

Unpacking the Federal Budget

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In conversation with

Ebony Bennett

Deputy Director at the Australia Institute

00:00:03:00 - 00:00:32:11

Ebony Bennett

You know everyone. I'm Ebony Bennett, deputy director at the Australia Institute. And welcome to our webinar today, Unpacking the Federal Budget. Thanks so much for joining us. We've got more than 1500 people registered today. So thank you all for being part of this conversation. I'd like to begin by acknowledging that Canberra is an annual and Narrabri country and pay my respects to elders past and present, and note that sovereignty was never ceded and it always was and always will be Aboriginal land.

00:00:32:24 - 00:00:52:23

Ebony Bennett

Just a few Zoom tips if you're joining us for the first time today to help things run smoothly, you can type questions for our panel and put those into the Q&A box on Zoom. You can also upvote other people's questions and make comments on them as well. A reminder to please keep things civil and on topic in the chat or will boot you at.

00:00:53:07 - 00:01:19:16

Ebony Bennett

And lastly, reminder that this discussion is being recorded. It will go up on our website and YouTube channel. That's Australia Institute dot TV later today and will probably also turn this into audio for our podcast. Follow the Money which you can find where we normally listen to podcasts. Thanks so much for joining us today. Obviously Treasurer Jim Chalmers unveiled his inaugural budget on Tuesday night.

00:01:20:00 - 00:01:47:20

Ebony Bennett

Billed as a bread and butter budget, it was primarily designed to deliver on Labor's election promises. It eliminated waste and rorts as Labor has turned them from the previous Coalition government. And Jim Chalmers has also used it as an opportunity to explain to Australians some of the economic headwinds and other challenges facing the budget and the economy at the moment, both globally and locally.

00:01:48:07 - 00:02:14:01

Ebony Bennett

And of course some of you last night may have called Opposition Leader Peter Dutton's budget reply speech last night where he backed in a range of Labor's spending measures, including on childcare. I believe on Radio National this morning he backed the paid parental leave arrangements as well, disaster recovery payments and a whole host of other things, while sharply criticizing labor on energy prices.

00:02:14:09 - 00:02:44:16

Ebony Bennett

And I do believe introducing the idea, one of my personal favorites, which I'm sure will touch on of small modular nuclear reactors, which I've been hearing about for decades, I'm so excited they might be here with us to introduce the discussion of our budget today. I'm delighted to introduce our panel, Sari, which is our executive director, Richard Dennis, who's joining us from elsewhere today, as well as senior economist Matt great enough and research economist Eliza Littleton.

00:02:44:16 - 00:02:59:17

Ebony Bennett

Some of the economists who have crunched the numbers on the budget papers this week. Welcome, everyone. Richard, if I can start with you today. Can you just give us your overall impression of the budget and what people need to know about it overall?

00:03:00:08 - 00:03:28:19

Richard Denniss

Oh, look, I think the overall impression of the budget is that this was a government that was determined to show people that they'd won the election. They were getting on with implementing their election promises, and hats off to them for doing that. They they've introduced a range of spending measures that they promised. They've slashed a whole

bunch of coalition spending, including the \$5 billion Hells Gate Dam that the Australia Institute has been mocking for some time.

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Richard Denniss

But to be clear, this new mini budget doesn't really engage with any of the big problems that have emerged since the election. So that's not a criticism of the mini budget in and of itself, which was let's get the show moving, let's go.

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Ebony Bennett

Richard, they're still I can't hear Richard, so we might check on his technology there and I come back to Richard on that. Matt, I'll come to you next. Looking at the budget. What's your overall impression of the budget and in particular, some of the measures that we saw?

00:04:09:13 - 00:04:33:24

Matt Grudnoff

Yeah. Look, I'm there were quite a few measures in the budget. Most of them we knew beforehand. A lot of them were the election promises. That the government had, and that was simply implementing them. It was interesting. Their cost of living measures were quite interesting. So at the moment, we have an inflationary problem. So if the government just spends willy nilly, it could add to that inflation, which might cause the Reserve Bank to push interest rates even higher.

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Matt Grudnoff

So it can be counterproductive But the measures they actually had were actually designed to reduce inflation because they're actual costs that people have that go into our measure of inflation. The Consumer Price Index Cheaper childcare. Childcare is in the Consumer Price Index. Cheaper medicines. Medicines are in the Consumer Price Index. So when they go down in price, the Consumer Price Index goes down in price.

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Matt Grudnoff

If housing, if that works, that's in the Consumer Price Index and it will reduce costs further. So that was quite an innovative way and one that the Australia Institute has been championing of using fiscal policy to actually reduce inflation.

00:05:09:05 - 00:05:26:19

Ebony Bennett

Yeah, Richard, that's something you wrote about earlier this year to come back to you. The idea that obviously we have to worry about inflationary pressures, so it's much easier for the government to intervene on cost of living around making things where it can control the price of things, essentially.

00:05:27:07 - 00:05:47:24

Richard Denniss

Yeah, that's right. So inflation, of course, is prices going up and prices go up when either the cost of things go up or demand for things rises really rapidly. So you often hear a lot of conservatives saying, well, government spending will just cause more inflation. And to some extent, that's true. But it depends on what the money spent on.

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Richard Denniss

So if we pull tens of billions of dollars into people's pockets and they go to the shops and buy more stuff, then the price of things will probably go up. But if we spend tens of billions of dollars making medicine cheaper, making childcare free, making university fees cheaper, again, there's lots the government can spend money on that actually lowers prices and directly lowers inflation.

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Richard Denniss

So we have to be really careful to avoid this kind of simple fiscal policy. If government spends more, they cause more inflation. That's not true. If they spend money on dumb things at the wrong time, that can cause inflation. They say target it. It can actually more spending can actually cause lower prices.

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Ebony Bennett

Yes. Eliza, I want to come to you next on some of those specific spending measures. Richard, that kind of alluded to a couple of different things. But in particular, I wanted to start with childcare and paid parental leave. It was some of the big I guess, budget reforms in this budget. What can you tell people about those? Yeah.

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00:06:56:10 - 00:07:23:00

Eliza Littleton

So I mean, these were the two kind of headline items, I think, and they were really targeted at increasing female labor force participation. So I think that that was a really big theme that came out of the Jobs and Skills Summit that the government recently held. And these are the kind of the things that the government are doing to start to address barriers to the workforce for women.

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Eliza Littleton

So yeah, the childcare subsidy is going to be lifted for lots of families. They're estimating that 1.2. 6 million families will benefit from this. That's really great. As we've been talking about, brings down the cost of childcare. Of course, it could be a lot better. That policy as well. As Richard said, having free or affordable childcare would absolutely do more to increase female labor force participation.

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Eliza Littleton

And, you know, the government has committed to do a review into the cost of childcare, and I think that's really good because yet what's to stop prices still going up in line with the subsidy which really eliminates the benefits of this policy in terms of paid parental leave? Again, this was something that the Government flagged beforehand. So we've seen an increase in the scheme by six weeks.

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Eliza Littleton

So the total pay parental leave is, is 26 weeks, but that won't come into effect until 20, 24 and then only incrementally by two to two years. Per year, I think it is. So, you know, I think some of the interesting parts of the paid parental leave scheme changes is that the Government has committed to keep a component of that leave as use it or lose it leave for secondary carers.

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Eliza Littleton

So these are usually dads and, and it's great because we know that from international examples in countries where there is a component that's nontransferable we see better uptake among fathers. So, you know, it's a good start. Doesn't include a wage replacement. So this is still minimum wages that people are getting. You know, there's no support component of it.

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Eliza Littleton

So, you know, whoever is taking majority of this leave will be losing out in the end as well. And of course by the time 20, 24 comes around, you know, the OECD average paid parental leave scheme will be higher than the 60 weeks that it is right now. So it will be still quite, quite behind on that. Yeah.

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Ebony Bennett

Matt, those were some of the kind of big ticket items of reform that we saw. But of course tax reform has been on the agenda. The Treasurer kind of opened up some of that debate and there was maybe the hint of a suggestion pre-budget that they might move on stage three tax cuts, but really not much in terms of tax reform in this budget.

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Ebony Bennett

Can you take us through what we're expecting on stage three and the kind of where we expect that that tax reform debate to go from here?

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Matt Grudnoff

Yeah. So stage three is a huge tax cut, about a quarter of \$1,000,000,000,000 over the next ten years mostly goes to high income earners. About half of that quarter of a trillion will go to people earning more than \$180,000 a year. None of it will go to people on the minimum wage, for example. So mostly targeted at high income earners.

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Matt Grudnoff

This this this tax cut will have a big impact on the budget. In fact, if we look at the forward estimates and the budget kind of predicts for years in the future, we can say that, that it actually decreases income tax receipts in the year it comes in. Now income tax receipts haven't gone down since the GFC, so it's been, you know, a long time before we've seen that kind of impact.

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Matt Grudnoff

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In fact, the pandemic the statutory tax cuts will have more impact on income tax than the pandemic had on income tax, the recession. So it's a big tax cut. It comes in, in 20, 24 and when it does it will impact the budget. And the other big revenue reform that the Government kind of missed out on I think is a taxing windfall profits at the moment that the gas industry in particular, but also the coal industry are making huge windfall profits only based on on the war in Ukraine.

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Matt Grudnoff

So it isn't like the gas industry in the coal industry have become better or not reacting. They're not working hard and they're just making those gains and all of those gains at the moment are flowing out to the mostly foreign shareholders and not ending up in Australian hands. And so that was a big opportunity basically to tax gas and coal.

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Ebony Bennett

Yeah, Richard. And that was one of the key kind of criticisms of Peter Dutton's budget reply is electricity prices, gas prices in particular. Of course Australians are kind of paying through the roof prices for gas as these ever on around the world. But why is reform of the way we tax gas so important and what are the options available for government in this space?

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Richard Denniss

Oh look, I mean it just highlights sort of all that's done about Australian policy. To be clear, the Australia Institute predicted ten years ago if we start building enormous gas exports facilities, the price of our gas will treble like, you know, check. Anyone can check the claim. We made it because it was obvious and in evitable. And guess what?

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Richard Denniss

The price trebled because when you link up a small gas market like Australia to the world gas market, then what happens is the price in the small market moves up to meets the meet the world price. So all of this stuff was self-inflicted. It cost \$80 billion, \$80 billion to cause this problem. That's how much was spent on the export facilities in Gladstone.

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Richard Denniss

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\$80 billion. The reason that the private sector spent \$80 billion was they knew they were going to make huge profits exporting our gas to the rest of the world. What they didn't know was that Vladimir Putin would invade Ukraine and disrupt the world gas market so that the price of gas would soar. So at the moment they're making enormous windfall profits.

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Richard Denniss

But to be clear, Saudi Arabia is pretty happy when the world price of oil goes up. Norway is pretty happy when the world price of oil goes up. Qatar, the second largest exporter of liquefied natural gas in the world, is pretty happy when the oil price goes up. Australia is like, oh, no, the price of gas has gone up.

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Richard Denniss

We're the world's largest gas exporter. Oh, no. Oh, how will we cope? And this like this is so dumb. Like we are raking it in at the moment. But when I say we I mean the Australian landmass, but the owners of the profits that come from these aren't you and I who owned the gas, but the foreign companies that have got the rights to sell the gas.

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Richard Denniss

So we spend 80 billion to cause the problem. The problem's now even bigger than we thought because that's, you know, regrets we didn't predict the war in Ukraine, so we underestimated things. And the simple solution, the simple solution adopted by other countries around the world who export commodities like this is to have a windfall profits tax. And a windfall profits tax simply means that when profits fall into someone's lap, they're unearned, they're unanticipated, too.

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Richard Denniss

Why not share them around? Well, we don't have one of those. And our petroleum resource rent tax that sort of supposed to do a bit of that is a complete failure. So here we are at a time when as an energy exporter, we should be feeling richer than we've ever felt. What we've got is consumers saying, gee, petrol's the gas is the electricity's there and oh no, how are we going to cope with all the foreign gas companies who operate in Australia is a big profits from oil, gas and coal or through the roof.

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Richard Denniss

How good is that mining in Australia?

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Ebony Bennett

And Richard, if I can just stay with you for a second. Rod Sims, the former chair of the I will say and I know that HSBC has looked a lot in the past at what's happening with gas companies in Australia, has talked about a couple of other options in the in the short term for government to kind of directly intervene, including, I think, export controls as well as I think there have been suggestions around controlling the actual putting a cap on the wholesale price of electricity.

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Ebony Bennett

What are some of the merits or otherwise of those types of interventions?

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Richard Denniss

Oh, that work which is why we won't do them, because what they would do is they would curtail the profits of the people exporting enormous amounts of gas. If you owned some gas and you could sell it to someone overseas for a lot of money or to someone in Australia for a fair bit of money, which would you rather do?

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Richard Denniss

So of course, if we capped the ability of the gas industry to export, then they would have to sell more here and that would increase the supply here and push the price down. The big lie of the gas industry is, Oh, you don't like high gas prices. Let us drill more gas, let's increase the supply of gas. But the bit they leave out is which will export or will sell to you at the prevailing world price.

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Richard Denniss

So let's be crystal clear. Of course it would lower prices here if we did it. That's why we won't do it. And the other thing, of course, is, yes, we could we could taxes after we've failed to to curtail the exports but clearly it doesn't look like we're going to do that as well, because even though there's a new wellbeing framework in our budget, which is great it's not in Australia's

wellbeing, it doesn't boost our wellbeing to let foreign companies make record profits while we buy record prices the access to our commodities.

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Richard Denniss

But the political power of the oil and gas industry and the coal industry is such that, yeah, we won't curtail the exports and we won't tax the profits from them. And that's why, yeah, great. I will say having a review stack them out there foot high, we know what to do.

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Ebony Bennett

You're going to.

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Matt Grudnoff

Yeah, and I mean the big criticism that the Opposition has come out in the Opposition Leader's budget reply speech last night was that electricity prices are going up. Now we know that electricity prices are going up because that is being driven by gas and the increased price of coal. We know this because if you go over to Western Australia who do have a reservation policy, whose gas prices, domestic gas prices have increased, their electricity prices have an increase.

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Matt Grudnoff

In fact here in the state where 100% renewable. So we're not relying on gas or coal and our electricity prices are actually predicted to go down in the coming year. So we know that that is gas and coal that are driving up prices and we know that we could fix that or we could tax that to help Australians, but we're choosing not to do it.

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Ebony Bennett

And I believe I've confused a couple of people in the chat when I talked about small modular nuclear reactors. I was being sarcastic in my introduction. We might come back to that when we talk a little bit more about energy down the track because I would like to nip that one in the bud. Bud and I did want to come back to you, Eliza on Young People in the budget.

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Ebony Bennett

Budgets are often framed around what's going to be good for families, tax cuts aimed at families, all of those types of things. But I wanted to ask about young people who we know are really, you know, copped a lot of the brunt of the economic pain during the COVID pandemic. And now are really struggling to make ends meet.

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Ebony Bennett

Was there much in the budget for young people?

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Eliza Littleton

Yeah so there are some measures in the in the budget for young people. And as we've talked about, a lot of those measures are kind of more indirectly targeting cost of living. So, you know, things around increasing spots that at university, favorite places at Taif, the social and affordable housing.

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Eliza Littleton

But these are all things that aren't going to have some immediate impacts on on the pressures that particularly young people and people who are on low wages or low incomes are experiencing right now. So, you know, the cost of essentials going up, you know, making higher education potentially more affordable or things like that are not necessarily going to help right now.

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Eliza Littleton

So I think there are still quite a few missed opportunities. You know, one of the the things that the budget revealed was that real wages are not going to go up into 20, 24 potentially. And, you know, that means that things are going to get harder for particularly people who don't have those financial buffers against that these price rises that we're all experiencing.

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Eliza Littleton

So, yeah, I would have liked to see an increase to income security things like jobseeker or study rent assistance to help with the cost of housing. And these are things that we didn't see in the budget I was going to ask about higher education in particular. What was some of

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the elements in the budget around those issues? I know the government's talked a lot about vet placements and things like that, but what are the measures in the budget around higher education in particular?

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Eliza Littleton

Yeah, so one of the main things I think that's interesting and already kind of differentiates this government from the last and this budget from the last is that real funding for higher education is forecast to increase over the forward estimates by 1.3%. The last budget forecast funding to decrease real funding to decrease by 3.4%. And this in part is due to the 20,000 new or additional Commonwealth support in places for domestic students at universities, which is really great.

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Eliza Littleton

Of course that's a that's and these are sorry, these are in skill shortage areas things like teaching nursing I.T. they're also targeted at, you know, disadvantaged students which is good but so it might help with the accessibility element of of higher education, but not a lot. It doesn't have a lot to do with the affordability directly So, you know, we know that under the job ready graduate reforms, which were the coalition government's policy phase, increase by 8% on average for students and also cut university funding by 15%.

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Eliza Littleton

So this policy doesn't do a lot to address affordability and it also doesn't do a lot to address the quality of of teaching and employment at a higher education institutions. And Richard, I wanted to come back to you around the wellbeing budget. I know that's something the Australia Institute kind of has a long history in. Can you talk to us a little bit about why Jim Chalmers has introduced that and how it might change future budgets?

00:22:05:13 - 00:22:38:18

Richard Denniss

Yeah, I think it's a really important question and I think a very important initiative. People perhaps underestimate both the significance of what the Treasurer is saying in this regard and indeed the political risk to him of opening up this conversation, because we kind of have a sort of pretense that in Australia are we, we make our decisions based solely on what's good for the economy, what's good for GDP and you know, we need to broaden the way we make our decisions.

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Richard Denniss

Now some people have probably heard me say before this, this is nonsense. If it's a giant, if, if we just wanted to pursue GDP, it's maximizing economic growth is the number one objective of the previous government. Then there is then they would have had free childcare, right? There's just not an economist in the world that would argue with the fact that significantly increasing the participation of women would lead to a big increase in GDP, lock it away, done, fixed it for you.

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Richard Denniss

But we haven't done that. And we can't afford tax cuts behind some blokes, but we can't afford free childcare, which would predominantly help women in the way we paid that care in Australia. So sounds odd, but step one, we got to get over the idea that politicians only ever think about GDP. It's not true. We're not spending \$250 billion on subs because that's the best way to boost GDP.

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Richard Denniss

We're not spending \$250 billion on tax cuts because that's the best way to boost GDP. But if you say, Can I have some money for health or education or to tackle climate change, oh, I'm not sure that's the best way to boost today. But so step one, GDP Not all it's cracked up to be. Stick to what the wellbeing framework says is, look, we do need whether it's GDP or not, we do need to have a broad a framework for evaluating how we allocate, how we allocate the \$600 billion a year.

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Richard Denniss

The Commonwealth currently spending how should Treasury kind of evaluate all the possible ideas? How should Cabinet, how should the expenditure review committee when they do sit down and they do make hard choices about should we increase unemployment benefits, should we increase, should we increase subsidies for childcare should we cut taxes for low income earners? Should we cut taxes for high income earners?

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Richard Denniss

There's no right answer to these questions. All right. And then anyone that thinks there's a right answer to the decimal place, well, let's let's have a good chat about the limits of economics. But while there aren't right answers, there are better answers and there are

worse answers. And I think what's really interesting in that in that paper, I'd encourage people to read the wellbeing essay in the budget papers.

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Richard Denniss

It's saying what we really do need to have a broad based approach to evaluating these decisions. And so for people with progressive political preferences, there's a lot in this wellbeing framework that's going to help them make the case for why we should be spending more on childcare and why we should be investing more in tackling climate change and why we should be doing more to address Indigenous disadvantage.

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Richard Denniss

So the wellbeing framework is not just a computational tool. In fact, I'd say that's its least useful function, but what it really is is a conceptual tool, a rhetorical tool, an organizational tool that's going to help a lot of advocates for a lot of issues make a stronger case to Treasury and to ministers about why good investments in people and good investments in the environment actually make sense, not just for helping the economy but also helping society.

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Ebony Bennett

Matt, that brings me to the next question that I wanted to ask around housing. There was a big announcement about a million homes, which I tend to be skeptical of, but housing we know there is a big housing affordability crisis. Can you tell people a little bit about what was in the budget on that front?

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Matt Grudnoff

Yeah, so there was a big number in the budget. A million homes but the moment you sort of dug into it, it kind of well, it kind of frayed around, I suppose. So the million homes number seems to be the government going around to, you know, at the federal level of the state level into the private sector, basically looking at everybody who's building a home over a period of time.

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Matt Grudnoff

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And it's not even over five years because it doesn't start until 20, 24. So that's five years from 20, 24. So sort of seven years away that could build a home. And that's where they got that million. No, it's not a million homes that the government's going to build, certainly not a million homes the Federal Government's going to build. You dig deeper into the numbers the government did have a commitment to build 20,000 homes, but that's not just the Federal Government that Federal Government's only 10,000.

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Matt Grudnoff

The other 10,000 will come from the State Government. So I mean housing affordability is one of these issues where it's a huge issue. The public are deeply, deeply concerned about it and politicians are adamant that they won't do anything about it, but they can't come out and say we're not going to do anything about it. So they come out with these schemes not just this government, but the previous government.

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Matt Grudnoff

They come out with schemes to try and make it look like they're doing something, but in reality they're not doing anything much at all. And housing isn't going to become cheaper. It's not going to become more affordable. You know, rents aren't going to dramatically fall. And that's just the reality because the government isn't committed to doing anything in this space.

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Ebony Bennett

While we're still in the idea of wellbeing and things like housing that can really help people's wellbeing. I did want to come to you, Eliza, on gender responsive budget budgeting, something that Australia invented back in the day I believe has abandoned in recent years. What provisions around gender responsive, but what does that look like in the budget papers essentially?

00:28:09:18 - 00:28:38:05

Eliza Littleton

Yeah, so as we say, like it's not a new concept, you know, it's come in and out of Australian budgets and suddenly there's a lot of, you know, gender responsive budgeting. When we look at internationally, we look internationally so it's great, you know, when we're reading the women's statement in the budget the other day to see that the government, the Labor government, has said that they're going to introduce gender responsive budgeting.

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Eliza Littleton

So, you know, and I think they kind of committed to start doing that. This Budget, which is really great but you know, there are a lot of actually limitations in doing that. So firstly, starting with gender responsive budgeting, I think that, you know, it can look quite different depending on whatever the model is. But basically the idea is about delivering gender equality across all policy areas.

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Eliza Littleton

So it's about applying a gender lens to all policy and saying what are the gendered implications? And I think this is significant because it acknowledges that budgets budgets aren't gender neutral, which is something that we we do a lot of work on, right? The stage three income tax cuts have huge gendered implications, and so do the distribution of benefits from public services.

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Ebony Bennett

So it's a great start. And I think what the government is, is going to do is, you know, improve their approach going forward. What they've committed to at this stage is is actually around data collection. So there's a lot of measures around improving the data that's been collected by the government so they can actually implement a gender responsive budgeting, but also increasing transparent see among the business community around gender equality in in, you know, both the public and private sector.

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Ebony Bennett

So, you know, some some they've made some like the right noise around this. And there was some actually quite good analysis around the gender pay gap and things like that. In the women statement, this this budget. But, you know, it's going to be one of those wait and see things. Just before we go to questions from the audience.

00:30:20:12 - 00:30:51:21

Ebony Bennett

And I can say that we've got a whole bunch of questions here. Richard, I do just want to touch on small modular nuclear reactors. Peter Dutton has asked for a sensible national conversation around this idea. If electricity prices are one of the biggest cost of living pressures facing Australians today, where on a scale of one to ten, would you put so much to the nuclear reactors as an investment proposition?

00:30:51:21 - 00:30:53:09

Ebony Bennett

To reduce electricity?

00:30:53:20 - 00:31:26:05

Richard Denniss

It's a sensible question, Ebony, and I think we should have a sensible conversation about it. It really depends. I think the Opposition Leader might be proposing even smaller, even modular nuclear reactors than we've previously discussed. So it is of course hard to debate imaginary technologies. I mean, I for one have long held the view that if someone else can invent zero gravity machines I could quickly get Australia to put Australia's the world's first colony on Mars.

00:31:26:06 - 00:31:52:16

Richard Denniss

I just, I just need someone else to invent the antigravity machines and then we'll be fine. And Peter Dutton is right. If someone can invent shape, quake safe, insurable small nuclear reactors quickly, that can then be installed quickly at low cost. I mean, this could be Game-Changing, this, this could be game changing, really. There's no doubt about it.

00:31:52:20 - 00:32:24:08

Richard Denniss

So let's not dismiss for a minute the potential. The problem is the probability, not the potential. The probability of these new reactors being invented quickly, cheaply, and installed in a time horizon that helps us with anything I would say approaches zero. But, you know, that's I hate to say this is kind of Australian political debate. You know, it's, it's, it's nonsensical to keep throwing these codes on the table.

00:32:24:23 - 00:32:49:02

Richard Denniss

You know, when we need to talk about shoulds, we know what we should be doing and what we're doing it. I fully encourage Australian universities, the CSIRO, to continue to do research into stuff that could come in handy one day but the idea that we stop doing the things we should do because someone might invent something that could work is absurd.

00:32:49:10 - 00:33:25:09

Richard Denniss

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And this is the game we've been playing in Australia for decades. We've played it, we've carbon capture and storage, we've played it with modular nuclear reactors, we've played it with algae, we've played it with seaweed. We're currently playing it with carbon credits and mangroves and blue carbon and so we're doing everything we can to think up an excuse to burn, to stop burning so many fossil fuels like here we are 40 years into the climate debate in Australia wants to build 100 new coal and gas lines and wells, 100 new ones.

00:33:25:17 - 00:33:58:16

Richard Denniss

And we've got Peter Dutton saying, gee, these, these nukes could really change something. So whether it's small modular nuclear reactors, whether it's dodgy carbon credits or whether it's carbon capture and storage the codes are fantastic. But you know, it's ironic that the Liberals always want to be the serious people living in the here and now. Well they've teamed up with industry to become big spruikers of dodgy credits, dodgy nukes, dodgy technologies, anything except specific actions today that would work Hmm.

00:33:59:00 - 00:34:05:23

Ebony Bennett

And I can't help but think they could have potentially gone much further down the road of nuclear while they were in government.

00:34:06:04 - 00:34:16:12

Richard Denniss

90 That's unfair. If I see. I think they went as far as was technically possible, which was nowhere.

00:34:17:09 - 00:34:41:06

Ebony Bennett

And I'm I will come to questions from the audience now, of which there are many. So thank you so much for pulling these out to the panel. I'm Michelle asks, What's the panel's view of the government's lack of commitment to increase income supports like job keeper for the many people living in poverty that get straight to the heart of the cost of living?

00:34:41:06 - 00:34:43:16

Ebony Bennett

Richard, do you want to take that one first?

00:34:43:24 - 00:35:08:09

Richard Denniss

Yeah, it's terrible. I mean, let's be clear. We saw a small increase in wages earlier this year and inflation's already blocked that out. We know that low paid workers are already struggling. We know that those on unemployment benefits are struggling more than anyone else, and we're not doing anything to fix that. And that's a real problem. And these are the things where this wellbeing framework is going to be.

00:35:08:18 - 00:35:36:07

Richard Denniss

As I said, it's great. The government's put it on the table. It's up to people watching this today to see how we're going to use this to to shift this debate. Because how will this for the wellbeing framework, suggest that giving tax cuts to people brackets, mainly blokes earning over 200,000 bucks a year is better for Australia's wellbeing than increasing the unemployment benefits or the age pension brackets, mainly women that where we have people living in poverty.

00:35:36:08 - 00:36:06:02

Richard Denniss

So again, you know, the Government said this mini budget was about implementing the promises I took to the election. They got elected without promising to do anything to help the unemployed. Well, unfortunately that's why there was nothing in the mini budget about that. There's three more budgets and there's another election. How many more years is Australia going to think that, that it's okay to keep sticking with this trickle down economics idea rather than just actually directly intervene?

00:36:06:20 - 00:36:29:23

Matt Grudnoff

Yeah, and look, and if I could just add something. Budgets are great because they're all about priorities. They show the government's actual priorities rather than their rhetoric. And we know from this budget that they're not willing to give anything more to poor people on welfare payments, but they are prepared to give thousands and thousands of dollars, \$9,000 to people earning over \$200,000 a year.

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Matt Grudnoff

So, you know, their priorities are now clear.

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00:36:32:19 - 00:36:59:23

Ebony Bennett

Yeah. And that brings me to a couple of other questions that we've got in here about the the spending in the budget and that being non-inflationary and other things. I've got one question here about the rising cost of the NDIS. Jim Chalmers also revealed well Treasury revealed before the budget as well that how many payments for things like jobseeker and aged care were increasing as well because of inflation.

00:37:01:00 - 00:37:14:04

Ebony Bennett

Richard, how big of a problem is the rising cost of the NDIS and is it appropriate to think of that as a blowout? And what do you think about the discourse of that in this budget?

00:37:14:19 - 00:37:36:13

Richard Denniss

Yeah, look, it's a really good question and it and the problem is that the way we're talking about spending on the NDIS is we're defining the amount of spending as being a problem or not. And of course that's not the case at all. The issue is, is it, is it good that we're doing more to help people with disabilities improve their quality of life?

00:37:36:14 - 00:38:12:17

Richard Denniss

Yeah, great. The outcome is what we're after. The issue that we need to distinguish is, is the spending delivering that outcome. So for me as a citizen and as an economist, the fact that we're spending more to help people live with disabilities find that bit doesn't bother me at all. We're about to drop a quarter of a trillion on some submarines, so I'm not too worried about the cost but that doesn't mean that all of the increase in the cost of the NDIS is actually effectively, efficiently, equitably delivering services to the people with disability.

00:38:12:18 - 00:38:33:18

Richard Denniss

So need it. So I think we need to have a much more nuanced conversation about the blowout in the cost of the NDIS because if the blowout is well, there was more people with more disabilities than we knew and we can help them and their lives are better. Well that's for me that's not a blowout, that's an underspend in the past.

00:38:34:07 - 00:39:05:12

Richard Denniss

But if and there's a lot of market based neoliberalism design and the NDIS if there's fraud and waste and inefficiency and that the NDIS is delivering significant over servicing of some and underserved thing to others. You know we've seen evidence that that's happening in Medicare. You'd be naive to think there's not some of that the NDIS then in that part of the blowout should be of enormous concern to everyone including those people with disabilities.

00:39:05:19 - 00:39:29:18

Richard Denniss

So I think there's a real problem in kind of looking at the spending on the NDIS and say what should the spending be? You know, I think we need to look very hard at, well how do people with disabilities in Australia are we, are we helping them as much as we want to and we've got to separate that from, from just the debate about the cost because we can control the cost by being mean to some people with disabilities.

00:39:30:04 - 00:39:36:12

Richard Denniss

But we could also pose a lot of money in there and just boost the profits of some very profitable service providers.

00:39:37:16 - 00:39:59:03

Ebony Bennett

The next question that I've got is around childcare and paid parental leave a line that I might direct this one to you because I know you looked at this in the budget papers and can you just explain to us why those measures make sense in terms of the economy for women's participation and I guess productivity? Anything else that they have an impact on there?

00:39:59:09 - 00:40:02:00

Ebony Bennett

Why are those measures important in economic

00:40:02:00 - 00:40:34:21

Eliza Littleton

terms? Yes. So I mean, we know that women do a disproportionate amount of unpaid paid work when compared to men in in households. We also know that they're concentrated and as a result of that, they're concentrated in kind of usually more insecure roles, things like part

time work or casual work. They're often working in low wage industries and that has a lot to do with the kind of undervaluation of feminized labor.

00:40:35:20 - 00:41:05:00

Eliza Littleton

So, you know, women are more time poor and they they take on a lot more caring responsibilities. So this is just the reality in Australia, and we know this. So the reason why these kind of this childcare reform and also the paid parental leave scheme are actually helping to lift the barriers to that women face in participating in the labor force kind of on more equal terms as men.

00:41:05:15 - 00:41:33:23

Eliza Littleton

So this, you know, by making childcare more affordable it makes it easier to put children in childcare and take up that additional half day day of work, maybe you know, it means that more women can take on full time roles. And so, yeah, this directly reduces the kind of inequality that exists in the distribution of unpaid care work in in our economy.

00:41:34:02 - 00:41:56:17

Eliza Littleton

And the economic benefits of this is that if productivity goes up if we have more people working, they're paying more tax, which means more revenue that we can we can use to fund the NDIS, aged care, lots of other public services more a better childcare policy maybe. And also, obviously it results in economic growth for the economy more broadly.

00:41:57:13 - 00:42:14:21

Ebony Bennett

But we saw how important it was during the pandemic because one of the first things the Coalition did was make childcare free. Yeah. In particular, they were concerned about essential workers. But to me that really showed just how fundamental that is to the labor market working properly.

00:42:14:21 - 00:42:19:21

Eliza Littleton

Yeah, absolutely. I think that was incredibly revealing, right? They they acknowledged that there was a huge problem.

00:42:20:22 - 00:42:38:15

Eliza Littleton

It showed that the Government Government knows that this is a problem, particularly for women and that they were ready to step in when it meant a potential crisis was on the horizon for the economy. But, you know, on a day to day basis under non-pandemic conditions, they aren't as concerned about that.

00:42:38:15 - 00:42:48:07

Ebony Bennett

Mm hmm. The next question that I've got is actually about how does the petroleum resource rent tax work and why is it failing Matt or Richard?

00:42:48:07 - 00:42:49:10

Ebony Bennett

He wants to tank that one.

00:42:49:14 - 00:43:17:24

Matt Grudnoff

I could have a go at that one. So the petroleum resource rent tax has these enormous loopholes in it, which basically mean that the people who are extracting the companies, extracting the gas have they get to basically write off their entire investment then plus some. And it's the plus some that's huge. And effectively the result is, is they never pay petroleum rent resource rent tax or very, very little of it.

00:43:18:06 - 00:43:50:15

Matt Grudnoff

And the proof of that is in, you know, the massive windfalls that we're currently saying. Recent Australia Institute research show that those windfalls are between 26 and \$40 billion last year and the petroleum resource rent tax increased by less than \$1,000,000,000 they have 40 billion of windfalls and less than \$1,000,000,000 increase in the petroleum resource rent tax. If there was ever a time when it should be collecting stacks of money Right now is the time it should be collecting and it simply isn't and it's because it's riddled with holes.

00:43:50:24 - 00:44:17:19

Richard Denniss

Yeah. Can I just add something to that? So, so that's right. But what the petroleum resource rent tax is, what it's there to do is reflect the fact that the gas industry get all of their old

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mature materials virtually for free, like they take gas out of the ground and they sell gas. Now, that's a good business to be in if I'll give you free gas and then you sell gas.

00:44:18:02 - 00:44:38:04

Richard Denniss

So imagine if I'm a farmer and I was getting free fertilizer. Well, that'd be nice. And then I make some wheat, and then I sell the wheat and someone turns it into flour, and then someone turns it into bread. Imagine I'm a biker and I get free flour. That'd be nice. Well, that's not how capitalism works. It's not how economics works.

00:44:38:24 - 00:45:09:09

Richard Denniss

The only difference with the resources industry is that it's us. You me, the Commonwealth of Australia that owns the coal, that owns the gas, owns the iron ore. It's ours. So what price, comma, if any, should we charge the gas industry for using it? And the moment the answer is by girl, because we use the petroleum resource rent tax as a way to say, here's how much you have to pay for access to the gas.

00:45:09:09 - 00:45:35:17

Richard Denniss

So this is some state government royalties and there's a Commonwealth government patrol in resource rent tax. But it's so badly designed. That is, as Matt said, it collects virtually no tax and that's okay. Right. We're allowed to give free fertilizer to farmers. We're allowed to give free land to property developers, we're allowed to give free anything we want to anyone we want.

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Richard Denniss

But it's pretty odd. That is the world's largest exporter of LNG. We choose to give our gas away at such low prices. The multinational gas companies, it's very, very kind of us. So never sure we might be mean to the unemployed and sure we might these things you when it comes to the disabled, the boy generous when it comes to giving our gas away.

00:45:59:07 - 00:46:15:17

Ebony Bennett

Hmm. And the next question that I've got is I think goes back to that idea of tax reform in general. And Kay Kogan, Matt asks about can the housing crisis for renters and buyers be solved by abandoning negative gearing? I know you've done a lot of research on this.

00:46:15:17 - 00:46:40:19

Matt Grudnoff

Yeah. So there's there's two aspects to the housing crisis that we need to fix. And on the demand side for housing. What we've seen is this massive change in demand. So when the capital gains tax discount, which means that if you earn income in any way, any other way, you pay your marginal rate of tax except for if you earn and capital gains, in which case you pay half as much tax.

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Matt Grudnoff

So there's this huge discount for capital gains and negative gearing combined basically created this huge investor demand for housing. And so all these investors who who had a lot of capital probably owned their own home, plus possibly multiple others have been able to get in the market and bid up the price of houses. And on the other side, the supply side, what we've seen is largely particularly public housing abandoned over the last couple of decades.

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Matt Grudnoff

And and it's sort of basically that the amount of it has been shrinking or not growing, certainly not growing as fast as the population. And so these two things have combined and meant that particularly affordable housing, but old housing, but particularly affordable housing has become really, really expensive and really, really hard to find. And so if you want to fix it, then you need to tackle it on both sides.

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Matt Grudnoff

You need to tackle it by reforming negative gearing and the capital gains tax discount. Incidentally, that would save the budget \$10 billion a year. Those two things. And on the other side, we need to build more public housing. Where could we get the money to build more public housing? All this \$10 million on the table that we could spend every year building more public housing.

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Matt Grudnoff

And the government does build housing. We've got the Defense Housing Association, which basically builds affordable housing for defense personnel. We could expand that and have it

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for all people on low incomes. And the, you know, Defense Housing Association actually breaks even or makes a small profit because getting into the housing isn't expensive and it's not like they're building expensive housing.

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Matt Grudnoff

They deliberately buy a building housing to make it cheap for people. So it's we can absolutely do it. We just have to try to reform that demand side with capital gains tax discount. And negative gearing. And we need to build more public housing.

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Eliza Littleton

Yeah. Yeah. Can I jump in as well? And I think like on top of that, a lot of the measures that, you know, the previous government and even this government have introduced, I'm not I'm not I'm actually kind of feeding into the problem. So things that make make it the things that lower the deposit that people need to front up to buy a house are just doing nothing about the cost of housing and doing nothing.

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Eliza Littleton

They're adding they're actually seeing to it. Yeah, they're increasing the price. So, you know, it might help with the accessibility of housing it. I'm getting people who wouldn't necessarily otherwise be able to afford to buy a house, to buy a house, but does nothing in the long term to actually bring that cost down and make it more universally accessible yeah.

00:49:21:17 - 00:49:46:07

Richard Denniss

Can I just add something very quickly there? I mean, you can always tell is the easy way to spot a neoliberal argument. It always starts with the government couldn't possibly afford to do it itself or the government couldn't. It doesn't have the skill to do it itself. So the easy way to spot on a neoliberal policy solutions is to look at the solutions that they've ruled out first.

00:49:46:21 - 00:50:13:23

Richard Denniss

Right? So to get to all this complicated financial engineering where the government and the superannuation industry are going to combine to unleash a little. But when we unleash and unlock, you know, pools of capital like it all just sounds so wonderful with all that nonsensical

financial language is saying is, oh yeah, well the government couldn't borrow money to build houses.

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Richard Denniss

That'd be crazy. I mean, sure, 10 million other Australians might borrow money to buy a house and think that sensible. But we couldn't do that now, so. So let's run a line through that. We couldn't possibly just step in and do it. The easy way. How can we design incentives to unleash the superannuation industry's pools of capital? That's all code for well, the Government could borrow at three or 4%.

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Richard Denniss

How can we pay the superannuation funds ten or 12% to encourage them to invest our retirement savings in houses? Well, just, you know, deduct for from 12 that I say profit margin for the super fund. They'll sign up for that, you know. I would too, by the way that would be a great investment. But what would be a better investment would be if the government just went, borrowed some money and built some houses in the way it borrowed money to build a \$50 billion broadband network, a \$20 billion inland rail line, an \$8 billion snowy 2.0 and it's going to borrow \$250 billion to build the suburbs.

00:51:22:01 - 00:51:38:20

Richard Denniss

It's just wouldn't either. It's just when you want something we can't borrow the money All right. There's plenty of money. We don't need the superannuation industry for the government borrow money for income producing assets at a loss for half a century or more.

00:51:40:04 - 00:52:05:14

Ebony Bennett

The next question that I've got, Richard, I might give to you as well, Mattie Braden, who is someone living in Lismore where she says climate change is feeling very real. Can you please share your perspective on the climate measures in the budget? And we had other people asking about fossil fuels and things as well. We've already kind of discussed the taxation of them, but what's in the budget around climate change?

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Richard Denniss

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Oh, there's some good measures for causing climate change in the budget. We've kept, we've kept the \$11 billion in subsidies, we've got new money going in the gas development, the Northern Territory yeah. When it comes to climate change, this is a big spending budget when it comes to tackling climate change. Yeah, well there's is the problem. Look, again, you know, the Government went to the election with a modest agenda.

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Richard Denniss

This mini budget implemented that modest agenda. And therein lies the problem. Climate change is urgent. But there was nothing urgent about climate change. But in terms of what the government took to the last election, will it either of its own volition or under pressure from the tables and the Greens do more than it took to the election? Well, time will tell.

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Richard Denniss

But the climate science is clear. The lived experience of people across Australia is clear. We are running out of time to tackle this climate emergency, but to be clear, we're still subsidizing it. There's 100 new coal and gas projects coming and we're relying, you know, Dutton's relying on fictional modular reactors and the Government's relying very heavily on dodgy carbon credits to avoid the simple truth that if you don't believe it for a minute, but if we were transitioning away from fossil fuels then we'd be not building new coal mines right now, we'd be not building new gas wells right now we're actually subsidizing new entrants into the fossil fuel industry at a time where the science

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Richard Denniss

and, you know, organizations, radical entities like the International Energy Agency are saying there's no need and no room for new coal and new gas. But in Australia we stop the lazy to bill into helping gas expansion in the northern Territory. So yeah, grim, grim times for those of us who take the science seriously.

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Ebony Bennett

And Maddy, we hope you enjoy your loved ones are safe in Lismore. And I know you must be dreading another La Nina summer coming towards you. And I know I've got family who've been evacuated in Rochester and other places. So yeah, a lot of people are feeling the impacts of climate change right here right now. Not in, in 2050.

00:54:21:08 - 00:54:40:22

Ebony Bennett

I'm Matt. I wonder if we could talk about where we think the economy is going from here. Basically, Jim Chalmers talked a lot about in particular inflation being the drag. And I have to say in this budget, but looking ahead to the next budget, what can we expect from the economy?

00:54:41:06 - 00:55:03:17

Matt Grudnoff

Yes. Now, the budget also doesn't just, you know, lay out their spending and taxing us to the government. It also predicts what's going to happen in the economy. And they've made some quite interesting predictions. They think inflation is going to go a bit higher and for longer, which means that real wages are going to fall more. As every budget that I've ever done predicts wages are about to explode, they're about to shoot up.

00:55:03:23 - 00:55:44:18

Matt Grudnoff

Don't worry Let's hope this time, you know, particularly with the IR reforms that the Labor Party are also pursuing, that we actually do see an increase in wages. But, you know, forgive me if I'm still skeptical, having been scarred by so many coalition budgets. And we're also expecting the economy to cool down for growth to weaken. And I think that's largely because partly because we've seen some, you know, in the US and Europe, in the UK, the world economy is slowing, but it's mainly actually because the RBA is increasing interest rates because they're worried about inflation and the higher they put up interest rates, the slower the economy's going to grow and the bigger risks that

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Matt Grudnoff

we might have a recession. To be clear, I'm not predicting a recession at all. All I'm saying is, is the RBA is putting up interest rates and that's a risky point in the economy. And the budget papers reflect that by showing a real slowdown, particularly next year in GDP growth, in economic growth.

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Ebony Bennett

The interesting thing about the real wages exploding, you know, in years to come is that they're also forecasting unemployment to go up. So unemployment will go up, but also wages will as well. Which is an odd combination. And Richard, I might just come to you. We've got 4 minutes left to finish up. The treasurer has kind of said that he's out for a national conversation around tax reform.

00:56:28:04 - 00:56:41:18

Ebony Bennett

The Australia Institute has really trying to push the idea that we've got a structural deficit. We need to talk about revenue. We've got growing public spending needs. What do you think we can expect out of the tax reform debate over the next few months in the lead up to the May budget?

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Richard Denniss

Well, I think the next the next couple of months and in particular early next year are going to be a crucial time in Australian politics and to some extent Australian democracy, because for decades for decades around the world, political parties in Western democracies, Labor and progressive and conservative Labor and Liberal have just kind of gone with this idea that instinctively if you cut taxes, it's good for the economy.

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Richard Denniss

Well, we've just seen Liz Truss and I've got to just plug I got a good article in tomorrow's paper on this. I think it's quite nice. But you know, Truss just broke Thatcherism. Like Truss introduced tax cuts that were so big and so dumb that not even the London bankers like them like this is. And this is a new political alignment.

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Richard Denniss

The economics of the trickle down economics never made sense, but the politics of trickle down economics have made really good sense for decades. And that was the politics of high income earners enjoying the actual tax cuts combining with middle income earners that wanted to be rich, agreeing that tax cuts for the top and middle were a good idea and actually not just a good idea for them.

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Richard Denniss

The best way to help the poor. That was the genius of trickle down economics, that the best way to help the poor is to help yourself first And that was Thatcher's genius. And Truss has broken it and it hasn't worked. And here we've got a Labor government stuck implementing Scott Morrison's quarter trillion dollar tax cuts, and it hurts.

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Richard Denniss

And they don't want to, but they've promised to do it. So now Labor's stuck with this tension between Do I keep a promise even though Scott Morrison's promise, or do I actually do what's good for the economy and what most voters want me to do? Now, I don't think politicians should break promises lightly, but if they made the promise to us and we give them permission to break it.

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Richard Denniss

What's wrong with that? Like if I invite you out for dinner and it turns out I've got covered, it's okay for me to cancel. Right. So we need to have a sophisticated conversation about promises as well. Government should take them lightly. The Prime Minister's right to say that he wants to implement what he took. We should have faith and integrity that politicians.

00:59:02:22 - 00:59:27:24

Richard Denniss

But when they promised those tax cuts, there was no war in the Ukraine. We weren't seeing real, real wages growth, real wage reductions. We weren't seeing interest rates rise faster than ever. The promise was made in a different economy. And managing the economy isn't about projections. Managing the economy is dealing with the here and now and making the best decisions we can to set us up for the future.

00:59:28:06 - 00:59:44:07

Richard Denniss

And the promised tax cuts are complete odds with what the Australian economy needs right now. So this conversation that the Treasurer is inviting us into is crucial and the Australia Institute will obviously be participating. But everyone's got to talk about this.

00:59:45:00 - 01:00:08:00

Ebony Bennett

Excellent. Thank you so much, everyone. Thanks to our panel. Richard, Dennis, Matt, great. Off to Eliza Littleton. You can find the Australia Institute's comprehensive budget analysis on our website at AustraliaInstitute.org.au. Thank you all so much for participating in this conversation. It is a Democratic one, not just an economic one, and we appreciate you all coming along and all your fantastic questions.

01:00:08:09 - 01:00:30:08

Ebony Bennett

I always apologize I can't get to all of them, but there are some really great ones in there. You will be able to find out more about rewatch this webinar or listen to it on our podcast. Follow the money. We've also got a little budget wrap that we recorded yesterday that you can listen to there, and this will go up on our website as well.

01:00:31:04 - 01:00:50:02

Ebony Bennett

Thank you so much for joining us today. Don't forget to tune in next week to pole position with Catherine Murphy and Peter Lewis. Obviously that we'll talk about the budget as well, but also the latest Guardian Essential Poll results and the week in politics will cover things like the new air reforms that were introduced this week and a couple of other things as well.

01:00:50:03 - 01:00:54:01

Ebony Bennett

Thanks so much, everyone. Take care out there and we'll see you soon. Bye bye.