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Centre for FutureWork

Briefing Paper:

The October 2022-23 Commonwealth Budget: A Good Start… But Rocky Times Ahead

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Introduction and Summary

Treasurer Jim Chalmers concluded his first Budget speech by noting, "Australians know there are hard days to come, and hard decisions to accompany them." Fortunately, this talk of "hard decisions" ahead does not yet imply austerity measures, which would only make a future downturn worse. Nevertheless, this budget – the first since the election of the Albanese Labor government – is replete with warnings of tough times to come. In short, the main theme of the October budget is the need to face up to the realities of the changed world economy, that were either ignored or unanticipated by the former government in the March budget.

The budget represents a sharp change after a decade of LNP budgets – that varied from the horror 2014-15 budget (that delivered massive and inequitable cuts to government services and programs), to others that were less extreme but still painful. The new budget takes important steps forward on a number of issues affecting workers and labour markets: including new funding to support crucial human services (like ECEC, aged care and community services) and the workers who deliver them, measures to accelerate investments in value-added manufacturing, and initial steps toward repairing Australia's broken wages system. Nevertheless, the government cannot yet say it is "bringing home the bacon" on the big-picture reforms that will be required to build a more inclusive and sustainable economy – let alone deal with the worrisome global economic slowdown that seems to be around the corner. The government seems intent on clearing away a lot of mess from the previous decade, and beginning the path towards restoring equality to the economy. Further steps will be required in subsequent actions, including next year's regular full-year budget, and other initiatives (such as forthcoming industrial relations reforms).

Jim Chalmers, thankfully, did not repeat the foolish mistakes of Liz Truss and Kwasi Kwarteng in the recent UK Budget. There is no sign of trickle-down economics or swingeing budget cuts. However, some regressive policies inherited from the previous government are still in effect (for now, at least): including the spectre of ultra-expensive Stage 3 tax cuts for high-income households, and this year's removal of the low-and-middle income tax offset (LMITO). Both those were inherited from the pre-election budget tabled by the former LNP government.

This briefing reviews the main features of the budget from the perspective of workers and labour markets. We applaud measures designed to improve gender equality and public services (including the extra $4.7bn spent over 4 years on early childhood education and care, and $2.5bn over the same period towards aged care). However, it is clear that the budget's fiscal forecasts continues to rely heavily on increasing consumer spending – despite anticipating real wages to fall sharply. The budget pointedly features a section in the Treasurer's speech titled "Getting wages moving again." It is very much aware of the problem of slow wages, yet also very conscious that it will take time and broader legislative reforms to repair the damage.

Unlike previous Budgets, including the most recent one in March, the government is not relying on one-off "sugar hits" (in the form of gimmicky tax cuts) to distract from the pain of declining real wages. And the budget papers are also honest in recognising that in the next financial year household consumption growth will decline sharply. By this point, Australian workers would have seen their real wages fall for three consecutive years, and hence households cannot be expected to keep spending at high levels. This drop off also coincides with a sharp expected slowdown in economic growth, reaffirming that the key to a strong economy is strong growth in jobs and wages.

Major Budget Outcomes

Total spending in the current financial year is expected to decline from 26.8% of GDP to 25.9% of GDP. This mostly reflects the winding up of the last remaining pandemic measures implemented over the past two years, rather than any "tightening of the belt". Indeed, while spending is expected to decline further in 2023-24, it then rebounds fractionally to 27.0% and then to 27.1% of GDP in the following two years. This is well above the 24.9% of GDP average for spending over the decade prior to the pandemic. This highlights the expanded need of Australians for stronger public services, given population ageing, the continuing pandemic, and the challenges of growing inequality. As we and our colleagues at the Australia Institute have argued for many years, this also implies that Australia needs to seriously look at raising extra revenue given the public demand for expanded government services and benefits.

The revenue picture is perhaps the bright spot of the budget. The extra revenue from soaring commodity prices (due in large part to the Russian invasion of Ukraine) sees total expected revenue for the current financial year (2022-23) increase by $59.6bn just since the March budget, of which $37.1bn comes from increased inflow of company tax.

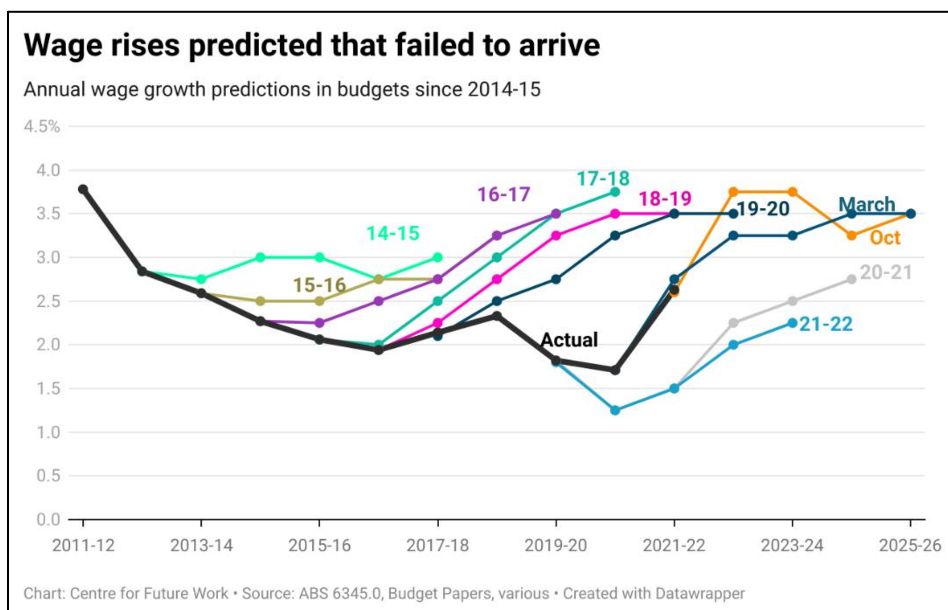
Over the next 4 years, Treasury expects to receive $78.1bn more company tax revenue compared to what was expected in March – a 20% increase. Unlike in previous budgets, this boon in revenue has not been used to deliver either high-end tax cuts or one-off vote-buying gifts that do nothing to address structural problems within the economy. But this revenue boost is likely to be a temporary windfall. In the current financial year corporate tax revenue is expected to total $127.3bn, but that falls to $99.8bn next year (2023-24). This highlights the great missed opportunity in not implementing a windfall tax on the profits of gas companies (as has occurred in many other countries).

This omission is even more pertinent given the budget's estimate that fuel, food and housing prices will massively contribute to inflation over the next two years. Treasury estimates retail electricity prices will rise by an average of 20% by the end of this year, and a further 30% in 2023-24.

The budget's biggest spending measures are quite appropriately targeted at long-term challenges such as gender-equality and the need to improve participation and productivity. Some $4.7bn is to be spent on a "Plan for Cheaper Child Care," which will increase the child care subsidy rate from 85% to 90% for the first child in care, with benefits for all families earning less than $530,000. Some $852m is allocated towards fee-free places in TAFE. Another $540m is budgeted toward the extension of paid parental leave to 26 weeks, and changing the eligibility to treat women the same as men if they are the highest income earner in the family. Some program savings are attained by rejigging infrastructure spending programs of the previous government, and a $3.6bn reduction in the use of external contracted suppliers for labour, advertising, travel and legal expenses across the government.

Wage Growth: Hoping for a Rebound, Yet Real Wages Keep Falling

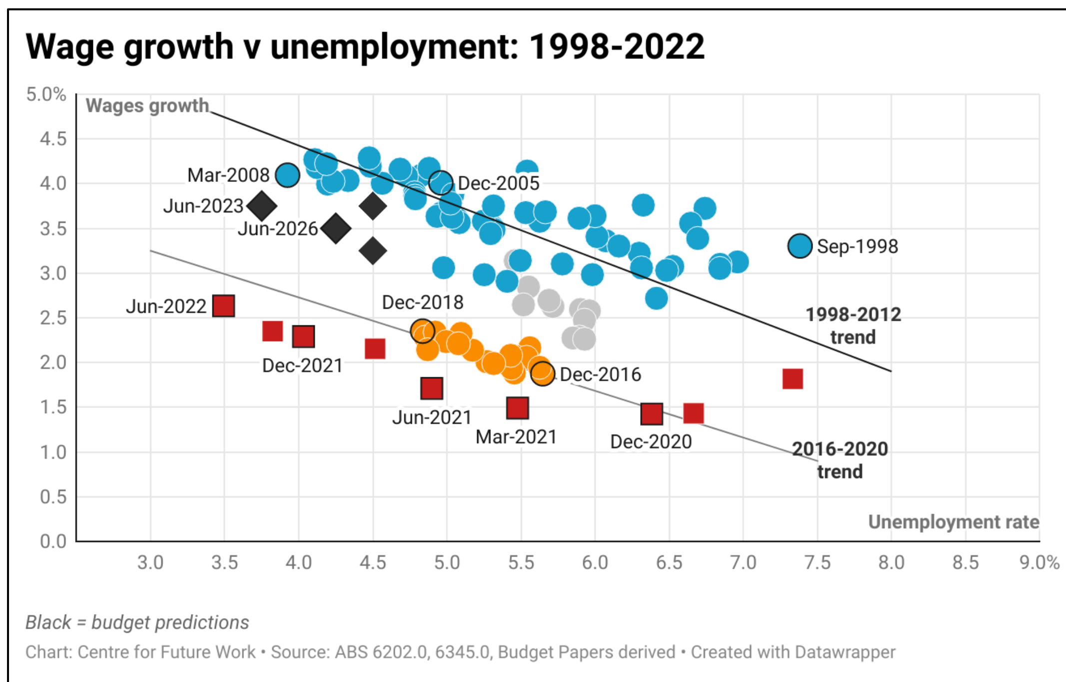
Figure 1



The past decade has seen a bitterly laughable failure of repeated budget predictions for wage growth. Until the most recent budget, which finally had to face up to the realities of weak growth, budgets routinely predicted risings wages, but then were equally routinely shown to be overly optimistic. Figure 1 illustrates the serial failure of past budgets to accurately project wage growth.

The new budget predicts annual average wage growth to accelerate modestly from the current 2.6% to 3.75% by June 2023. It anticipates wage growth will stay at this level through the 2023-24 financial year, before slowing to 3.25% by June 2025. Such growth would be the strongest since June 2012; rather oddly this is to occur despite the government predicting that unemployment will actually rise from its current level of 3.5% to 4.5% though 2023 and 2024. This suggests that we may experience yet another disappointment on the wages front, since higher unemployment usually results in somewhat slower wage growth (see Figure 2). The Budget Papers suggest the opposite is about to occur, anticipating an acceleration of wage growth despite higher unemployment. This implies a wages-unemployment trade-off more typical of pre-2013 history (as indicated in the black diamonds on Figure 2). This would be very much welcome, but should be interpreted with caution. On the other hand, given the government's willingness to undertake structural reforms to support faster wage growth (including higher wage gains for public servants, fiscal support for wage gains in aged care and community services, support for this year's strong increase in the minimum wage, and coming industrial relations reform), some optimism about future wage growth is justified.

Figure 2



In the past the main criticism of repeated woeful wages predictions was that previous governments essentially hoped that wages will rise purely because they wished them to.

This was very convenient for Treasurers, who could then book forecasts of stronger tax revenues arising from those optimistic wage assumptions. Each budget not only failed to acknowledge the deep structural imbalances within the industrial relation system that kept wages down, but also often undertook measures to increase that imbalance.

Fortunately, however this government has done more than just wish for wages growth. The soon to be introduced changes to industrial relations (including measures to allow for more multi-employer collective bargaining, and making it harder for employers to cancel enterprise agreements during the renegotiation process) are a sign that this government understands wages are not purely an outcome of market forces. The budget also contains measures to abolish the anti-union Australian Building and Construction Commission, and also responds to the recent Jobs and Skills summit.

$12.9m is allocated to go towards the creation of Jobs and Skills Australia to provide data analytic capability, advice and leadership on labour market skills and training. Another $20.2 million over 4 years from 2022–23 (and $5.3 million per year ongoing) will go to the Fair Work Commission to establish the Pay Equity and Care and Community Sector expert panels, and a specialised research unit.

Even with those measures, and the optimism about the acceleration of nominal wage growth, the outlook for real wages remains dire. The Budget predicts that average real wages in this current financial year will fall by about 1.9% (since nominal wage growth will continue to lag behind price inflation). This comes off the back of a 3.3% fall in 2021-22 and a 2.1% fall in 2020-21 (see Table 1).

Table 1

Wages and Inflation Growth

	Wages	Inflation (CPI)	Real Wages
2017-18	2.14%	2.08%	0.06%
2018-19	2.33%	1.59%	0.72%
2019-20	1.82%	−0.35%	2.17%
2020-21	1.71%	3.85%	−2.06%
2021-22	2.63%	6.14%	−3.31%
2022-23	3.75%	5.75%	−1.89%
2023-24	3.75%	3.50%	0.24%
2024-25	3.25%	2.50%	0.73%
2025-26	3.50%	2.50%	0.98%

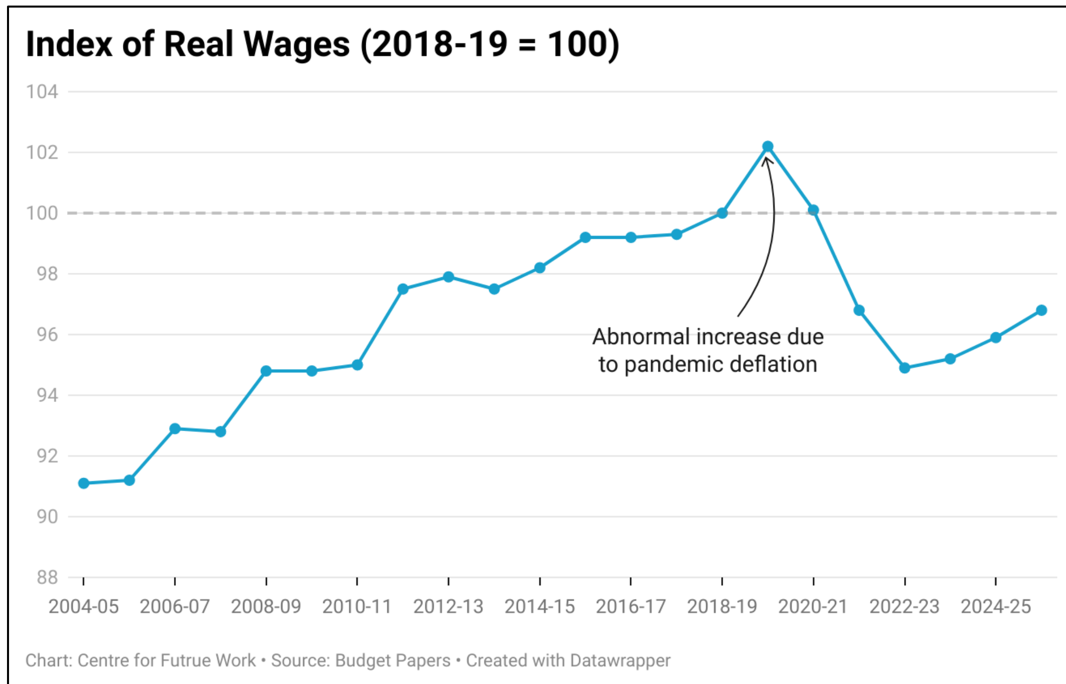
Figures are year growth through to June

Table: Centre for Future Work • Source: ABS, 2022-23 Budget Papers • Created with Datawrapper

Because inflation is now set to rise by more than previously expected, even if improved wage growth does occur, by the middle of 2026 real wages will still be some 3.2% below

where they were prior to the pandemic. By that time real wages in July 2026 will still be predicted to be barely above the level they were 15 years earlier in 2011 (Figure 3).

Figure 3

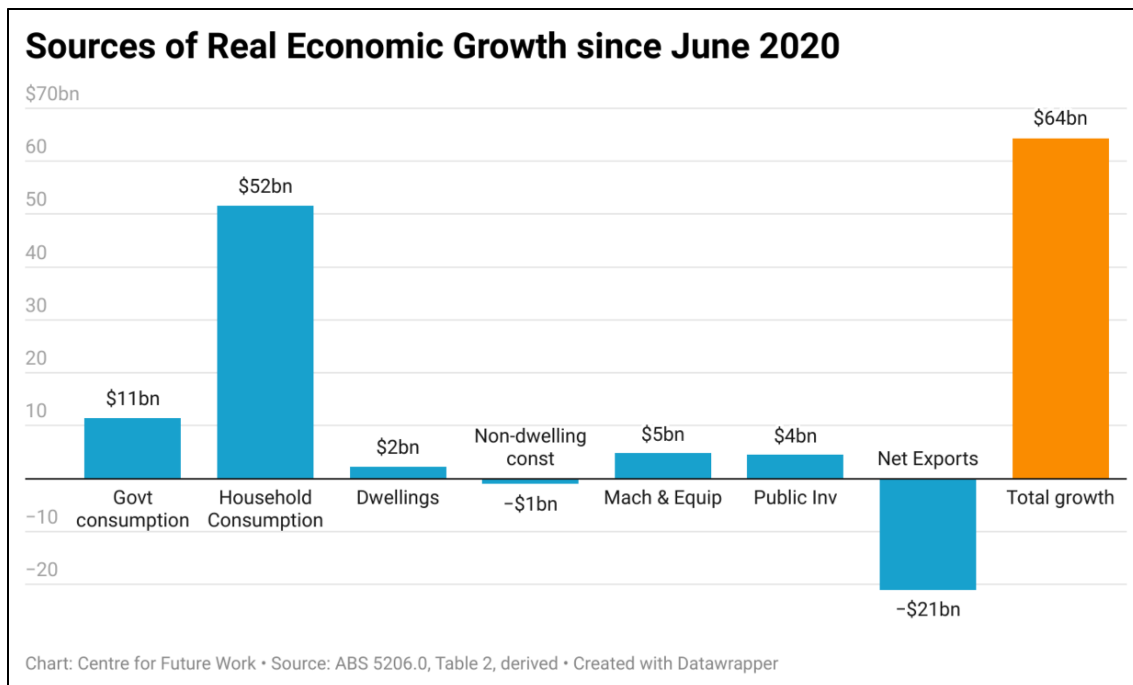


This highlights the extreme damage that has occurred during the pandemic. The full impact of an employer-biased industrial relations system was felt, as wages growth slowed dramatically and then price began to rise quickly. The damage of decades of policy designed to suppress wages by reducing the power and ability of employees to bargain will take a long time to repair. At least with this budget, however, it is clear that the government understands this is a problem.

Households Continue to Power the Economy

Since the depths of the pandemic in 2020 the economy has overwhelmingly relied on households to boost their spending and lead the recovery. Household consumption has provided 80 percent of the growth since the trough of the recession in June 2020 (as illustrated in Figure 4).

Figure 4



This reliance on household spending is set to continue this year, with real household consumption growth expected to hit 6.5%. This would be the fastest growth since 1963-64. Mostly this spending is driven by the return of services after the pandemic restrictions. But it also implies further reduction of the savings rate back to pre-pandemic levels. At that point, however, reality bites – and in 2023-24, after three years of falling real wages, household consumption is set to grow by a mere 1.5%. That is less than half the long-term trend of 3.3%. Not surprisingly GDP growth in that year is also set to fall sharply – from an expected growth of 3.25% this year to just 1.5% in 2023-24.

That weak growth is in line with the recent prediction from the IMF and other forecasters, suggesting a likely worldwide recession as central banks around the world raise interest rates to slow inflation. This would be disastrous for workers, coming as it would after several years of declining real wages. The problem of falling real wages was partly disguised during the initial period of the pandemic with massive levels of stimulus designed to keep the economy afloat. But the withdrawal of these measures has exposed the underlying problems with the economy – much like old saying about an ebbing tide revealing who is swimming naked. Australia's labour market is bereft of cover for workers. For too long weak wage growth has been allowed to continue – disguised somewhat by tax cuts and one-off bonuses. The closure of borders and restrictions on services also led to a massive build-up of household savings, that then enabled household consumption to grow even as real wages fell. But with those savings gone and the "sugar hit" from pandemic payments worn off, households are left to face purchasing power that has gone backwards at a rate not seen for decades.

Labour Market Set to Weaken

The Budget estimates that unemployment will rise to 4.5% next year, as employment growth slows from 3.3% last financial year to 1.75% this year and a mere 0.75% in 2023-24. Given the budget anticipates net overseas migration to increase this year and the next to 235,000 (from last year's 150,000), this implies that the rise in unemployment is as much driven by increase labour supply as by a slowing economy.

We noted after the March budget that the problem is not that migration itself is causing weak employment growth – quite the contrary. Rather, the problem is that these bullish migration forecasts disguise underlying weakness in the economy. As was the case in March, the re-opening of migration should be a spur for growth. Instead, the budget papers reveal it is being used to prop up an economy that will no longer barely grow fast enough to sustain existing unemployment.

Risk of World Recession: The Hidden Story

While the Budget papers do suggest a modest improvement in wages growth, and unemployment remaining below 5%, behind these figures looms the danger of a world recession. The Treasury is not anticipating a recession among the major world economies (including Australia's trading partners), but it does acknowledge that this is a possibility. It notes that "the risks are firmly to the downside" due to the tightening of monetary and fiscal policy across most major economies, the risk of further energy price shocks, and an uncertain outlook in China.

Should the major economies fall into recession, Treasury estimates that Australia's GDP growth in 2023-24 would fall by half from the expected 1.5% to just 0.75%. Perhaps somewhat optimistically, however, Treasury expects that even this should occur, unemployment would only rise to 5%. While this would be historically low for a peak during a recession, given the current rate of 3.5% it would still represent a 1.5% point rise in unemployment. That implies a milder recession than occurred in the 1980s and 1990s. Again, this expectation may prove to be optimistic.

Stage 3 Remains, LMITO is Gone

Perhaps the most disappointing aspect of the Budget is its unwillingness to alter the Stage 3 tax cuts which are due to come into effect in 2024-25. These cuts would see the 37.5% tax rate lowered to 30%, and the 45% threshold raised from $180,000 to $200,000. They represent a strongly inequitable change that would remove much of the progressivity from Australia's tax system. The Stage 3 cuts would also create a structural narrowing of the tax base, at a time when the demand for more government services is growing.

In the March budget, the then LNP government also increased the low-and-middle income tax offset (LMITO) from a maximum of $1,020 to $1,500. This was purely a vote buying gimmick, that provided no ongoing benefit because the entire LMITO was set to end after the 2021-22 financial year.

The withdrawal of the LMITO will now raise taxes for people earning $48,000 by 3.1%. This represents the biggest increase in income tax for them since the introduction of Medicare and the accompanying Medicare-levy. But this tax increase is not accompanied with any new associated services. The Stage 3 tax cuts, if they go ahead, will make the system even more unbalanced, delivering significant savings for high-income individuals despite the higher taxes being paid by low- and middle-income earners.

For example, a median income earner with $60,000 annual income, the removal of the LMITO will see their taxes rise by $1,500, while the Stage 3 tax cut (if it comes into effect) will reduce that by only $375. Only those who earn more than $97,000 will be better off after the introduction of the Stage 3 tax cuts that they were in June this year. While the ongoing revenue loss from the LMITO was certainly high, it pales compared to the Stage 3 tax cuts – most recently estimated at costing $254 billion over the first ten years. The combination of eliminating the LMITO and moving ahead with the Stage 3 plan will cause significant and needless damage to the fairness and efficiency of Australia's tax system, and highlights again that there remains much work to be done to strengthen the ability of the Commonwealth to fairly collect the revenues necessary to fund essential public services in the future. We hope the government reconsiders and fundamentally revises this plan before the net budget.

No Improvements in Income Support

Despite the huge windfall of unexpected revenue – some $158bn over four years since the March budget – the government has not improved funding for JobSeeker and other income support.

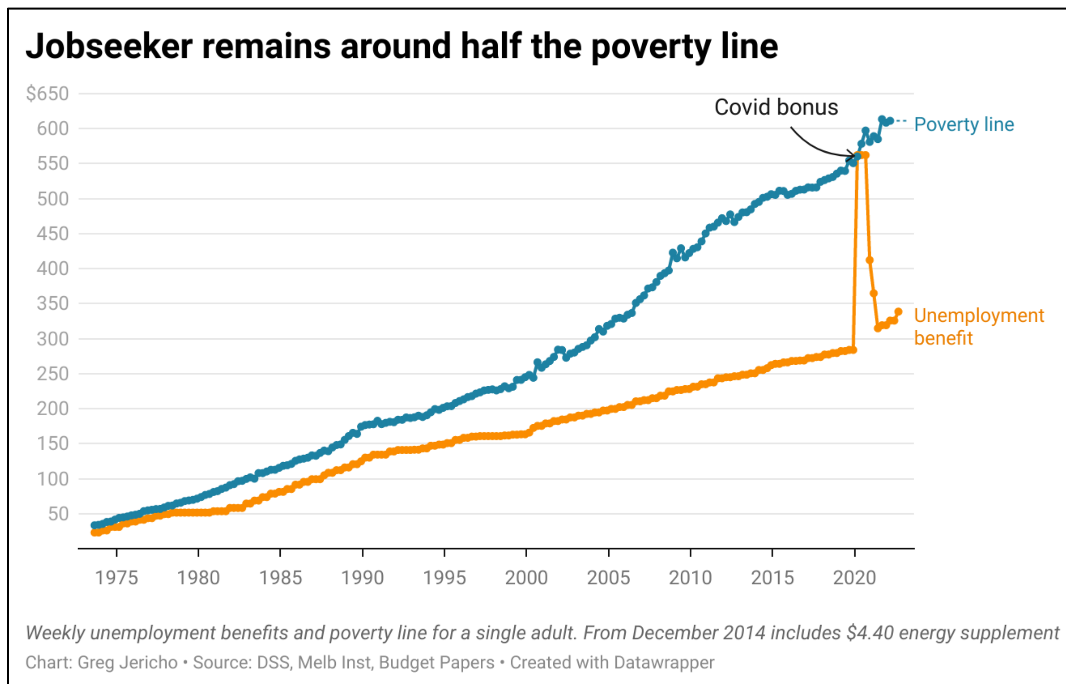
The Budget papers show an extra $9.7bn spent over 4 years on unemployment benefits, compared to what was in the March budget. But this is purely due to higher than previously anticipated inflation (which leads to higher cost for indexed benefits like JobSeeker).

When JobSeeker benefits were increased this year after the June inflation figures, the government boasted that it was the largest increase in benefits in 30 years. But this was purely due to the indexation formula, aimed at preventing a decline in the real purchasing power of those benefits – not actually increasing the level of support provided for the unemployed. Far better would it be for the government to actually be able to boast about a real increase in the JobSeeker rate, rather than one which automatically occurs in response to inflation.

The paucity of the current rate of JobSeeker was made clear during the pandemic when millions of Australians found themselves unemployed due to lockdowns. The Morrison government was forced to effectively double the rate: not only because it was politically impossible to have so many potential voters experiencing such a meagre income, but also because the standard rate would have failed to provide the appropriate level of economic stimulus needed from automatic stabilisers (such as unemployment benefits).

While the government has changed, these issues remain. JobSeeker benefits once again provide income equal to only around half the poverty level (see Figure 5).

Figure 5



For the unemployed, the tyranny and futility of the mutual obligation system also remains, along with the cruelty of poverty. Amidst the government's booming tax revenue, they deserve a real increase in their payments: to not only allow them to live with dignity, but also to enable them the money needed to best help them find work.

Women's Economic Participation: Work, Care and the Gender Pay Gap

The government has rightly identified women's economic participation and equality as a key economic imperative. And the Government has hit the ground running with measures to increase participation and gender equality. A new Women's Economic Equality Taskforce has been established, and measures to close the gender pay gap are among the first industrial relations reforms being introduced into Parliament later this week. The new budget expands the Paid Parental Leave (PPL) program, and increases the Child Care Subsidy. These were presented as key elements of a 'family-friendly' budget, and constitute key pillars of the Government's support for women's economic participation.

Initially the Albanese government was slow to commit to an extension of PPL. A welcome change of heart followed the recent Jobs and Skills Summit, and will see the scheme extended to 26 weeks. However, the main changes will not commence until 2024, and full implementation of the extended scheme won't occur until 2026. Without further improvements to PPL (including raising payments above the minimum wage level, and including superannuation contributions during parental leave), in four years'

time, Australia will still be lagging well behind practices in most other industrial countries.

With announced changes to the Child Care Subsidy (CCS), the government has moved on making early childhood education and care more affordable. Here, too, however, increases in the CCS rate, the lifting of eligibility thresholds, and removal of the activity test for the subsidy for Aboriginal and Torres Strait Islander parents won't kick in until 2023-24. These changes are very small steps in the right direction; they do not go anywhere near the measures needed to establish universal free (or affordable) access to early child education and care (ECEC) services.

The *Secure Jobs, Better Pay Bill* to be tabled in Parliament later this week will contain further proposals designed to tackle some of the central problems contributing to the gender pay gap and women's economic disadvantage. Changes flagged include establishment of equal remuneration as an objective in the *Fair Work Act*, improvement of bargaining arrangements for workers in low-paid sectors, establishment of special expert panels on care and community services and pay equity at the Fair Work Commission, and new bans on pay secrecy policies in workplaces. Each of these initiatives has a part to play in improving equality. It is positive that most are geared to addressing the entrenched and significant problems of undervaluation, low pay, insecure work and high turnover in the feminised care sectors. Workers' wages in these sectors are enormously dependent on government-funding

There remains uncertainty about whether the government's commitment will extend to fully funding any pay increases that might be awarded to care workers by the Fair Work Commission, following the implementation of these new arrangements. There is a long history in aged care and social and community services of government funding falling short of award increases; these shortfalls have been important contributors to ongoing low pay and award-reliance in these sectors. The government's support for increases to aged care workers' wages through the current work value case is on record. However, we are still to see a clear unambiguous commitment to fully funding future pay increases that will hopefully be awarded by the Fair Work Commission.

Industrial Relations: A Start on Needed Reforms

After extensive anticipation, it is now time to bid adieu to the Australian Building and Construction Commission (ABCC). The budget has revealed the defunding of the Commission, with legislation likely to follow in the coming weeks. This will return $61.1 million from the forward estimates to the budget, with some of that to be redirected to the Fair Work Ombudsman for regulating the 'building and construction industry'.

In its time on earth the Commission has been charged with overseeing the eradication of sham contracting and regulating the building and construction industry. A track record of 0 proceedings on sham contracting since 2016 demonstrates its lack of success. Of course, the ABCC hasn't sat on its hands: 91% of penalties imposed by the Commission since 2016 were aimed against the CFMEU. Workers and their unions received far more

penalties than employers, despite mounting evidence of health and safety violations, sham contracting, and other destructive practices by construction employers.

The government also delivered on its promise to abolish the Registered Organisations Commission (ROC). The budget has shuffled the ROC's funding, with some responsibilities shifted to the Fair Work Ombudsman.

Also contained in the budget was another important industrial relations measure, with the Government committing to automatically sunset all instruments and agreements made prior to the implementation of the Fair Work Act 2009. This means the end of notorious 'zombie' agreements created during the previous Work Choices era, which still contain awful pay and conditions provisions. The sunsetting of these agreements is a welcome reform from the Government.

Active Industrial and Energy Policy

Another area in which the contrast between this government and its predecessor is stark is the budget's provisions to support new investments in key Australian industries. The budget contains a suite of ambitious policies to leverage more innovation, capital investment, and value-adding across the broader private sector economy. These measures include:

- The $15 billion *National Reconstruction Fund* will support loans, loan guarantees, and public equity investments in strategic investments and job-creation across seven priority sectors.
- One of those priority sectors is renewable and low-emissions technologies, attracting government support to expand Australia's footprint in renewable energy systems and the manufacturing and supply chains connected to them.
- Another priority area is adding value to Australia's resource production, to reduce the alarming extent to which our exports now consist of unprocessed minerals. A key element of this strategy must be supporting processing, battery manufacturing, and other value-added manufacturing throughout the supply chains for renewable energy technologies and systems. Instead of exporting raw lithium and rare earth minerals, in high demand as the global energy revolution accelerates, Australia must expand its own capacity to manufacture these products with our own resources – and this Reconstruction Fund provides both the mandate and the resources to work toward that goal.
- The government's $20 billion *Rewiring the Nation* program will support badly-needed investments in Australia's fragmented electricity grid – damaged by under-investment and rent-seeking by private power utilities. This program will enhance the capacity of the national electricity system to roll out and integrate renewable electricity sources.
- Further support for the acceleration of renewable energy technologies, and the manufacturing industries which support them, will come from additional programs include the *Powering the Regions* fund, a new discount for electric vehicles, and new

funds for community batteries and solar banks. Our previous research has highlighted the enormous potential to revitalise Australian manufacturing on the basis of these sustainable technologies.

- As part of the government's overall program to support the TAFE system (including 480,000 new fee-free TAFE positions for students), targeted funds will support apprenticeships and skills programs for workers in new energy technologies.
- Major public investments in the NBN and improving internet and mobile connectivity in regional areas will provide further industrial opportunities, if paired with industrial policy actions to maximise Australian value-added content in those investments.

Higher Education

Funding for higher education is also slated to increase according to the Albanese government's first budget – which further sets them apart from the previous government. In May, universities were placed to have their real funding cut by 3.4% over the forward estimates. In this new budget, real funding will rise by 1.3% over the same period. This is in part due to new measures Labor has committed to.

In this budget, the Labor government has followed through on its promise to increase Commonwealth-supported university places by 20,000 over four years. These will be targeted towards disadvantaged students and in areas of skill shortages like teaching, nursing, and IT.

However, while this may address some of the accessibility issues with higher education, it ignores affordability. Under the Coalition's Job Ready Graduate Reforms, university funding was slashed by 15% and student fees rose by 8%. More spots in higher education is a good start, but does nothing to lower the financial barrier for students or improve the quality of education and employment at universities. The new government needs to put its attention to reversing and repairing those damaging policies.

In this regard, the government has committed in this budget to deliver an "Australian Universities Accord". While details are not yet fully announced, this will involve a review of the higher education system involving by a range of stakeholders, with a broad focus. This may be a real chance to tackle systemic problems in the sector: such as corporate governance, insecure work, wage theft in university jobs, the burden of student debt, and political meddling in research.

Conclusion

The October budget clearly reflects many of the new Labor government's priorities. But it is just a start. While there is a decided lack of incremental government fiscal stimulus in coming years, when economic growth appears set to falter, neither has the government engaged in foolish austerity. Meanwhile, there remains much to be done to both increase the level of revenue collected by government, and improve the quality of public services and investments it makes. And if Australia is indeed caught in the

downdraft of a worldwide recession, as many economists expect, the government will need to move quickly with additional injections of investment, stimulus, and income supports.

The Albanese government has been determined to show it is keeping its election promises, while also clearing away the mess of the past decade. That mess cannot be fully cleaned up in one budget. The October budget provides a firm foundation on which to build. But the challenges of low wages, poverty, unaffordable housing, gender inequality, weak investment and innovation, education underfunding, and inadequate government revenue all remain to be tackled in full. With just seven months until the next budget, we will not have to wait long to see whether and how fast this progress continues.