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Centre for Future Work

__Briefing Paper:__

Commonwealth Budget 2023-24: Significant Progress for Workers, Much More to Do

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Introduction and Summary

Treasurer Jim Chalmers opened his budget speech by noting that the government needed to deal with "immediate, near-term challenges – while investing in our long-term national success." The 2023-24 budget might not perhaps meet those grandiose

expectations, but it marks a return to a government that uses a budget to do more than simply reward its base and try to boost poll numbers. In many ways this marks the first real budget of the Albanese government, after the rather stop-gap nature of last October's budget. It reveals a progressive government that seeks to help lower paid workers and those struggling to pay bills, support public health care, and pursue investments towards a net zero economy. But it is very much a first step, and leaves much more work to be done to repair past harms done to workers, low-income Australians, public services and infrastructure, and the environment.

This briefing reviews the main features of the budget from the perspective of workers and labour markets. We are glad the era of cynically believing that new governments should begin their tenure with a "horror" budget – thus to reduce expectations and set up the fiscal ground for future good news – are behind us. There are no significant cuts to vital services or payments in this budget, and no signs of austerity – which would be faulty medicine indeed for an already weakening economy. Some measures such as increased support for Commonwealth Rent Assistance will be greatly beneficial to households, all the more so given the Reserve Bank predicts rental prices will keep rising steeply over the next 12 months. Similarly, we applaud the $11.3 billion allocated to support the Fair Work Commission's award of an interim 15% wage rise for aged-care workers. This is the most significant direct support given towards raising wages we have seen for many years, and confirms that this government supports workers (especially the lowest paid) being fairly rewarded.

Contrary to concerns that a big-spending budget would exacerbate inflation, this budget will have little impact on overall aggregate demand. In fact, it will pro-actively reduce inflation through its new $500 energy relief plan. Because this plan is designed to reduce energy bills by $500 (rather than giving households an extra $500 to offset those bills), it will directly reduce the CPI.[1] This proves that governments can indeed reduce prices, and that the problem of inflation should not be left solely to the Reserve Bank – wielding higher interest rates that hurt the economy more than they help it. While some conservative economists claim this budget will fuel inflation, in reality the forecasts confirm historically slow growth in public demand in both 2022-23 and 2023-24.

Despite these positive measures, the budget also contains disappointing aspects. The Stage 3 tax cuts remain on schedule. And while they are only set to begin in 2024-25, they hang over these budget figures like a dark spectre. The budget year is expected to record a deficit of $13.9 billion. That is billions less than the estimated $21.5 billion cost of the Stage 3 tax cuts in that first year. The small changes to the Jobseeker and Youth Allowance are also less than is desired or required. While we applaud the raising of the single parenting payment eligibility to those with a child aged 14 or younger, the total

[1] Using public subsidies in industries that have been key sources of inflationary pressure (such as energy and housing), to both reduce measured inflation and ameliorate its effects on working and low-income Australians, was proposed in the alternative macroeconomic strategy outlined in the ACTU's Jobs Summit paper, *An Economy That Works for People* (Australian Council of Trade Unions, August 2022), https://www.actu.org.au/media/1450094/actu-job-summit-papers-macroeconomics-10-august-2022.pdf.

cost of that measure plus increasing Jobseeker, the Youth allowance and rental assistance will together cost just $2.35 billion in its first year. That's just one-eighth of the first-year cost of the Stage 3 cuts. Given the massive cost of the Stage 3 tax cuts in subsequent years, this highlights again how budgets are very much about choices.

The budget papers also confirm the economy is far from buoyant. The next 18 months are expected to see economic growth well-below average. Households are reacting to three years of falling real wages, and eleven painful increases in interest rates, by severely constraining consumer spending. Household consumption growth is set to fall to a rate more typical of recessions. Slowing job creation and declining real wages are taking their toll on overall economic growth, highlighting again that the key to a strong economy is strong employment and wage growth.

Major Budget Outcomes

The most headline-grabbing aspect of the budget is the small surplus recorded for 2022-23. But while that $4bn surplus is politically attractive, economically it means little: the budget remains in "structural" deficit, with little prospect of another surplus within the next decade (since the surge in revenues that explains the surprise surplus is not expected to continue). Total spending in the current financial year (2022-23) is expected to decline from 26.7% of GDP to 24.8% of GDP. This mostly reflects better-than-expected GDP growth, but also some shifting of spending into next year. In 2023-24 the government expects total spending worth 26.5% of GDP, rising slightly to 26.8% by two years later. Indeed, so unusual is this year's surplus that had spending in 2022-23 been at the same level of GDP projected over the next four years, the budget would have recorded a deficit of up to 1.1% of GDP. There is no economic benefit to attaining a surplus, only a symbolic political value – and hence the fact this surplus will not likely be sustained is no reason for concern.

The modest increases in overall spending is a response to the continuing need of Australians for stronger public services – particularly in human and caring services (like aged care, early child education and care, disability services, and more). 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's clear demand for expanded government services and benefits.

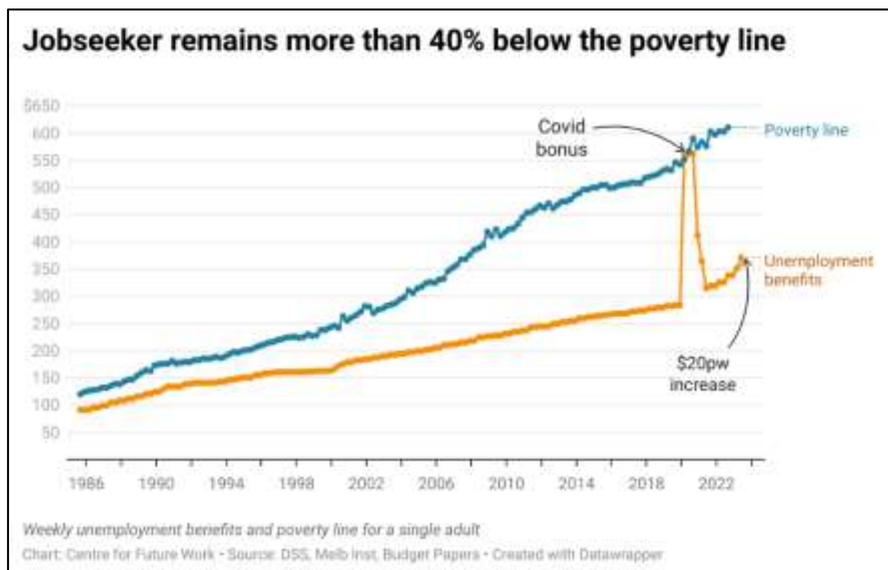
Positive revenue surprises are a key feature of this budget. Out to 2025-26, Treasury expects to receive $48.7 billion more company tax revenue compared to what was expected last October – an 18% increase. Fortunately, unlike previous budgets, this boon in revenue is not being diverted to high-end tax cuts; and new spending measures in the budget have been targeted towards those households most in need of assistance. The revenue boost due to high coal, gas and iron ore prices (resulting largely from the Russian invasion of Ukraine) is expected to last longer than previously anticipated. Nevertheless, the revenue forecasts also highlight the lost opportunity from not

implementing a windfall tax on the profits of gas and mining companies (as has occurred in many other countries).

Indeed, announced modest changes to the Petroleum Resource Rent Tax (PRRT) serve to highlight the scale of that lost opportunity. These reforms mostly shift tax collection from later years to an earlier period, rather than increase ultimate revenues from the sale of Australians' resource wealth. Indeed, over the next four years the PRRT reform is expected to raise less new revenue than will be collected through the increase in tobacco excise. It is telling that gas companies which have made record profits (and contributed mightily to inflation[2]) will see less of an increase in taxes than those (mostly in lower-income households) who smoke.

The budget's biggest spending measures are quite appropriately targeted at long-term challenges such as equality (across both income and gender) and the need to improve economic participation. Some $4.6 billion is to be spent over four years on increases to working age income benefits. This translates, however, to just a $40 per fortnight increase – well below the increase called for by the Australian Council of Social Services. And even with that increase, those on Jobseeker and the Youth Allowance will remain in poverty. It perhaps is a measure of how poorly neglected the unemployed have been for the past decade that this $40 a week improvement will take those on Jobseeker from being around 44% below the poverty line to 41% below it – a position better than any time since 2007 other than during the pandemic (when income support was boosted temporarily by the Coronavirus Supplement; see Figure 1).

Figure 1



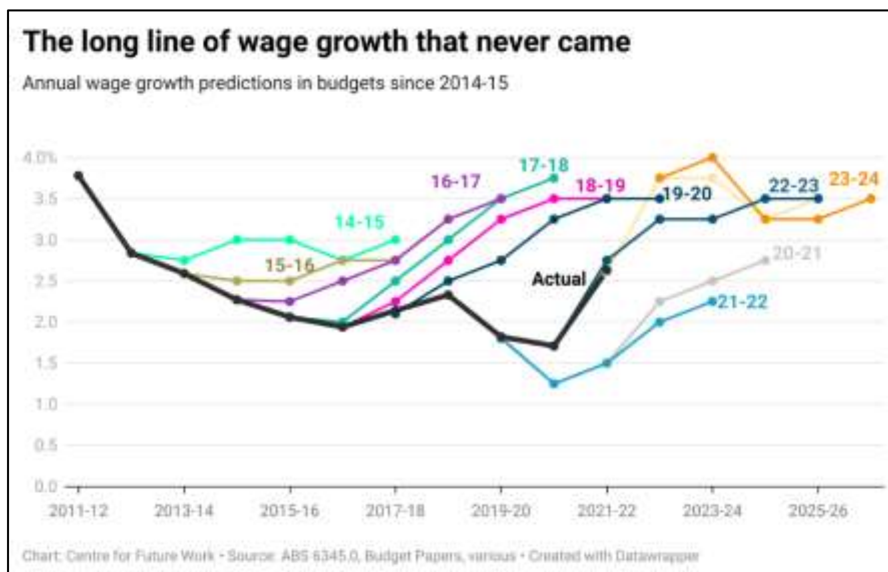
[2] Our research has shown that excess unit profits in Australia, over half of which were captured in the mining sector, explains 69% of the above-target inflation experienced in Australia since the pandemic; see *Profit-Price Spiral: The Truth Behind Australia's Inflation*, by Jim Stanford (Centre for Future Work, February 2023), https://futurework.org.au/report/profit-price-spiral-the-truth-behind-australias-inflation/.

The budget will additionally boost Jobseeker payments for unemployed over 55, mostly affecting women. With the new support for wage increases in the aged-care sector, along with previously announced increases in child-care support and paid parental leave, the government has thus taken several significant steps toward addressing structural biases in the economy against women.

Real Wages Have a Long Way to Go

After a decade of cruelly inaccurate budget predictions for wage growth, this budget once again predicts stronger wage growth but finally with some realism attached. Until March 2022, which saw the previous government belatedly face up to the realities of weak growth, budgets overestimated future wage growth -- which were repeatedly shown by subsequent experience to be overly optimistic. Figure 2 illustrates the serial failure of past budgets to accurately project wage growth.

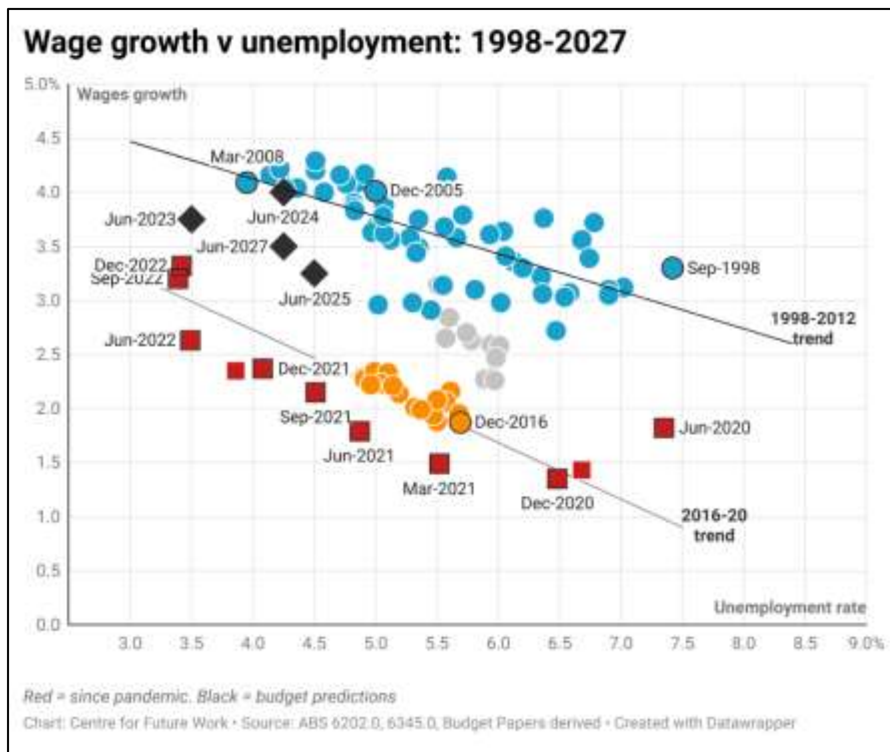
Figure 2



The new budget predicts annual average wage growth to accelerate modestly from the current 3.3% to 3.75% by June. This is unchanged from the prediction in the October 2022 budget, and is largely in line with the most recent estimates from the Reserve Bank's *Statement on Monetary Policy*. It anticipates wage growth will then increase to 4% through the 2023-24 financial year, before slowing to 3.25% by June 2025. In part this reflects the budget's prediction that unemployment will rise from its current level of 3.5% to 4.25% by June next year, and then 4.5% in the following year.

The budget forecast implies a return toward a more traditional relationship between unemployment and nominal wage growth (the so-called 'Philips Curve'). As illustrated in Figure 3, in recent years wage growth has been lower than would be expected given relatively low unemployment – reflecting the structural shifts in the labour market favouring employers over the last decade. Under the budget forecast (the black points on Figure 3), accelerating wage growth would approach the pre-2013 pattern.

Figure 3



However, the budget also acknowledges that interest rate rises are "squeezing households" and that "there is potential for further disruption as the economy and financial sector continue to adjust to higher interest rates." This suggests significant downside risks facing wages growth. In other words, we may experience another disappointment on the wages front, if the economy slows more than expected and unemployment rises further. On the other hand, stronger minimum wage increases (hopefully including one announced soon by the Fair Work Commission), better wage gains for Commonwealth public servants, fiscal support for higher wages in aged care and community services, and the industrial relations reforms passed last year[3] all provide some optimism that this predicted wage growth will come to fruition.

Even under this forecast, workers will continue to struggle to recover lost real wages. While this government has shown a willingness to start rebuilding workers' ability to negotiate fairer wages, the damage of past structural changes (including eroding bargaining coverage, deunionisation, and the rise of insecure work) remains immense. The budget predicts average real wages in this financial year will fall by about 2.1% (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 2.0% fall in 2020-21 (see Table 1).

[3] Our research shows that by rebuilding collective bargaining coverage in Australia (reversing the sharp decline since 2013), those IR reforms will significantly boost wage growth in coming years; see *Collective Bargaining and Wage Growth in Australia*, by Jim Stanford, Fiona Macdonald, and Lily Raynes (Centre for Future Work, November 2022), https://futurework.org.au/report/collective-bargaining-and-wage-growth-in-australia/.

Table 1

Wages and Inflation Growth

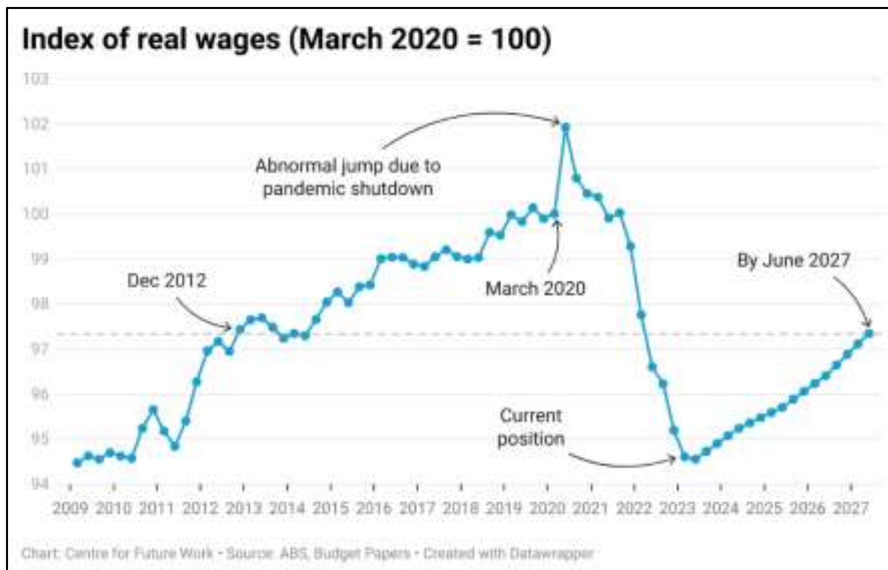
	Wages	Inflation (CPI)	Real Wages
2017-18	2.06%	2.08%	-0.02%
2018-19	2.41%	1.59%	0.80%
2019-20	1.75%	-0.35%	2.10%
2020-21	1.79%	3.85%	-1.98%
2021-22	2.64%	6.14%	-3.30%
2022-23	3.75%	6.00%	-2.12%
2023-24	4.00%	3.25%	0.73%
2024-25	3.25%	2.75%	0.49%
2025-26	3.25%	2.50%	0.73%
2026-27	3.50%	2.50%	0.98%

Figures are year growth through to June

Table: Centre for Future Work • Source: ABS, 2023-24 Budget Papers • Created with Datawrapper

While inflation rates are now expected to be less than previously projected, wages growth from 2024-25 onwards is also expected to fall below previous expectations. As a result, even if the wage trajectory predicted by the budget is realised, by mid-2027 real wages will still be 2.5% below their level prior to the pandemic. By that time (July 2027), real wages would roughly equal their level 14 years earlier, in 2014 (Figure 4).

Figure 4



This highlights the extreme damage that has occurred to real wages since the pandemic. The full impact of an employer-friendly industrial relations system was felt, as wages growth slowed dramatically even as prices began to rise quickly. The damage of decades of policy explicitly 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, on top of

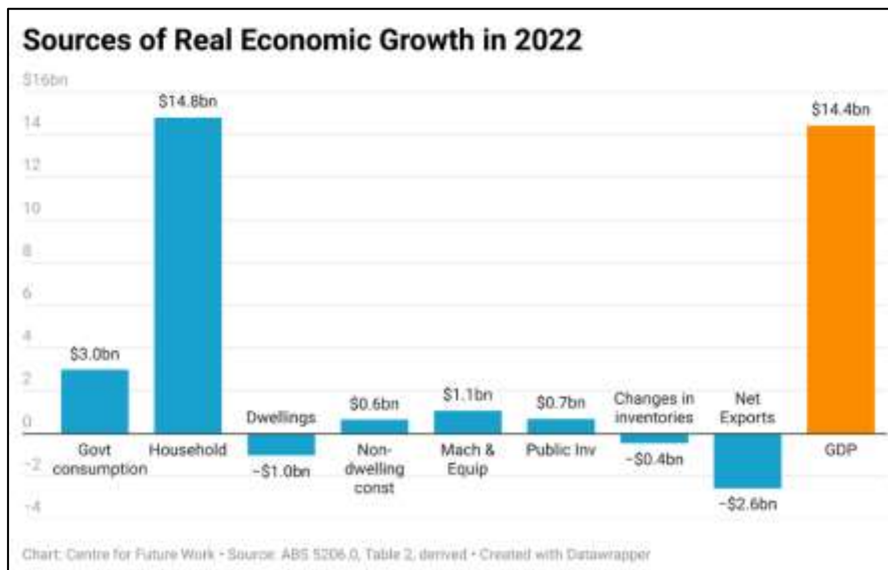
the IR reforms passed last year, it is clear the government understands the problem,a nd is prepared to do something about it – especially for the lowest paid in care sectors.

Households Hurting as the Economy Slows

Since the depths of the pandemic in 2020, the economy has overwhelmingly relied on household spending to lead the economic recovery. Household consumption has provided 74 percent of all GDP growth since the trough of the recession in June 2020, and effectively *all* of the growth last year (as illustrated in Figure 5).

But this reliance on household spending was never sustainable, so long as real wages continued to fall and interest rates rose. And in 2023-24, the reckoning is about to occur. Real household consumption growth is expected in the budget to equal only 1.5%. This would be the slowest growth outside of the pandemic year since the Global Financial Crisis in 2008-09, and is less than half the long-term trend consumption growth rate of 3.3%. Not surprisingly, GDP growth is also set to fall sharply: from an expected growth of 3.25% this year to just 1.5% in 2023-24. Since household consumption constitutes over half of all GDP, the crisis in the cost of living facing working people must inevitably translate into slower growth for the whole economy.

Figure 5



That weak growth is in line with the recent predictions from the RBA and other forecasters, which anticipate a worldwide slowdown and possible recession as a result of central bank actions around the world (raising interest rates to slow inflation). The massive stimulus measures that kept the economy afloat during the pandemic hid the underlying crisis of falling real wages. But now those emergency measures have been withdrawn, and built-up savings accumulated during the lockdowns (when people were unable to spend their disposable income) have largely dissipated, the true financial challenges facing households have been revealed. With household purchasing power falling to levels not seen for a decade, it is little wonder that consumers are expected to

largely shut their wallets. The latest retail figures showed a second consecutive quarterly decline in the real volume of household spending in the March quarter. This reconfirms that households' ability to keep powering economic recovery will be sacrificed, unless and until workers once again see their wage growing faster than prices.

Unemployment Set to Rise

The budget estimates that the unemployment rate will increase to 4.25% next year, as employment growth slows from 2.5% this financial year to 1% in 2023-24. The budget anticipates net overseas migration this financial year of 400,000, with 315,000 more the next year. This implies that the rise in unemployment is as much driven by increase labour supply as by a slowing economy.

The problem is not that migration itself is causing weak employment growth – quite the contrary. Rather, these figures highlight that expansive migration forecasts are hiding a deeper underlying weakness in the economy. As we noted last October,[4] increased migration should be a spur for growth. Instead, the budget papers reveal that the economy is likely to suffer a 'per capita recession' (in which real per capita GDP declines for two consecutive quarters), since all of the growth that does occur will be driven by population increases rather than more output per person.

Global Uncertainty

While the budget papers expect unemployment to peak at 4.5%, and wage growth to peak at 4%, all the risks are on the downside. The Treasury anticipates a recession in the UK this year, and a near-recession in many other major world economies (including Australia's trading partners). The U.S. economy, for example, is expected to grow just 1% this year and 0.75% in 2024. The budget notes that "elevated core inflation, sharp rises in interest rates and tighter financial conditions are all expected to constrain growth in advanced economies." Moreover, it observes that "the full effect of the rapid tightening in monetary policy has yet to flow through the global economy."

These risks are acute, given Treasury estimates that if world economic growth was to slow to 2% in 2023 and 2024 (rather than the current forecast of 2.75% and 3%), then Australia's economy would grow just 1.25% in 2023 and 1% in 2024. For workers this would be extremely damaging: Treasury also estimates that under such a scenario, unemployment would rise to 5.25% in June 2025 (rather than the 4.5% anticipated in the budget).

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

[4] See *The October 2022-23 Commonwealth Budget: A Good Start… But Rocky Times Ahead*, by Greg Jericho et al. (Centre for Future Work, October 2022), https://futurework.org.au/wp-content/uploads/sites/2/2022/11/Commonwealth_Budget_CFW_Brief_Oct2022.pdf.

37.5% tax rate lowered to 30%, and the lower threshold for the 45% bracket raised from $180,000 to $200,000. They constitute a strongly inequitable change, that would remove much of the progressivity from Australia's tax system. The Stage 3 cuts would also narrow the tax base, at a time when the demand for government services is growing. The massive cost of these tax cuts ($21.5 billion in the first year, much mor in subsequent years) is something the government must reckon with in next year's budget.

At the same time, ironically, the budget proceeds with the previously-legislated removal of the Low and Middle Income Tax Offset (LMITO). The LMITO was an ad-hoc measure, worth up to $1080, implemented by the previous Coalition government. It was designed to insulate the government against criticisms that its tax cut plan would actually increase taxes for many lower- and middle-income households.[5] Its removal, resulting in higher taxes for many families of modest means while taxes are set to fall markedly for high-income households, only exaggerates the negative impact of the combined changes on the progressivity of Australia's tax system.

Structural Change Required for Gender Equality

Ahead of the budget, Katy Gallagher, Minister for Women and Finance, claimed that "this is the strongest budget for women in the past 40 years."[6] If true, this suggests the bar was pretty low. Most of the budget's announcements on gender issues are a rebadging of previously announced policies, including: the expanded Paid Parental Leave (PPL), the increase in the childcare subsidy, and improvements in pay transparency.

The taskforce charged with advising the government on women's economic equality identified six actions for the government to take up this budget.[7] The good news is that the government took some of the advice of that taskforce:

- Single parents on the Parenting Payment, 96% of whom are women, will continue to receive $67.80 per day until their child is 14 (instead of that payment falling to $49.51 per day after the child turns 8).[8]
- The ParentsNext mutual obligations system will be axed, relieving people on the Parent Payment of punitive employment activities formerly imposed when their child turned 6 months old.

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[5] For more on the history and evolution of the LMITO, see "The stage-three tax cuts are bad economic policy – and a dumb political strategy, too," by Greg Jericho, *The Guardian*, 19 April 2023, https://www.theguardian.com/business/grogonomics/2023/apr/20/the-stage-three-tax-cuts-are-bad-economic-policy-and-a-dumb-political-strategy-too.

[6] Barlow, K. & Rollins, A. (2023) *Federal budget: Katy Gallagher announces abolition of 'pretty punitive' ParentsNext program*, https://www.canberratimes.com.au/story/8182765/i-think-we-could-do-better-punitive-program-axed-in-women-centred-budget/?utm_source=sfmc&utm_medium=email&utm_campaign=

[7] Women's Economic Equality Taskforce (2023) *Letter to the Minister for Office for Women,* https://www.pmc.gov.au/office-women/womens-economic-equality/womens-economic-equality-taskforce/letter-minister-office

[8] DSS data

- Aged care workers (most of whom are women) will receive a 15% wage rise, thanks to an additional $11.3 billion slated for the sector. However, there is some concern that workers not paid under a Modern Award may not receive these wage increases.[9]

- Commonwealth Rent Assistance will be increased by 15%, costing $2.7 billion over 5 years. This is a welcome measure, however, it will average to just an additional $31 per fortnight (because the CRA rate is so low to begin with).

Other important gender reforms, supported by advocates and researchers, were not implemented by this budget:

- The Childcare Subsidy activity test is maintained, placing continuing pressure on parents raising children to pursue often pointless employment search activities. Research has suggested this activity test can have perverse impacts on the long-term employment success of parents.

- No mention was made of extending superannuation contributions to primary carers on paid parental leave, 87% of whom are women.[10]

- Other care workers (in sectors other than aged care) will not receive support for general wage rises under this budget. The budget did contain a $72.4 million initiative to retain and recruit more early childhood education and care workers.

Once again, the progress made toward gender equity through this budget (and other government initiatives) is heartening. But the question remains: is enough being done to address the core drivers of gender inequality in Australia's labour market?

Our previous research shows that a woman on median income her entire working life will earn $1 million less in today's dollars than her male counterpart.[11] Continuing gender pay gaps in Australia are driven by the uneven distribution of women across different industries, occupations, and employment statuses; by the undervaluation of traditionally feminised work; and by the disproportionate amount of unpaid work performed at home by women. The most effective ways to address these structural issues would involve restoring free childcare; equalising the take-up of paid parental leave between men and women, and expanding it to 52 weeks (the OECD standard); and significant wage rises for all workers in the care economy.

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[9] Evans, J. (2023) *Nurses union fears nursing homes won't pass on historic $11.3 billion budget commitment to boost aged care wages,* https://www.abc.net.au/news/2023-05-04/nurses-union-warns-no-obligation-aged-care-wage-rise/102302252?utm_source=sfmc&utm_medium=email&utm_campaign=abc_news_newsmail_pm_sfmc&utm_term=&utm_id=2080368&sfmc_id=371231535

[10] Workplace Gender Equality Agency (2022) *WGEA Scorecard 2022: The state of gender equality in Australia*, https://www.wgea.gov.au/publications/australias-gender-equality-scorecard

[11] Littleton, E., and Jericho, G. (2023) *The Times They Aren't A-Changin (enough),* https://futurework.org.au/report/the-times-they-arent-a-changin-enough/

Valuing Paid and Unpaid Care Work: A Work in Progress

The Albanese government came into office with strong commitments to address the crisis in care systems, and to better value work and care. The government has acknowledged both the importance of care to women's economic equality, as well as the urgent need to improve formal care systems.

Important progress has been made and, with this budget, the government can tick off many of its 2022 election commitments. The government is delivering on promises that include less expensive early childhood education and care (ECEC) services, expanded paid parental leave, and wage increases for aged care workers. Yet each of these and other identified priority areas for better work and care remain unfinished business. Importantly, much of the work still to be done will require major reforms – and much more investment.

A prime example is ECEC. The government has committed $55.31 billion over the next four years, $9 billion more than in the Coalition's March 2022 budget, to make ECEC more affordable for families through higher childcare subsidies and expanded eligibility. However, the need for further reforms is widely acknowledged – as called for by the Senate Committee on Work and Care, the Women's Economic Equality Taskforce, and the Economic Inclusion Advisory Committee. All these inquiries called for the removal of activity tests that limit eligibility for ECEC subsidies for many parents, mainly women in part-time jobs.

Moreover, it is broadly recognised that increasing subsidies may not lower costs for some families. Australia's childcare costs are some of the highest in the OECD. In our market-based ECEC system, the Government has few mechanisms to ensure subsidies do result in lower costs for families (rather than going into the pockets of private providers). The current Productivity Commission Inquiry into ECEC (scheduled to report in June 2024) is likely to make recommendations for substantial reforms in this sector.

There are other positive aspects in the budget. We applaud the new support for building and retaining the ECEC workforce ($72.4 million over 5 years from 2022–23), through various initiatives to facilitate access to training. However, the key retention problems for this workforce are low pay and overwork. The government's recent industrial relations reforms have laid the ground for unions to pursue wage increases for this low paid workforce; it will then be up to the government to fund any increases achieved.

As noted above, the budget's allocation of $11.3 billion to fund the 15% wage increases awarded to the aged care workers by the Fair Work Commission is a much-needed boost. Other budget commitments, including to establish a National Worker Registration Scheme and invest in new regulatory and quality frameworks, act on recommendations of the Aged Care Royal Commission, and are also in line with the government's election commitments. The Aged Care Work Value case that produced the Fair Work Commission order for 15% wage increases is still underway, and unions are

seeking a further 10% wage increase. Proper recognition of the value of aged care work may well see some further wage increases awarded.

After addressing inadequate NDIS pricing in 2022, the focus for NDIS policy has now seemingly shifted to reining in future spending growth. However, there is some investment in this budget to build public sector workforce capability in the National Disability Services Agency, which oversees the NDIS. This is very welcome after years of outsourcing key NDIS oversight functions under respective Coalition governments. The bigger workforce problem for the NDIS is to ensure fair pay and working conditions for the much larger disability support workforce. As with the other feminised care workforces, this will require structural reform.

Tertiary Education: Little to Say, Much Left to Do

Tertiary education was largely overlooked in this budget. This may come as no surprise, as the government has made previous commitments to improve both university education via its Universities Accord, and the vocational education system through the National Skills Agreement. But ignoring the systemic funding, employment, and educational access problems increasingly evident in tertiary education will have broad consequences for Australians.

Our previous research showed that despite the long history of policy mismanagement in vocational education, the TAFE system still makes an estimated $92.5 billion annual contribution to Australia's economy.[12] Meanwhile, public universities contribute $40 billion in export value and pay out $20 billion in wages – supporting jobs, growth, and tax revenues throughout the economy. More than just a 'cost' item on the budget, then, tertiary education is integral to Australia's economic development: training the future workforce, and facilitating new innovations and technologies.

Although meagre, the budget did make some commitments for universities and TAFE institutions, workers, and students. As expected, the Government will provide $5.5 million in 2023-24 to the National Skills Agreement with states and territories, aimed at coordinating funding and making the VET sector more responsive to evolving skills demands. The Government will also support increased fee-free TAFE places in critical and emerging sectors, to a total of 300,000 places.

University funding will increase in nominal terms over the forward estimates by 16%, mostly on the strength of a previously announced expansion in Commonwealth-supported student places. However, the university sector's real funding base lags far behind. Real funding will modestly rise by 4.4% over the forward estimates, despite the expectation of enrolment growth. In real per student funding terms, the decline in university funding imposed by the Coalition's Job Ready Graduate reforms will only be arrested, not reversed.

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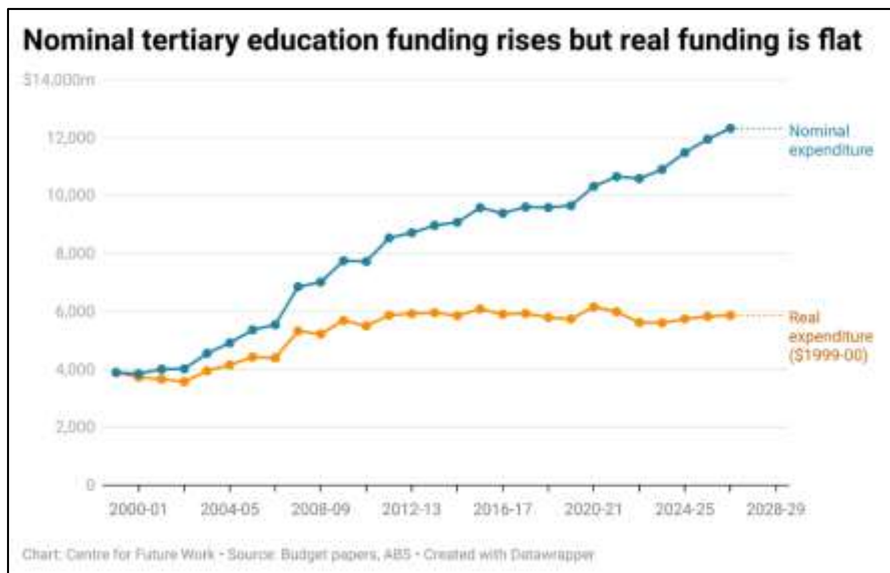
[12] See *An Investment in Productivity and Inclusion: The Economic and Social Benefits of the TAFE System*, by Alison Pennington and Jim Stanford (Centre for Future Work, August 2020), https://futurework.org.au/report/an-investment-in-productivity-and-inclusion/.

Figure 6



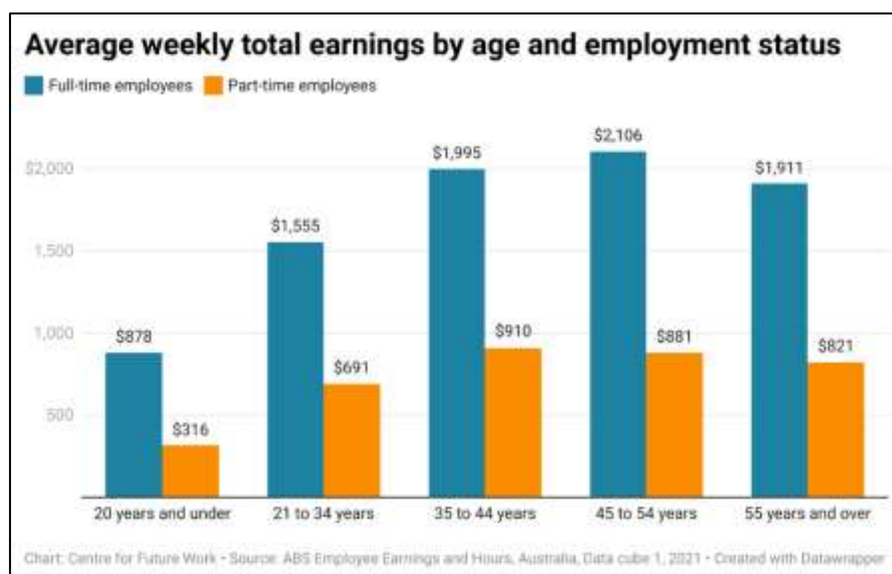
Some other modest funding announcements were made for higher education. For example, the government will repurpose savings from the department to expand student support programs – including improving access for people with disability, and attracting more women to STEM cadetships and apprenticeships.

With little new commitment in this budget to addressing the pressing crises facing tertiary education in Australia, the pressure mounts for other government initiatives – like the Universities Accord, and Jobs & Skills Australia – to undertake more fundamental structural reforms.

Young People Miss Out

For a cost-of-living budget, there was not much help offered for one group that is particularly affected by higher prices: young people. Young people earn some of the lowest wages, making them particularly vulnerable to the effects of inflation. Workers aged 21 to 34 earn on average $1,207.90 per week – 29% less than those between 45 and 54 years, and 13% below the average for workers of all ages. Even accounting for the fact that young people are more likely to work in part-time and casual jobs, they still earn much less (see Figure 7).

Figure 7



Pre-budget, the Economic Inclusion Advisory Committee urged the Government to raise benefit rates in working-age income security programs, including JobSeeker and Youth Allowance. The Committee criticised existing benefit levels for being "seriously inadequate," and subjecting the people living on them to the "highest levels of financial stress in the Australian community." In response, the government is increasing the base rate for working-age and student payments by $40 per fortnight, as of September 2023. This raises the daily payment of JobSeeker to $52.40 and for Youth Allowance to $43, still 41% and 51% below the poverty line respectively. For context, people working full time on the minimum wage live on $116 per day. Raising these poverty-inducing benefit payments was quite rightly a top priority for a cost-of-living budget. These payment increases are clearly inadequate.

Another example of the government having the right priority, but not providing enough funds to achieve the desired result, was the increase in Commonwealth Rent Assistance. As noted above, the Government has committed to a 15% increase in the CRA, costing $2.7 billion over 5 years. That results in $31 extra per fortnight – raising the payment to $94 per week. On average, for people on Youth Allowance or JobSeeker, the CRA covers around 25% of fortnightly rental costs. In 2021 around 75% of Youth Allowance recipients who receive CRA were in housing stress, meaning they spend more than 30% of income on housing costs. Young renters in particular need more support than this budget provided.

What's more, the government recently turned down another opportunity to boost the financial prospects of young people (and other university graduates) by rejecting a bill to freeze HELP debt indexation. HELP debts are presently tied to inflation; outstanding debts will increase by an eye-watering 7.1% in June this year. On an average debt of $24,770.80, this means an increase of $1,758.70 – further delaying repayment on debts that already take 9.5 years on average to pay off.

The mounting pressure of rising educational debts and longer repayment periods has multiple consequences when young people are establishing independence. Repaying debt lowers disposable income, making it hard to weather a cost-of-living storm – but also harder to save money for a mortgage deposit. Worse still, these debts are factored in when applying for other financial loans. There are already enough financial barriers to home ownership for young people; the additional pressure of HELP debt is unnecessary.

Delivering meaningful cost of living relief for young Australians, of course, comes with a price tag. But this only highlights, once again, the enormous missed opportunity in this budget to strengthen the government's revenue base by cancelling the Stage 3 tax cuts. Those income tax cuts will cost $21.5 billion in their first year in effect, and young people will receive only 3% of those benefits (since very few young people earn enough to qualify for those savings, targeted at higher-income taxpayers). Once again, we are reminded that budgets are about choices.

Sustainable Technology in the IRA's Shadow

The Albanese government was elected promising to make Australia a 'renewable energy superpower.' With its 2023-24 budget, the government is taking promising steps towards decarbonising Australia's energy system, and expanding clean technology manufacturing. However, this comes in the context of a significantly changed international political and economic context for clean technology.

Last year the U.S. Congress passed the Inflation Reduction Act (IRA) and the CHIPs and Science Act, featuring a very ambitious set of incentives for renewable energy investments of various kinds. These policies confirm the strong commitment by the U.S. government to expanding and decarbonising domestic industry, transitioning to clean energy, and securing critical mineral global supply chains. This massive array of subsidies and incentives has since turbocharged investment in U.S. renewable energy systems, including value-added manufacturing. Businesses and investors are rushing to the U.S. to take advantage of these incentives, leaving other economies – including Australia – scrambling to respond.

Several measures in the new Commonwealth budget reflect this changed international context, and show that the Australian government is desperate not to be left behind in this transitioning global economy. The government will provide $80.5 million to support Australia's 'critical minerals' industry – including minerals critical to energy technology. Of this, $57 million is dedicated to international promotion of Australian-produced critical minerals, in an effort to protect markets for Australian exports as the U.S. and EU aim to secure supply chains.

The government is also dedicating new resources to decarbonisation of the energy system and clean technology investments at home. A new Capacity Investment Scheme aims to underwrite new investment in clean energy generation and storage. The

Treasurer expects the scheme to unleash $10 billion of investment in renewable energy projects along the East Coast.

The budget also allocates $2 billion to develop Australia's renewable hydrogen industry, through a new Hydrogen Headstart program. The goal is to develop hydrogen supplies for various end uses, including low-carbon manufacturing such as emerging ‘green steel.’ The reference to “renewable hydrogen production” within the Budget Papers is pleasing, given that previous policies linked with hydrogen have largely been covers for greater fossil fuel production. But after many years of announcements of renewable projects that have failed to deliver actual reductions in emissions, we should remain cautious before projecting success on this project.

Additionally, $1.3 billion from the $1.9 billion Powering the Regions Fund has been allocated to decarbonising existing industries, developing new clean energy industries, and supporting domestic manufacturing capacities essential to the energy transition (including steel, cement and lime, alumina, and aluminium). The government will also establish a Guarantee of Origin Certificate scheme to verify low emissions products and certify renewable energy.

The National Reconstruction Fund, announced prior to the 2022 election and listed in the October 2022 budget, has been allocated $61.4 million over four years to support its initial establishment and operations. Ongoing operations will then be funded out of revenue from project investments. The budget estimates that the Reconstruction Fund will allocate $188.7 million over four years in loans, equity investments and guarantees, with a substantial proportion devoted to renewable and low emissions technologies.

Finally, $83.2 million has been allocated over four years to establishing a National Net Zero Authority (NZA), with further design and details still to come. This idea was originally proposed by the Australian Council of Trade Unions. The NZA will help organise positive economic and employment transformations towards decarbonisation and renewable energy systems, particularly in regional areas.

These measures to decarbonise Australia’s industry, energy systems, and communities are welcome, and represent an attempt to respond to the dramatic changes in the global race for renewable energy. But to reach net-zero emissions by 2050, these clean tech ‘carrots’ must be accompanied by strong decarbonising ‘sticks.’ Australia’s growing clean energy sector will not amount to much, if Australia remains among the world’s largest fossil fuel exporters. As well, efforts to attract the workforce required to build these energy system transformations will compete with other priorities (such as those required to develop and service promised nuclear submarines).

In sum, the government’s actions in this area remain somewhat contradictory. The new programs to strengthen renewable energy developments are both welcome and necessary. Whether they are an adequate response to the existential competitive challenge thrown up by the new U.S. policies remains to be seen. And the government’s

parallel acceptance of continued expansion of fossil fuel production and export undermines the very goals these renewable energy projects are pursuing.

Conclusion

The Commonwealth government's 2023-24 budget tries to balance many of the Labor government's ambitious but at times contradictory priorities. It provides modest assistance to low-income households scrambling to negotiate a cost-of-living crisis, and more substantial support for wages in one of Australia's lowest-paid, most feminised industries (aged care). At the same time, it has retained some regressive commitments from the previous government (most painfully the Stage 3 tax cuts), purportedly in the name of 'keeping its election promises.' And even many of the budget's positive initiatives (such as the JobKeeper and Rent Assistance improvements, or the PRRT reform) seem like half-measures, mostly serving to highlight the need for more action to fully address the respective problems.

In macroeconomic terms, the budget does not provide any substantial fiscal stimulus in coming years – not surprising, perhaps, given the current focus on inflation. But with economic growth set to falter, it is encouraging that the government has not engaged in foolish austerity that might see it boast about reducing inflationary pressures, but more likely accelerating Australia's slide into recession. The limited enhancement in company tax revenues highlights the need for a more ambitious windfall-profits tax, to capture back some of the excess profits (in industries like energy, banking, housing, and transportation) that have contributed so mightily to recent inflation.

In sum, the Albanese government has made important steps in undoing the economic and social damage of the past decade, and working to build a more inclusive and balanced economy. It has recognised that job creation and higher wages must be central to future economic success – rather than 'problems' to be controlled or suppressed. Further progress on all these priorities, however, will require the government to resolve the dissonance lurking within its forward estimates – in the form of the expensive and unfair Stage 3 tax cuts set to come into force next year. All of the problems tackled by this budget – from weak wages, to income and gender inequality, to the need to roll out renewable energy systems more quickly – will require more resources in the future, not less. And a looming macroeconomic slowdown will further complicate the government's fiscal balancing act. For all these reasons, the Stage 3 tax cuts will have to be abandoned or fundamentally reshaped, to reinforce the government's fiscal capacity to address these and other priorities. That is the elephant that is still lurking in the government's budget room.