takes pressure off the living standards of people earning relatively low incomes in the labor market, including the young people, the second earners in households, people with relatively low skills, so not so valuable skills in the labor market that have been hit hardest by the pandemic and were hit very hard by the stagnation of the dog days. So I see it as being very important for increasing labor force

participation, that's good for the economy, as well as for equity. I see it as very important in providing some boost to incomes amongst people who are earning relatively low incomes in the labor market.

**Ebony Bennett** 47:39 I've got a couple of questions here and we've only got 10 minutes left so I don't necessarily want to get into a huge technical explanation. But you do have a chapter here that a couple of people are asking about, about replacing corporate income tax with a tax on cash flows. The Australia Institute did a lot of work kind of challenging that race to the bottom on cutting company taxes. Can you just outline for us what your proposal is in the book there?

**Prof. Ross Garnaut** 48:08 Yes. And it can quickly get technical. I've explained it in a lot of words in that chapter in the book, and I hope it's clear there. But I'll explain the outcome. The outcome is a tax system that's not vulnerable to a race to the bottom because you're effectively removing tax, corporate tax, on truly competitive industries. And they're the industries where corporate tax could inhibit investment in Australia. But you're increasing the tax actually paid, not necessarily the tax rate, the tax actually paid in oligopolistic industries, industries using rents, earning rents. It would be very effective in taxing the tech companies that are now a very important part of our economy. We spend a lot of our incomes one way or another on IT services, very large incomes and those companies don't pay tax in Australia. They charge fees for use of their intellectual property that offsets the income they earn and the income goes back. The rents for use of their IP goes back to a tax haven, they don't even pay tax in their home country. So it's very effective in shifting the tax burden away from companies operating in a competitive environment towards companies operating in an oligopolistic environment. It shifts the tax burden away from companies that are investing a lot towards companies that are sitting on their laurels. It shifts the tax burden away from new companies, towards companies with established profits. It shifts the tax burden away from companies taking risks and innovating towards companies just sitting on their laurels. All the technical details are in that chapter. I think I've explained it fairly simply. But I've explained it in a fair few words.

**Ebony Bennett** 50:22 That's great. Thank you. Richard, did you want to respond to that, as someone who worked a lot on that company tax research?

**Dr Richard Denniss** 50:28 Yeah, look, I guess, again, I sort of make the point that we're kind of just stuck in the past in Australia. We've kind of, we've got these fairy tale stories we like to tell ourselves, and one of them is the sort of tax reforms we did in the 80s as some sort of golden era or implementing the GST was sort of the high watermark of tax reform in Australia. What we need to do is step back and think what's the purpose of collecting tax? Why are we collecting tax? Who



do we want to collect it from? What do we think is fair and the reality is that, because our tax system is basically a sitting target, big new companies that have evolved in the last 20 or 30 years, the Facebooks, the Googles are the most obvious ones, Apple, like from day one, when the companies were set up, they were set up to anticipate how to get around tax laws, like in countries like Australia. So whether or not it's moving towards a transaction tax as Ross described, whether it's other mechanisms for getting multinational companies to pay tax by not sort of setting up these effectively sham agreements, where the little Australian enterprise just takes all of its revenue and gives it to an enterprise in a tax haven, says it was to buy intellectual property, what we have to do is just step back and say, are the companies that we think should be paying enough tax, paying enough tax? And unfortunately, our vision is so blinkered, by decisions that made sense in 1975 or 1987, that they just get in the way of I think genuine economic debate, and more importantly, genuine democratic debate about how, of all the ways that we can collect tax in Australia, what do we think would be fairest? What do we think would be most efficient? These are important conversations. And we've either said, to have them will ruin the economy because it'll scare off foreign investors, that's rubbish, or if we change, we can only change in very narrow windows, like, should we cut the company tax rate? We need to have a much bigger conversation and again, I think that's good economics and good democratic reform.

**Ebony Bennett** 52:50 Thanks, Richard. We're almost out of time but I think we've got time for one last question. This is from Parviz Deema, who asks, How do we deal with the growing economic inequality in Australia and its long term effects on social cohesion? It'll have to be a brief response there, Ross, sorry.

**Prof. Ross Garnaut** 53:08 Well, in my book, I emphasize three things: genuine, full employment, and rising income, rising wages following full employment; and secondly, the minimum basic income; and thirdly, the corporate tax reform. These three things will be very helpful. Now they're not the whole story and other books are necessary to tell the bigger story about income inequality, but these three things that I talked about will make good progress.

**Ebony Bennett** 53:45 And just before we do finish up, I noticed that the book is dedicated to the memory of Papua New Guinea's First Secretary of Treasury and Finance and Governor of the Bank of Papua New Guinea. I just wondered if you could tell us a little bit about that person. And why you've put that in your dedication.

**Prof. Ross Garnaut** 54:03 Mekere Morauta, we've been close friends since we met when he was a student in the very first year of the University of Papua New Guinea back in 1966. And close friends I made in that time have been lifelong friends.

Mekere, when he was appointed Secretary for Treasury before independence, the first Papua New Guinean Secretary for Treasury, asked me to come in and work with him as his deputy, and that was one of the professional highlights of my life. And as I said in his eulogy, which is on the web, he dedicated his life to good governance. And over time, sadly, that became a struggle to overcome corruption, and to try to maintain probity in public affairs. But he never gave up. He never gave up even when, in his last months when, because of COVID, my wife Jen and I were living in the middle of Queensland, so I was able to travel from the bush of Queensland to see him a few times, and then in pain and in distress from cancer, the things he still wanted to talk about were how a poor developing country like Papua New Guinea could implement policies in the interests of the welfare of all people against very strong pressures for corruption of the political processes. So very big personal loss for me, a huge loss for Papua New Guinea. But a life lived well. And, as I said in the eulogy, although the things he built later were dragged down by other people, they proved forever that they could be built.

**Ebony Bennett** 56:24 Well, I'm very sorry for your loss. And thank you for sharing those memories of him. And thank you for the book. I'll just hold it up again here. It's "Reset" by Ross Garnaut, "Restoring Australia after the pandemic recession". It's available from all good bookstores. Thank you so much for joining us today Professor Ross Garnaut and Richard Denniss. Thank you, everyone, for your great questions. I'm really sorry we can never get to all of them. They're always so good. But if we didn't answer your question, the answer is probably here in this book. So race out and grab it now. And please join us in the next couple of weeks for some more exciting webinars. Coming up, we've got the Importance of the Crossbench with Senator Jacqui Lambie. That's next Wednesday, March 3rd at 11am. And the other webinars that you can find, including with a few more authors, like Rick Morton on his new upcoming book, the President of the Senate, Scott Ryan, and a few others coming down the line. You can find all of those details on our website at [australiainstitute.org.au](http://australiainstitute.org.au) on the events page. And remember, stay safe out there. We're still in the middle of a pandemic and the vaccine hasn't quite rolled out except I think to a few politicians this week and a couple of health professionals. So stay one and a half metres away, keep washing your hands and stay safe out there everyone. Thanks and we hope to see you next week. Cheers. Bye bye.

**Prof. Ross Garnaut** 57:52 See you Ebony, see you Richard and see you everyone.