

Select Committee on COVID-19

Submission from The Australia Institute

Submission to Senate Select Committee.

Discussion coordinated by David Richardson

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Contents

Introduction	5
Productivity	6
Living beyond our means	7
Design Principles for Fiscal Policy in a Pandemic.....	8
‘Snap back’ or slide down: The impact of a 10 percent recession on the growth path for Australian GDP	10
Tax cuts for the corporate sector	12
Cutting through the Company Tax Cuts Guff.....	12
Adequacy of Newstart/JobSeeker	15
Debt won’t hurt us	16
Health insurance benefits during the COVID-19 crisis: Private eyes..., hips, etc.....	18
Powering Onwards: Australia’s Opportunity to Reinvigorate Manufacturing through Renewable Energy – Dan Nahum	19
National Energy Emissions Audit Report April 2020.....	27
Tolerate Unemployment, but Blame the Unemployed: The Contradictions of NAIRU Policy-Making in Australia	30
JobKeeper	31
Inquiry into Foreign Investment Proposals.....	32
Briefing notes.....	34
Global attitudes to COVID-19 pandemic and response.....	34
81% of Australians support JobKeeper for all Casual Workers	35
Parliamentary scrutiny of COVID-19 Decisions.....	36
Government paid leave for COVID-19 self-isolation	36
Energy reform after COVID-19.....	37
opinion Pieces	38
Put the jobless on public payroll.....	38
Scott Morrison needs to target his spending at significant problems or he will only be remembered for debt	38
What should we keep from the old economy, and what should we build anew?.....	39
There is no 'snap-back' coming.....	40

Australian business can't lead us out of this recession – the government must step up ...	40
Australia's unemployment figures mask a deeper reality	41
References	43

Introduction

The Australia Institute is pleased to respond to the request for submissions on the Senate Inquiry into the Australian Government's response to the COVID-19 pandemic. The purpose of the present paper is to present some of The Australia Institute's recent research that is germane to the Committee's deliberations. We attempt to explain how that research can inform the Senate inquiry.

The Institute would welcome the opportunity to discuss research findings in further detail.

Productivity

While *The Australia Institute* has not published specifically on this topic during the COVID-19 pandemic, there are a few remarks we would like to make. In recent years productivity has been below where we might like it. However, the magnitudes are relatively small and productivity growth less than one percentage point below where it should be. Meantime the present crisis means GDP is probably some 10 per cent or more below where it should be. This effect swamps productivity concerns.

Another point we draw attention to is the Treasurer's comments on productivity. In early May the Treasurer told the National Press Club he envisaged going to a 'proven path... by growing the economy with productivity enhancing reforms' (Frydenberg 2020). However, that is probably the last things Australia needs in the short term. On Treasury estimates underlying unemployment is running at around 15 per cent. First priority should be getting those people back in jobs. It would be unhelpful if businesses introduced more labour-saving methods of production during a forthcoming recovery.

Recommendations

- The government should give top priority to increasing employment and not prioritise higher productivity until Australia reaches full employment.

Living beyond our means

On 26 May the Prime Minister said ‘Governments ... must live within their means, so we don’t impose impossible debt burdens on future generations that violates that important caring for country principle’ (Morrison 2020). The ‘caring for country’ analogy makes it clear the Government believes outstanding debt is equivalent to environmental damage. In a section below we make it clear that financial ‘debt burdens’ cannot be passed on to future generations. In this section we address the concept of ‘living within our means’ a notion that is supposed to convey the impression of impending debtors’ prisons or other evils.

In Australia the real underlying level of unemployment is probably around 15 per cent¹ and then there are large numbers of the hidden unemployed. On top of that, spare capacity in business in terms of unused capital would be very high at the moment. Putting all that together Australia has the means to produce perhaps 10 per cent more in goods and services than it is presently producing.

Australia is certainly not living beyond its means in the sense that it has the wherewithal to massively increase production. However, there is clearly insufficient demand to warrant employing all the spare capital and labour. On top of that there are barriers imposed by lockdown that prevent some industries from supplying their wares. No one wants or is able to purchase the goods and services that could potentially be sold.

An important point of modern macroeconomics is that when we are in an unemployment trap like the present it is only the government that can coordinate aggregate supply and demand. Unlike households or businesses, the government is not bound by any financial constraint. In comparison to the massive costs of high unemployment, the cost of addressing unemployment is merely the cost of additional deficits and debt. We show below that the supposed economic costs evaporate. We are really only left with the political costs for a government that wanted to be judged against its performance in reducing deficits and debt.

¹ The figure for April was 6.2 per cent while the participation ratio suggests another 4 per cent moved out of employment but could not be classified as unemployed on the ABS criteria. On top of that were perhaps another 5 per cent who remained formally employed but worked zero hours.

Design Principles for Fiscal Policy in a Pandemic

Link <https://www.tai.org.au/content/design-principles-fiscal-policy-pandemic>

The economic crisis brought on by the COVID-19 pandemic requires fast, large, effective and well targeted fiscal stimulus. While the size of the government's initial three spending packages is appropriate as an initial response, both the shape of that response and the design of future spending measures need to be carefully evaluated.

This paper argues that, in designing subsequent rounds of fiscal stimulus, governments should consider these principles:

- Go early: Timeliness of the stimulus is key
- Go hard: The size of the stimulus is important
- Go households: Put purchasing power with households who are more likely to spend it
- Target domestic production
- Target activities with high direct employment intensities
- Target those most impacted by the crisis
- Target useful projects that deliver co-benefits
- Target regional disadvantage

Recommendations

In considering future stimulus initiatives, the following principles should be followed as closely as possible:

- Go early: Timeliness of the stimulus is key
- Go hard: The size of the stimulus is important
- Go households: Put purchasing power with households who are more likely to spend it
- Target domestic production

- Target activities with high direct employment intensities
- Target those most impacted by the crisis
- Target useful projects that deliver co-benefits
- Target regional disadvantage

‘Snap back’ or slide down: The impact of a 10 percent recession on the growth path for Australian GDP

Link: <https://www.tai.org.au/sites/default/files/Snap%20back%20or%20slide%20down%20-%20FINAL.pdf>

If the Australian economy shrinks by 10 percent in the first half of 2020 it will likely take at least 21 months before Gross Domestic Product (GDP) reaches the levels achieved in the December quarter of 2019. Australia has never experienced such a deep and long-lasting reduction in the level of its national income.

In the past it has only taken between three and 12 months to get back to the pre-boom level of GDP because previous recessions have been far shallower than the downturn being predicted by the Reserve Bank of Australia (RBA) this year. To put the RBA's forecast 10 percent reduction in GDP into perspective, GDP shrank by 1.4 percent during the 1991 recession. The impact of COVID-19 on the economy is expected to be seven times larger than the last recession experienced in Australia.

If the RBA's forecast for the depth of the expected 2020 recession is accurate there is no chance that the level of Australia's GDP will 'snap back' to its 2019 level in the coming months. To be clear, while the rate of growth of GDP may 'snap back' quickly, the level of GDP will not – and it is the level of GDP, not its rate of growth, that determines the level of employment, the level of consumer spending and the level of government revenue.

The distinction between the rate of GDP growth and the level of GDP is typically overlooked in policy and political debates in Australia because the mathematical distinction between rates and levels is of little policy relevance while the economy is growing steadily, as it had done since 1991. However, after a very large 'shock' to the level of output, the distinction becomes central to understanding how key economic variables are likely to behave in the coming years.

Recommendations

- Government responses to the pandemic have to recognise that at best there will be a slow return to economic conditions as they were on the eve of the pandemic. Moreover that period was associated with high un/under-employment, anaemic wage growth, low investment, poor productivity, increasing inequality and low labour shares of income.

- Past experience suggests the Government must be prepared to maintain a stimulatory fiscal stance for some time.

Tax cuts for the corporate sector

The mining industry has called for cuts in the tax they pay and promise that will increase their investment (Chambers 2020). We assume these calls are made with the best of intentions. However, there are many problems associated with the proposal to cut company taxes. The following description of some of our output indicates some of the important issues.

Something that should be highlighted is that the Government's first package includes initiatives designed to increase investment by way of subsidising it through the company tax system. Stiglitz (2012) has confirmed that if you want to stimulate employment or investment then subsidising those is the correct way to go and that company tax cuts themselves are ineffective in stimulating investment and employment. Some of our work confirms that President Trump's tax cuts failed to stimulate investment and merely encouraged transfers from companies to rich shareholders. Indeed, Australia's dividend imputation system nullifies the effects of company taxes as we argue in the papers below.

Australia's system of dividend imputation also interferes with concessions designed to incentivise certain activities. We argued this strongly in respect of tax concessions for R&D activities (Richardson 2020) but the same argument applies in the case of investment or employment.

CUTTING THROUGH THE COMPANY TAX CUTS GUFF

The following is a summary of most of the research papers on company tax cuts produced by The Australia Institute.

The big four banks get an extra \$7.4 billion dollars:

Australia's big four banks are some of the [most profitable banks in the world](#) and would be winners from a company tax cut, getting an extra \$7.4 billion dollars in the first 10 years of the tax cuts when they're already making record profits. By the 2025–26 financial year, the tax cuts for the big four banks will be \$3.2 billion every year.

Report: [Company tax: What the evidence shows](#)

The big winners are tax avoiders and foreign shareholders:

The big winners from the company tax cut are tax avoiders and foreign shareholders. The benefits of the company tax cut mostly go to foreign shareholders, not to Australian shareholders due to Australia's dividend imputation system.

Report: [Company tax and foreign investment in Australia](#)

See also: [Tax payers fork out \\$4.6b to pay for 'dividend imputation' credits](#)

This pointed out there is no correlation between lowering company tax and economic growth. Paying less company tax isn't going to convince Coles or Woolworths to hire more checkout staff. There's no correlation between lower company tax rates, employment, or economic growth. Common sense shows this, and historical and international data confirm it.

Report: [Company tax cuts: What the evidence shows](#)

Companies do business in Australia because they want to do business in Australia. Foreign investment isn't dependent on the company tax rate. In fact, most of Australia's foreign investment comes from countries with lower tax rates.

Report: [Company tax and foreign investment in Australia](#)

Just 15 companies will get a third of the benefits from the company tax cut. Most of these companies are huge players in markets with few competitors (e.g. telecommunications, supermarkets), and therefore unlikely to change their hiring practices due to the tax cut.

Report: [Oligopoly Money: How a company tax cut would be wasted on big business](#)

There are better ways to create jobs and help the economy:

There are more cost effective ways to create jobs and help the economy. Studies show that investing in schools and education is more likely to help the economy than giving businesses a company tax cut.

Report: [Company tax cuts v education spending](#)

The benefits are based on farcical assumptions at best. The idea that cutting the company tax rate would magically make multinational corporations suddenly stop avoiding tax is ridiculous. This is just one of the bizarre assumptions in the economic modelling that claims to show company tax cuts help the economy.

Report: [How will the corporate tax cut be funded?](#)

Recommendations

- The government should acknowledge that company tax cuts will not deliver additional investment or employment in the Australian context.

- Incentives for investment and employment need to be given by way of explicit subsidies for those activities.
- The Government also needs to design subsidies so that they will not be nullified by the dividend imputation system.

Adequacy of Newstart/JobSeeker

Link

<https://www.tai.org.au/sites/default/files/A%20Generous%20Increase%20in%20Newstart%20%5BWEB%5D.pdf>

In March 2020 we published *A generous increase in Newstart? The effect of the Coronavirus Supplement*. It began by welcoming the additional \$550 a fortnight, effectively doubling the jobseeker allowance for single people. However, things are more complicated for other family types. Our estimates of Jobseeker after the Coronavirus Supplement show different results for different family types: The larger is the family type the lower is the proportionate benefit. There is a case for tilting the benefits to go further towards families with children.

The classic argument against adequate income support is that it will cost too much. The important thing to note is that whether or not income support for the unemployed costs a little or a lot depends on how successful the government is in achieving the goal of full employment. If income support for the unemployed costs a lot at any particular time it must reflect failure to achieve full employment.

Another important issue here is the role of 'automatic stabilisers'. 'Automatic stabilisers' are the fiscal mechanisms that cause the budget balance to move counter-cyclically. When the economy goes through a slump, expenditures on programs like JobSeeker will increase. Those additional expenditures will cause economic activity to be higher than it would have been in the absence of the automatic stabilisers. Likewise, if the economy were to overheat then taxable incomes would increase and the additional tax liabilities would moderate spending and so moderate the boom. The automatic stabilisers act to prevent the economy from moving too far away from where it was.

As it happens the JobSeeker program is likely to be more effective as a stabiliser the more generous it is.

Recommendations

- The payments to different families should be increased to provide the same proportionate increase in payments as received by the single beneficiary.
- The increase in the payments should be extended indefinitely noting that a family of four was 20 below the poverty line and well below previous peaks before the announcement of the coronavirus supplement.
- The government should maintain a generous JobSeeker program both for its intrinsic merit and for its role as an automatic stabiliser.

Debt won't hurt us

This paper was written to show why we should not worry about government deficits and debt. In response to the massive increase in unemployment and the Government's welcome response, deficit spending and increases in debt are inevitable. The Government's actions confirm that deficits and debt are of little consequence compared with the impact of COVID-19 and so this paper is written to help allay any remaining fears.

Australia's debt figures are very modest indeed when compared with Australia's own history or other OECD countries. OECD data show government debt is 20 per cent in Australia while the rest of the OECD countries tend to range from 50 per cent up to 150 per cent. Others have pointed out that growth in the economy has the effect of significantly lowering any debt to GDP ratio, just as it did to the war time debt accumulated 75 years ago. We point out that any debt fears are particularly misplaced when interest rates are so low. Moreover, the debt outlook might have been even worse if the action against COVID-19 and its economic costs had not been addressed.

We show how concerns about where the money is going to come from and repaying debt are misplaced by confusing private and public finance. We try to demystify all this and show just how the concerns are misplaced. Hence deficit spending itself creates the additional money/liquidity which creates the demand for other financial assets including government debt.

It is illogical to worry about imposing burdens on future generations. Essentially we borrow from ourselves. At the moment government debt is also an asset owned by various people, their superfunds and so on. If that debt is passed on to future generations then it follows that assets are also passed on to future generations. Financial assets equal financial liabilities and there is no net debt and that will be as true in the future as it is now.

Confusion and misunderstanding have led people to question the sustainability of government debt yet in a growing economy running budget deficits the economy naturally tends towards a stable debt to GDP ratio. Despite claims to the contrary the evidence does not support propositions to the effect that higher GDP ratios are associated with adverse economic outcomes.

This paper includes reference to the work of Kenneth Rogoff and Carmen Reinhart (RR) who have been severe and influential debt-worriers. We referred to their empirical results on which they based their conclusions but pointed out the errors that other researchers had found. RR's opinions had not changed but in the present context their views on deficits and debt are much more pragmatic. On the present large increase in debt Rogoff has said:

there was no choice. This is like war. There is no debate that they [countries experiencing the pandemic] should be doing all they can to try to maintain political and social cohesion, to maintain economies. ... The financial markets think there's no chance interest rates will go up. There is no chance inflation will go up. If they're right... it'll be fine. But we could have costs from this. We're talking about economies shrinking by 25 per cent to 30 per cent. And those [declines] are just staggering compared to the debt burden costs, whatever they are. So certainly we would strongly endorse doing what governments are doing (Kennedy 2020).

This is significant when Rogoff says the costs are 'staggering compared with the debt burden costs, whatever they are'. Rogoff does mention costs with respect to possible increases in interest rates and inflation but rates those as no chance. Hence one of the economists who has campaigned vehemently against debt and deficits says those arguments are obsolete in the context of the pandemic. The Government should take encouragement from Rogoff especially given his earlier position on the issue of government deficits and debt.

Recommendations

- The Government should be explaining to people why any concerns about government debt and deficits are misplaced.
- The Government should not be distracted by these matters in designing appropriate monetary and fiscal policies.
- Expansionary monetary and fiscal policies are exactly what is needed now and likely to be required well into the future.

Before leaving this section we note that on 22 May the Tax Office and Treasury released a statement announcing that they had discovered an error in their estimate of the cost of JobKeeper (Treasury 2020). This is a large change but a notable feature was a lack of any response in the financial markets. Clearly another \$60 billion in deficits and debt is of no concern to the financial markets.

Health insurance benefits during the COVID-19 crisis: Private eyes..., hips, etc

Private eyes..., hips, etc: Health insurance benefits during the COVID-19 crisis,

Link

<https://www.tai.org.au/sites/default/files/P910%20Private%20eyes%E2%80%A6%2C%20hips%2C%20etc%20%5BWEB%5D.pdf>

Actions taken to slow the spread of COVID-19 have reduced the ability of the health sector to provide services to people with private health insurance. As a result, this reduction in health service provision will reduce costs for Australia's private health insurers. Yet far from offering substantial reductions in insurance premiums, insurers claim to be "supporting members during the COVID-19 pandemic" by "postponing this year's premium increase by six months".

This report estimated that if the COVID-19 restrictions were to last for six months, which seemed likely at the time, then private health insurers would reap windfall gains of between \$3.5 billion and \$5 billion. Happily, Australia's response to the crisis has seen restrictions ease more quickly. However, the recommendations of the report remain valid.

Recommendations

- The Productivity Commission should review the likely reduction in private health insurance fund payments. It should then calculate the consequent reduction in premiums needed.
- The Productivity Commission, in conjunction with APRA, should establish a real-time monitoring system so that the appropriateness of health insurance premiums can be monitored on a monthly basis while restrictions are in place.

Powering Onwards: Australia's Opportunity to Reinvigorate Manufacturing through Renewable Energy - Dan Nahum

Link

https://d3n8a8pro7vhmx.cloudfront.net/theausinstitute/pages/3311/attachments/original/1588894059/Powering-Onwards_FINAL.pdf?1588894059

The COVID-19 pandemic presents governments with the opportunity and necessity of supporting the recovery of Australian employment and business. In particular, the importance of Australian manufacturing has been reinforced by disruptions in international supply chains for essential products (like medical equipment and supplies).

Manufacturing needs energy. The industry spends around \$5 billion per year on electricity, and another \$1 billion for natural gas. Manufacturing investments have always been centrally linked to availability of reliable, competitive energy. And a new dimension of the energy choices of manufacturers is the environmental sustainability of the energy they consume: to meet government regulations on greenhouse gas emissions, and the expectations of customers, consumers and financial investors, manufacturing firms are increasingly focused on the need to source energy from non-polluting sources (including hydroelectricity, solar, wind and geothermal).

Australia's inconsistent, volatile, and fragmented energy policies have been a major source of financial distress and investment uncertainty for the manufacturing sector over the past two decades. Electricity prices have skyrocketed due to privatisation, lack of integrated national planning, and supply disruptions. Gas prices have also been driven up by policies such as the unrestricted flow of gas supply to export LNG projects – which has led to inflated prices for domestic consumers (who often pay more for Australian gas than foreign customers do). The Australian government has failed to implement a stable and consistent policy framework for energy security and sustainability, and continues to be influenced by sectional demands to protect particular segments of the fossil fuel and electricity industries.

This chaotic status quo has not served manufacturers well. Electricity prices for manufacturing industrial users have skyrocketed by 180% since 2000. Electricity prices have grown three times as fast during this period as overall input costs for the manufacturing sector. Gas prices have doubled in the same period – again, rising far faster than other input costs to manufacturing. High prices and unreliable supply (coal-fired electricity facilities, in

particular, have demonstrated the worst reliability of any energy form in recent years) have significantly damaged the competitiveness of Australian manufacturers.

Luckily, there is a promising avenue to strengthen the energy supply base for Australian manufacturing, and indeed create a whole new source of competitive advantage for Australian industry. The technology and economics of renewable energy has been dramatically transformed in recent years. Renewable energy has become much less expensive than fossil fuel generation – even with extra costs for energy storage (such as batteries or pumped hydro). Australia has unmatched potential to supply renewable energy, given our large land mass and superior solar and wind resources. Rapid roll-out of renewable energy supplies thus has great potential to provide manufacturers with inexpensive, reliable and sustainable power. This is much more promising than misleading claims about fossil fuels – including proposals for a huge expansion of gas use as a so-called ‘transition fuel’.

Renewable energy sources already enjoy a cost advantage relative to fossil fuel generation: especially compared to coal, but even compared to natural gas. More importantly, the cost of renewables is falling rapidly, for various reasons: improvements in technology, new methods of generation (such as offshore wind), and economies of scale in production and operation. Over the next 30 years, the full-cycle cost of renewables will fall by at least another 20% – whereas the costs (both financial and environmental) of fossil fuel use will become more burdensome.

In *Powering Onwards: Australia’s Opportunity to Reinvigorate Manufacturing through Renewable Energy* (attached, and available at this link), the Centre for Future Work at The Australia Institute has reviewed the positive potential of Australia’s renewable energy endowment to power a revitalised and prosperous domestic manufacturing industry. The research demonstrates that the technology, reliability and cost advantages of renewable energy are undeniable. Equally undeniable is the evidence that other countries are doing much better than Australia on both fronts, supporting successful domestic advanced manufacturing while reducing reliance on fossil fuel use more rapidly and enthusiastically.

Put simply, Australia has unique advantages in renewable manufacturing – both:

- using our extraordinary endowment of renewable resources (especially solar and wind), unmatched anywhere else in the developed world, to build a resurgent, dynamic, and internationally competitive manufacturing sector
- manufacturing processes that use, or could use, renewable energy as an input—and in an advanced industrial society, that is essentially all manufacturing.

The reconstruction of our economy as we recover from COVID-19 offers us an historic policy opportunity to green our electricity grid and revitalise our manufacturing sector. Possibly the most exciting opportunities involve a virtuous cycle of using our renewable resources to manufacture goods that in turn increase uptake and usage of that renewable endowment. These opportunities include:

- using domestically-produced ‘green’ steel and aluminium to manufacture and install wind turbines, in turn supporting the transition of our energy mix to renewables
- the broad expansion of the production and installation of solar panels in Australia
- using renewable electricity to add value to our lithium endowment in the form of a domestic battery industry, and in turn a vibrant and profitable electric vehicle (EV) industry.

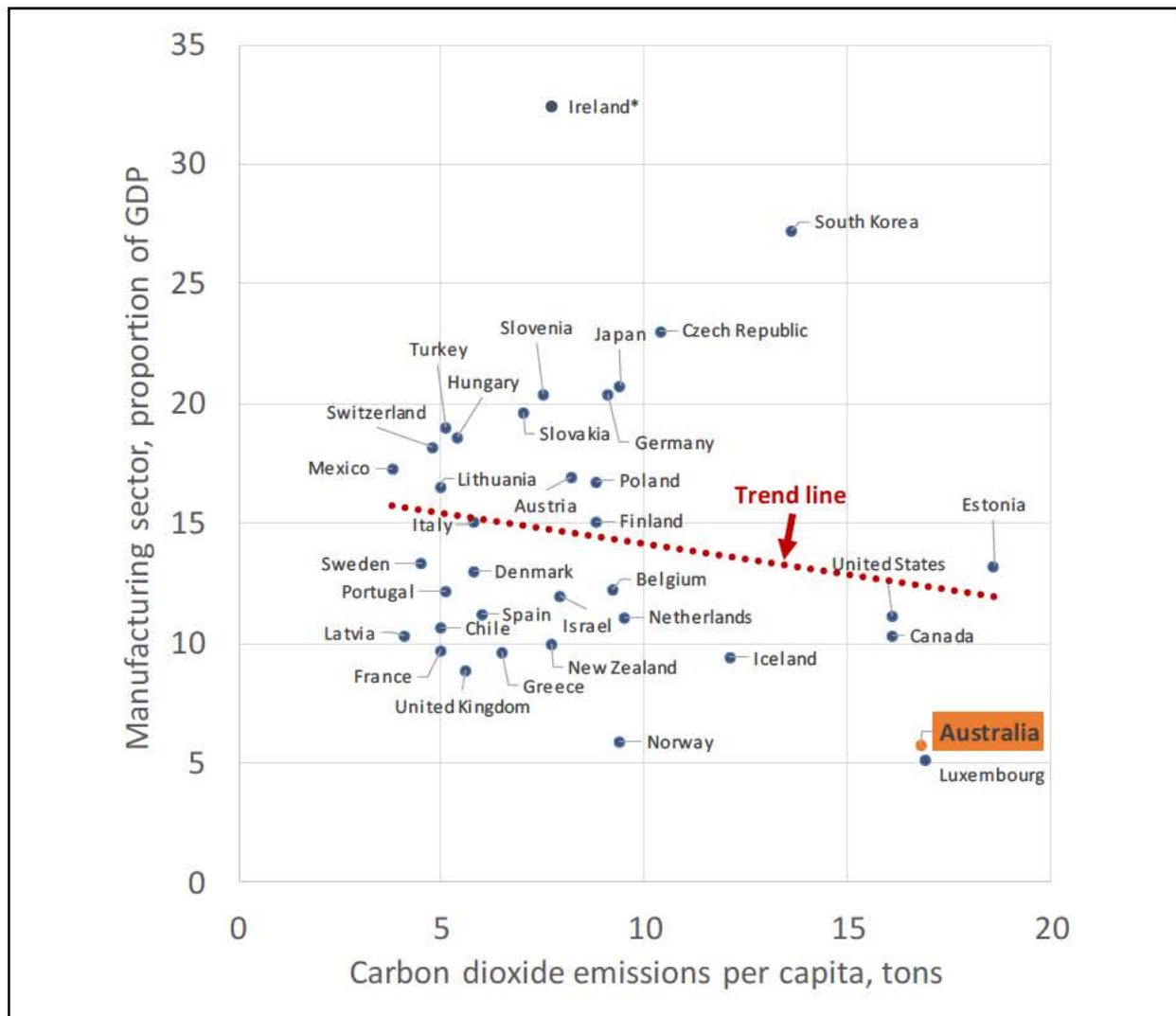
Power from renewable energy sources (both solar and wind) are now substantially less expensive than fossil fuel generation on a full lifecycle cost basis - and moreover, that cost advantage will grow in coming years. In *Powering Onwards*, the Centre for Future Work estimates that annual power cost savings to manufacturers if the sector's current use of fossil fuel-fired power was fully transferred to renewables (as existing generating facilities are retired and replaced). The sector's power bill would decline by an estimated **\$1.6 billion per year, or 23 per cent**, compared to the current fuel mix. The saving swells to \$2.2 billion (in constant dollars) by 2050. These calculations do not factor in a price on carbon; if one is included, the savings are commensurately greater. Of course, the sooner new capital expenditure is undertaken, the sooner savings begin accumulating.

Our calculations are conservative; we are also aware of numerous examples of manufacturing firms which are already making use of renewable power to capture cost and reliability advantages, such as BlueScope Steel and Carlton & United Breweries signing power purchase agreements (PPAs) to underwrite new renewable generation. Some firms that have entered into renewable PPAs are slashing their energy expenditure by up to 50 per cent. The generation facilities are not co-located, nor do they need to be; rather, the PPA matches incremental power inputs to the grid with an equivalent demand elsewhere on the grid. Meanwhile, heavy manufacturers including metals producers such as the Sun Metals zinc refinery near Townsville have installed co-located solar arrays for reasons of both cost savings and reliability (not to mention decreased environmental impact). As the largest iron ore exporter in the world, we are, by definition, missing clear opportunities to add value to that commodity through value-added processes – and our endowment of renewables makes it economic (as well as socially and environmentally advantageous) to do so.

International evidence using World Bank data shows that countries which have reduced greenhouse gas emissions per capita more successfully have attained greater success in manufacturing output (as a proportion of GDP) and exports than Australia.

Counterintuitively, countries that emit less manufacture more. Australia’s unusual position in the OECD as an especially high-emissions, low-manufacturing economy is particularly alarming and puzzling given the bounty of renewable resources which we, uniquely among developed economies, enjoy.

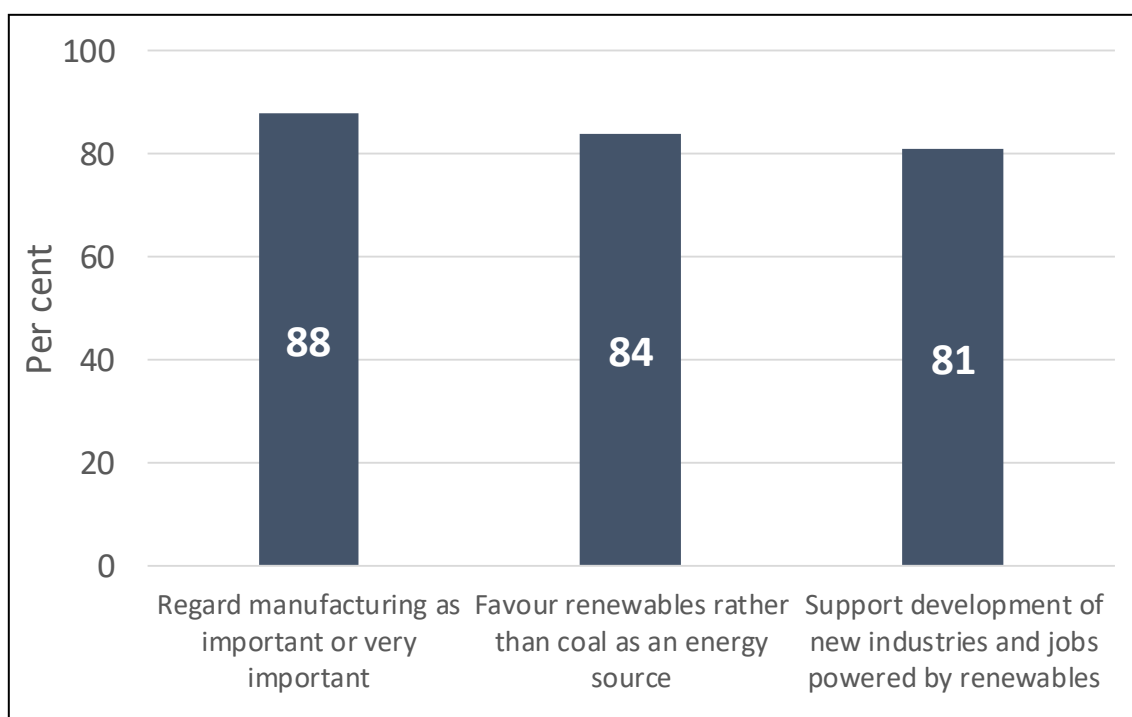
Figure 1. Manufacturing Success and Carbon Intensity, OECD Nations, 2018.



Source: 'Manufacturing, value added (% of GDP)' and 'CO2 emissions (metric tons per capita)', World Bank (2019). Note: In a small number of cases, the latest manufacturing sector (vertical axis) data are from 2017, 2016 and in the case of Canada, 2015. CO2 emissions exclude land use. * Irish GDP data must be interpreted with caution (due to issues of international tax shifting); however, removal of Ireland does not affect the general correlation.

And as shown in Figure 2, the Centre for Future Work has also found that there is a strong majority overlap between Australians regarding the manufacturing sector as important, and those in favour of expanding the use of renewables, making this a viable dual public policy goal for governments. These results are from before COVID-19 and the disastrous 2019-2020 bushfire season, and it is reasonable to imagine they have been buttressed by those events.

Figure 2. Australian Polling Support for Manufacturing and Renewable Energy.



Source: Centre for Future Work, Lowy Institute, Essential Polling.

The COVID-19 recovery will not be business-led, but will instead require proactive leadership from government, working in partnership with business and unions, to reconvene a more dynamic and competitive manufacturing sector. As the Committee is aware, the recovery requires unprecedented fiscal measures, combined with bold and imaginative political leadership.

Attempting to leave the coordination of industrial, energy, and labour policy to ‘the market’ will never allow our economy to capture the full economic and social benefits of sustainable manufacturing, just as private market forces have failed, in the past, to achieve the well-rounded industrial development we need. The confusion and inconsistency of recent Australian energy policy has made matters worse, inhibiting and discouraging private companies that would otherwise be moving forward on purely profit-maximising grounds. Even Reserve Bank Governor Dr Philip Lowe has stated that policy uncertainty is affecting renewables investment, notwithstanding the enormous opportunities in the sector.

Australia thus faces an extraordinary opportunity to embrace and develop our unmatched renewable energy endowment to power high-value industrial and technological development. Doing so could make Australia a ‘sustainable manufacturing superpower,’ as proposed by Ross Garnaut (2019). This opportunity will be squandered, however, unless the Commonwealth Government and the Council of Australian Governments (COAG) quickly establish a consistent, stable and comprehensive policy framework to guide decisions in both the energy and the industrial realms of our economy. Several critical policy principles would confirm and accelerate the energy

transformation of Australian manufacturing, thereby helping our industry to make the most of the renewable energy opportunity before it:

1. The Commonwealth Government and COAG must provide clarity and stability in energy policy, to affirm to all stakeholders that Australia's commitment to emissions reduction is meaningful, permanent and consistent with international targets. Even the business sector has made clear its desire for the Federal Government to institute a firm Paris-consistent policy mechanism, so that businesses can make informed investment decisions that will not subsequently be undermined by unexpected changes in policy and politics.
2. In this context, the Government should introduce carbon pricing in some configuration to help to immediately rebalance Australia's industrial incentive structure in favour of cleaner manufacturing. Economy-wide, this could be revenue-neutral (with revenues recycled into other fiscal measures or projects), while reshaping our overall industrial profile and changing the way firms do business. A carbon price would incentivise manufacturers to seek efficiencies in their energy usage, and it would also reinforce incentives to develop sustainable sources of energy to power their own operations (and to supply their surplus energy to the grid).
3. Governments at the federal, state and local levels can and must play an active role, partnering with both renewable energy firms and manufacturers working to develop Australia's sustainable manufacturing potential. These efforts should include:
 - a. fiscal and investment strategies to accelerate renewable energy initiatives linked to domestic manufacturing opportunities; these could include fiscal support for the production and use of renewable energy (e.g. through the Clean Energy Finance Corporation and the Australian Renewable Energy Agency), direct equity investments and co-investments in new manufacturing projects, and favourable tax treatment of sustainable manufacturing investments (such as investment tax credits)
 - b. provision of public goods to assist these firms to facilitate training for workers in transitioning industries (noting that the future prosperity of regional Australia will be very much tied up in the success of these workers and businesses)
 - c. leveraging of government procurement to favour domestic manufacturers who are actively engaged with the renewable energy transition.
4. The Government must develop, in partnership with businesses and unions, sector-specific industrial policy strategies in key identified manufacturing sectors that can benefit from inputs of renewable energy, and/or that can supply manufactured inputs to renewable energy developments. Potential sub-sectors which could benefit from such strategies include:
 - a. primary metal production (including 'green' steel and aluminium production)
 - b. lithium-ion battery production

- c. EV manufacturing
 - d. manufacturing public transit equipment
 - e. producing wind and solar generation equipment.
5. A key factor in the successful roll-out of renewable energy in Australia will be upgrading and strengthening transmission and exchange facilities, which have been badly damaged by years of short-sighted profit-seeking and regulatory failures in Australia's largely privatised electricity system. Federal and state regulators must move urgently to facilitate improvements in transmission capabilities and interconnectivity with spatially decentralised renewable power projects. This will require greater accountability and long-range planning from private utilities, and/or expanded public ownership.
6. The renewable energy industry must uphold the highest social and labour standards, as well as environmental standards. The expansion of renewable power supplies, and their connections to manufacturing, must be undertaken with full commitment to high-quality standards, the use of fully qualified labour, and fair employment practices. This commitment will be especially important if we are to convince Australian workers that renewable energy (including its application in innovative value-adding manufacturing) can be a site of high quality, stable jobs as the economy decarbonises.
7. The Commonwealth Government should establish a national, independent statutory authority to design plans for economically and socially rewarding labour market transitions into the high-value industries that will play a leading role in the low-carbon economy of the future. This authority should design these plans in conjunction with affected businesses, workers, unions, educational institutions (such as TAFEs) and other stakeholders. Its tasks would include managing adjustments and transitions for workers in affected fossil fuel industries (including coal-fired electricity generation and thermal coal mining), as well as mobilising and training the workers who are required in a growing, sustainable manufacturing sector.
8. Given that institutional investors are acutely aware that Australia's energy arrangements are in flux, they should consider the medium- and especially long-term payoff of weighting their energy investment mix towards renewables in line with CSIRO's cost estimates. This could be expected to have positive effects for renewables investments and usage throughout the value chain (for example, economies of scale and large-scale supply agreements signed between producers of electricity and retailers/consumers).
- a. This stance would be especially advantageous in an investment environment where the clients of institutional investors are more actively interested than ever in how their savings are invested.
 - b. Large investors should also exert pressure on governments to adopt consistent and ambitious energy and climate policy settings.
9. Hydrogen is likely to be a major output from, and input into, manufacturing processes in years to come—both in Australia and internationally. We are at a crucial juncture in terms of

getting the industry settings right. Proposals to develop a hydrocarbon-based hydrogen industry (even using unproven CCS technologies) would not advance the goals of either decarbonisation or revitalised domestic manufacturing—and Australians would be stuck with huge sunk costs that would make it even harder to reorient hydrogen production in the future. Instead, Australia should expect policy clarity and targeted government co-investments in a green hydrogen strategy, with priority placed on maximising the potential manufacturing spin-offs through both greater use of hydrogen in domestic manufacturing processes and maximisation of the domestic manufacturing content in hydrogen projects.

The COVID-19 crisis has conferred on Australians a renewed appreciation of the importance of retaining a flexible, high-quality, domestic manufacturing capacity. And the ongoing transformation of Australia's energy industry, with rapid expansion of renewable energy sources, would add momentum to the renaissance of Australian manufacturing. Once the immediate danger of coronavirus has passed, we will still be in a world that needs to undertake a climate-related industrial transition, consistent with our Paris targets. With the right policy settings in place, our renewable resources will serve us well in fostering economic reconstruction after the pandemic.

National Energy Emissions Audit Report April 2020

Link: <https://www.tai.org.au/sites/default/files/NEEA%20Report%20April%202020%20%5BWeb%5D.pdf>

The pandemic has had very little impact on energy consumption but looks like it will have a significant and negative impact on the regulation of energy, potentially undermining economic recovery.

In April 2020 the Australia Institute published an update to the National Energy Emissions Audit. This showed that the pandemic had caused a small reduction in electricity consumption. The electricity sector has only seen a slight decrease in emissions over the past month—confirming the need for strong structural and legislative reforms to reduce emissions in the electricity sector.

From 16 March 2020 when major lockdowns and closures began to 21 April 2020, electricity consumption was 2.4 per cent lower than in the corresponding period in 2019 and 2.5 per cent lower than in 2018.

In fact, over the whole two months or more since lockdown, there seems to be very little difference in electricity consumption this year, compared with 2019 and 2018.

Gas use has remained stable with electricity, manufacturing and LNG production accounting for over 70% of total gas consumption in eastern Australia and facing relatively little impact from the pandemic response.

On 19 March 2020 the Australian Energy Council (AEC) wrote to Energy and Emissions Reduction Minister Angus Taylor to lobby for delay to Five Minute Settlement (5MS) and a raft of other National Electricity Market (NEM) reforms that would allow renewable energy and new policies like demand response to compete in the NEM.² The AEC's members include all of the three 'gentailers' that have significant market concentration in retail and generation in the NEM and all but one of the privately-owned coal-fired power stations in the NEM.

Market participants have not presented conclusive evidence that the implementation of 5MS in July 2021 or other timetabled reforms threaten the financial viability of the energy industry or system security. If credible evidence of risk is presented, there may be a range of

² Barnes (2020) *COVID-19 brings reform challenges*, <https://www.energycouncil.com.au/analysis/covid-19-brings-reform-challenges/>

solutions which could include change to regulatory implementation, but this decision must be transparent and evidence-based.

On 19 May 2020 the NEM market bodies released their timetable for NEM reforms and potential changes to their implementation dates, from now until the end of 2026. The Australian Energy Market Operator (AEMO) has sponsored a rule change to the Australian Energy Market Commission (AEMC) to delay the start of 5MS by 12 months. Another 16 other rule changes have been flagged for delay, 'classified as 'progress' rather than 'progress as planned'.³

These reforms are required to make the NEM fit-for-purpose. Delay will harm energy consumers, slow down economic recovery and hinder the growth of clean energy and emissions reduction.⁴

Over the medium term (2-5 years), the need for NEM reform will become even more important. The market bodies could bring forward the centrepiece of NEM regulatory change, which is the Post-2025 market redesign, in order to have key market benefits in place by 2023, rather than delayed until mid 2026.⁵

A reform stimulus would complement stimulus spending by government. It will help deliver lower costs to consumers. It would stimulate investment in generation and storage, creating jobs, particularly in regional Australia, where large-scale renewable energy infrastructure is built. This increase in generation, transmission and storage infrastructure will improve reliability. There would also be flow on benefits to the economy

Australia's electricity sector provides an incredibly valuable opportunity to stimulate the economy and reduce emissions; however, it is abundantly clear that more fossil fuel extraction and use cannot achieve either of these goals as effectively as renewables.

Recommendation

1. Resumption of the original regulatory timelines of key NEM reforms.
2. Bring forward the centerpiece of NEM regulatory change, which is the Post-2025 market redesign, in order to have key market benefits in place by 2023.
3. Develop a climate and energy policy to provide clear national guidance on energy market transition to 2030 that combines affordability, reliability and low emissions.

³ (n.d.) *Joint market body prioritisation framework*, p.5

⁴ Parkinson (2020) *Regulators flag delays to 16 energy reform projects as fossil fuel interests dig in*, <https://reneweconomy.com.au/regulators-flag-delays-to-16-energy-reform-projects-as-fossil-fuel-interests-dig-in-15284/>

⁵ Cass (2020) *Energy reform after COVID-19*, The Australia Institute

Tolerate Unemployment, but Blame the Unemployed: The Contradictions of NAIRU Policy-Making in Australia

Link <https://www.tai.org.au/content/chronic-unemployment-consequence-deliberate-economic-policies>

This paper begins by documenting the evidence that 5 per cent unemployment was the government's policy objective before the crisis, and that the Government believed 5 per cent was consistent with 'full employment'. At least one government member has talked about getting the economy back towards 'full employment' of around 5 per cent over the next few years (Kehoe 2020b). However, we argued that defining full employment as 5 per cent unemployment gave the government too easy a target. Any unemployment should be seen as a sign that the government's job is not finished.

The 5 per cent target also fails to acknowledge the hysteresis effects whereby low unemployment makes people more employable and so encourages low employment in a virtuous loop. Apart from providing a powerful reason for reducing unemployment to the lowest level possible, these hysteresis effects also constitute a good case for boosting the rate of JobSeeker payments.

Recommendations

- The government should make it clear that despite the present crisis it is committed to genuine full employment.
- Such a target may well be unattainable, but success should be judged on how close the government can get.
- Newstart, now JobSeeker, should be indexed at around present levels subject to boosting the relative incomes going to unemployed families. (See "Adequacy of Newstart/JobSeeker" above.)

JobKeeper

Many of the opinion pieces and smaller papers listed below touch on issues to do with JobKeeper. Here we draw out some of the conclusions as proposed recommendations for the present report. We note estimates that JobKeeper will be paid with respect to 3.5 million people (down from the earlier figure of 6 million), while it has probably reduced unemployment by around 750,000 people (Kehoe 2020a).

Recommendations

- We recognise that JobKeeper is an extremely important initiative and takes Australia towards a European-style unemployment insurance system with adequate rates of income support.
- The government, unions, business and welfare groups, and other interested parties should debate the features of a fully functional public unemployment insurance system. A transition path needs to be mapped out. In the meantime:
- JobKeeper should be retained for people who have lost employment and are going to lose jobs in the future, including short-term casuals and those on visitor visas.
- JobKeeper needs to be better targeted so as to avoid over and under-payments and include many of those presently excluded.

Inquiry into Foreign Investment Proposals

Link:

https://www.aph.gov.au/Parliamentary_Business/Committees/Senate/Economics/ForeignInvestment/Submissions

This submission was made to a Senate inquiry into the operation of the Foreign Investment Review Board. It notes that Australia's history has included rigorous debates about foreign ownership of the Australian economy. Sometimes that debate has taken twists and turns, from Australian control of uranium mining to the question of Chinese influence.

We make the point that the presumption that Australian interests are advanced by foreign investment is often wrong. Australia's economy is increasingly dominated by big business and most markets are increasingly subject to monopoly, duopoly, or oligopoly; often foreign owned. One consequence has been the increasing share of profits at the expense of labour's share of national income with foreign corporations bound up in that development.

Foreign takeovers should be examined very critically, especially when foreign interests buy up Australian companies. If a foreign investor wishes to set up in Australia they can do so and attempt to compete against incumbents from a greenfield operation. If they compete as new entrants they add to competition and choice in Australia. However, in general Australia is a very uncompetitive environment and so a takeover necessarily involves replacing domestic owners in an industry that lacks innovation and dynamism.

We also discuss the conditions often placed on foreign investors. The record of the Foreign Investment Review Board (FIRB), especially on monitoring compliance is poor, a strong monitoring and compliance role for the FIRB is something that was never seriously pursued. We know of no example where a decision has been revoked because conditions were violated. Companies were able to flout any agreements they made with the government in order to gain foreign investment approval. One of then Treasurer, Peter Costello's decisions effectively conceded Don Chipp's accusations decades earlier: no-one is in a position to follow up delinquent foreign investors after the approval process.

The role of the Foreign Investment Review Board is unlikely to change in the near future. What little nationalism there was in the early FIRB Boards seems to have gone and the Board seems to be dominated by business people and former Coalition politicians.

We made a number of recommendations that should improve the operation of the foreign investment policy. Specifically:

We recommend the Committee note the lack of any monitoring of, or sanctions for, violating the conditions imposed on foreign investors. That lack of sanctions needs to be remedied.

We further recommend the government develop a set of sanctions in varying degrees of severity and that they be applied in proportion to the severity of any breeches that take place.

This issue went up a notch in importance in March this year when the Treasurer announced a clamp down on foreign investment proposals by way of a reduction in the value of examinable threshold to zero. According to one observer, the Treasurer's motivation was political and it referred to:

political concerns that, in the wake of COVID-19, Australian businesses will be the target of opportunistic and predatory investment by foreign acquirers. There is a perception that the change in FIRB policy is particularly targeted at Chinese buyers. Speaking in support of the measures, Member of Parliament Andrew Hastie, chair of the Parliamentary Joint Committee on Intelligence and Security, stated that the decision was made to protect the 'vulnerable' from certain states 'angling for bargains' (Jonesday 2020).

Changes in foreign investment rules very rarely describe the exact motives the government has in mind. However, if it is indeed designed to prevent foreign interests from picking up bargains in Australia we can only agree. Perhaps the plight of Virgin Australia influenced the Government's decision.

This would also be a good opportunity for making approvals stricter. In concentrated industries especially, foreign investors should be prevented from taking over incumbents and should consider setting up as an additional competitor. In any event, the presumption that foreign investment is always a good thing needs to be jettisoned.

Recommendations

- That the Senate seek clarification of the Government's motives and objectives in reducing the threshold for foreign investment approvals.
- Government should have the resources to monitor and follow up approvals and that any conditions are met.
- Governments should not assume foreign investment is always a good thing and proponents should be required to show their proposal is in the national interest.

Briefing notes

GLOBAL ATTITUDES TO COVID-19 PANDEMIC AND RESPONSE

Link: <https://www.tai.org.au/content/global-attitudes-covid-19-pandemic-and-response>

Key results: The Australia Institute's International & Security Affairs Program surveyed nationally representative samples of people in Australia, New Zealand, the United Kingdom, the United States, Italy and South Korea about the COVID-19 pandemic. The government and friends and family are the most trusted sources of advice about the COVID-19 pandemic, and the more trusted a government the higher its response to the pandemic is rated.

- In most countries, government and friends and family are the most trusted sources of advice about the COVID-19 pandemic.
- There is a close relationship between how trusted a government's advice is and how good their COVID-19 response is rated.
- Trust in government is highest in New Zealand (89%) and Australia (78%).
 - The United States has the lowest trust in government (57%).
- 83% of New Zealanders rate the government's overall response to the COVID19 pandemic good, the highest of any country.
 - 71% of Australians rate the federal government's overall response good.
 - The lowest rating is the United States (49% rate good). Fewer than half of those in work are confident they will keep their job.
- Australians are least confident they will keep their jobs and hours, with only one in three confident (34%).
- Australian and United States residents are equally likely to have already lost their job (both 16%). People want their governments to take the lead in sustaining the economy.
- Australian and UK residents were most likely to say that the government should take the lead (both 64%), followed by NZ (62%).
- Only in the United States did fewer than half say that the government should take the lead (43%).

Recommendations

- That the Government note the trust it enjoys generally and with respect to the COVID-19 pandemic. But
- People have little confidence that they will enjoy job security.

81% OF AUSTRALIANS SUPPORT JOBKEEPER FOR ALL CASUAL WORKERS

Link: <https://www.tai.org.au/content/81-australians-support-jobkeeper-all-casual-workers>

More than eight in ten Australians support extending the wage subsidy, known as the JobKeeper program, to all casual workers, regardless of how long they have worked at their place of employment.

The Australia Institute surveyed a nationally representative sample of 1,008 people between 3 and 6 April 2020.

Key results

- Australians overwhelmingly support (81%) extending the wage subsidy to casual workers, regardless of length of employment, only 11% are opposed to extending the wage subsidy.
- Strong support for extending the wage subsidy to casual workers regardless of length of employment was seen across voters of all parties. 79% of Coalition voters support (14% oppose), 88% of Labor voters support (6% oppose), 80% of Greens voters support (9% oppose), 78% of One Nation voters support (15% oppose), and 69% Independent/other support (13% oppose).
- The Government's 'JobKeeper' wage subsidy program currently only applies to casual workers who have been working at their current place of employment for 12 months or longer. This results in over 1 million short-tenure casual workers (under 12 months) being excluded. Apart from hurting those workers, this will also create a serious disadvantage for businesses that rely on short-tenure workers for their staffing needs (including in the retail, hospitality, and agriculture industries).

"The JobKeeper program is an important and necessary support to help Australian workers through the COVID-19 pandemic and accompanying recession," said Dr. Jim Stanford, director of the Australia Institute's Centre for Future Work.

"This research demonstrates that the Australian public recognises the necessity of the JobKeeper program, and wants to see the program enhanced to include the one million casual workers who are currently excluded from the scheme.

"Short-tenure casual workers are among some of the most vulnerable in our society. Many are living paycheck to paycheck, and already living on the brink – they need more support during this crisis, not less.

Stanford noted that the JobKeeper scheme will also exclude over one million foreign visa workers. "Driving short-term casuals and foreign visa workers into unemployment is unfair

to them, it is unfair to their employers, and it poses significant risks to public health,” Dr. Stanford said.

PARLIAMENTARY SCRUTINY OF COVID-19 DECISIONS

Link: <https://www.tai.org.au/content/two-three-australians-support-parliamentary-scrutiny-covid19-decisions>

More than two in three Australians support Australia setting up a COVID-19 response committee modelled on the New Zealand model.

The Australia Institute surveyed a nationally representative sample of 1,008 people between 3 and 6 April 2020.

Key results

- More than two in three Australians (68%) support Australia setting up a New Zealand style COVID-19 parliamentary oversight committee, only 13% oppose.
- Before it was suspended, the New Zealand Parliament established a parliamentary committee to scrutinise the New Zealand Government’s COVID-19 response. The committee includes representatives of all political parties, and hearings are publicly broadcast.
- A prominent group of Judges, the National Integrity Committee, convened by the Australia Institute has called for the establishment of a multi-partisan parliamentary oversight committee, when Parliament next sits.
- Any such oversight committee needs to be properly constituted, have full powers, meet regularly and publicly, and have the ability to call key officials and Ministers before it.

GOVERNMENT PAID LEAVE FOR COVID-19 SELF-ISOLATION

Link: <https://www.tai.org.au/content/overwhelming-majority-support-government-paid-leave-covid-19-self-isolation>

New research shows an overwhelming majority of Australians (82.5%) support the ACTU proposal that the Government guarantee two weeks paid leave for all workers who are forced to self-isolate as a result of COVID-19.

The Australia Institute surveyed a nationally representative sample of 1,723 Australians on the night of 18 March 2020.

Key results

- An overwhelming majority of Australians (82.5%) support the ACTU proposal that the Government guarantee two weeks paid leave for all workers who are forced to self-isolate as a result of COVID-19.
- Furthermore, a majority of Australians (56.6%) strongly supported the proposal.
- Only 12.1% of Australians opposed or strongly opposed the proposal.
- Majority support for the proposal was seen across all parties: Coalition (67.4%), Labor (94%), Greens (97.3%), Independents (86.7%), 'Other' (72.6%).

"This proposal from the ACTU has economic benefits and healthcare benefits. It is overwhelmingly popular with Australians because it is a sensible proposal to help ensure workers self-isolate where required," said Ben Oquist, Executive Director of the Australia Institute.

"It is in the community's best interest that no person should feel desperate enough to work while they have been ordered to self-isolate. A Government guarantee of two weeks paid leave to all workers in this situation will go a long way to ensuring self-isolation happens.

"It would be wise for the Federal Government to address the economic barriers workers face to correctly follow the public health directives of the Government's own health agencies.

"It is a good health policy, it is a good economic policy, and it is a policy that most Australians want to see the Federal Government take on board."

Recommendations

- That the Government guarantee paid leave for all workers forced to self-isolate as a result of COVID-19.

ENERGY REFORM AFTER COVID-19

Link: <https://www.tai.org.au/content/energy-reform-after-covid-19>

Coal generators are pushing to delay important reforms that would make the National Electricity Market more reliable and efficient and help lower emissions. Speeding up NEM reform will help drive economic recovery, not delay it.

opinion Pieces

PUT THE JOBLESS ON PUBLIC PAYROLL

by Richard Denniss

[Originally published by the Australian Financial Review, 31 March 2020]

This article highlights the policy of putting large parts of the Australian economy into "hibernation" using direct wage subsidies in the form of JobKeeper. The introduction of a wage subsidy for business is a big step for an Australian government to take, let alone a Coalition government that's fought so hard, and for so long, against nearly any form of safety net or minimum standards for Australian workers. But desperate times call for desperate measures.

The Government faces problems of how to manage the large numbers of workers depending on income support after the lockdown is eased.

SCOTT MORRISON NEEDS TO TARGET HIS SPENDING AT SIGNIFICANT PROBLEMS OR HE WILL ONLY BE REMEMBERED FOR DEBT

by Richard Denniss

[Originally published by The Guardian Australia, 1 April 2020]

This opinion piece addresses JobKeeper, the [then] \$130bn wage subsidy. In this action the Coalition threw overboard the silly rhetoric and rules of "neoliberalism". Fortunately, in the face of a genuine crisis the Morrison government has embraced the reality that the economy needs a commensurate increase in the budget deficit. This was not questioned by the press or the community generally—we all became crisis Keynesians.

Given JobKeeper, the other spending initiatives and the inevitable decline in tax revenue from business, individuals and the GST as well as the long term nature of any recovery we may well see the Commonwealth debt to GDP ratio hit 100%.

All of this amounts to an admission that only public spending can boost economic activity in times of crisis. Policies such as cutting company taxes are irrelevant when it comes to the crunch.

Australia is one of the richest countries in the world, yet we came into a summer of fires, and this autumn's deadly virus, poorly prepared and poorly resourced to protect ourselves or each other. Decades of funding cuts have stretched our health, welfare and crisis housing services to breaking point. Firefighters lacked essential equipment to deal with summer's fires, Australian hospitals were working around the clock to prepare for the flood of expected COVID-19 patients.

While the Coalition has embraced big spending, it is still fighting tooth and nail to keep government as small as possible and using existing channels to pay businesses and workers. Funding at one remove meant subsidising the wages of 6 million workers to prevent 1 million of them losing their jobs — an enormous transfer of wealth to the owners of profitable businesses.

During the global financial crisis (GFC) the Coalition argued that pumping money into the economy is the easy bit. Targeting it at things that deliver benefits to citizens is a much, much harder task. Morrison has the chance to make worthwhile spending decisions so that he will be remembered for more than just the record level of debt.

WHAT SHOULD WE KEEP FROM THE OLD ECONOMY, AND WHAT SHOULD WE BUILD ANEW?

by Ebony Bennett

[Originally published in the Canberra Times, 18 April 2020]

This article pointed out that with the successful management of the pandemic, Australia has options other countries do not. That means it's time to start thinking about what our society will look like after this crisis. Otherwise there is the risk that things go back to the way they were before:

- the slowest wages growth since World War II,
- rampant wage theft by business,
- more and more Australians reliant on insecure work without paid sick leave or holidays,
- a public health system under strain,
- unaffordable childcare preventing people from participating in the workforce and
- a resource-extraction industry that freely pollutes our air, land and water.

Australia should rebuild its economy to work better for all Australians. The fact is, if our economy "snaps back" to business as usual we will have missed a huge opportunity. This crisis has elevated certain issues to a level of importance they struggled to gain before the

pandemic: affordable childcare and housing, the fragility of insecure work and workers' rights, and the importance of advanced manufacturing, the arts, a strong public health system and listening to scientists and experts. Free childcare and a significantly increased Newstart payments should remain with us while we address other issues including secure jobs, with good pay and conditions. In short neoliberalism should be ditched.

THERE IS NO 'SNAP-BACK' COMING

by Richard Denniss

[Originally published in the Australian Financial Review, 11 May 2020]

This opinion piece argued that a 'snap back' or V-shaped recovery is unlikely. Even optimistic forecasts from the Reserve Bank of Australia (RBA) suggest we will not return to recent GDP levels for a couple of years. The present deep recession is likely to cause pain for many years, even with high rates of economic growth.

The Australian economy doesn't need temporary and targeted stimulus while it waits for the economy to 'snap back'. It needs a sustained and structural shift in public spending to drag the economy back from the deepest hole it has ever been in. In the absence of a consumer-led recovery or an export led-recovery the only option is a government-led recovery. That won't be cheap to fund or easy for some to swallow but, apart from hope, it's the only option going.

AUSTRALIAN BUSINESS CAN'T LEAD US OUT OF THIS RECESSION - THE GOVERNMENT MUST STEP UP

by Richard Denniss

[Originally published on Guardian Australia, 13 May 2020]

This opinion piece pointed out that Scott Morrison has quietly dropped his "snap back" rhetoric and turned to pushing the idea of a "business-led recovery" in the second half of the year. Those benefiting from the JobSeeker supplement or the JobKeeper payment are being told their payments will be wound back in less than six months' time, even though unemployment will remain high for years to come.

The treasurer, Josh Frydenberg, says "there is no money tree" but neither do workers and businesses have money trees. Businesses do not lead recoveries, they respond to them, and until the customers start buying more stuff than the companies can make, the companies aren't going to waste money expanding their production capacity.

The economic models governments use to predict the future have never had a good track record. The Coalition has delivered six budgets since winning office in 2013, and Treasury has overestimated wage growth in all six of them. But those errors are trivial compared to the bizarre assumptions those same models make about the long-run impact of the deepest recession in a century.

Economic models usually ignore the possibility of recessions by assuming that “negative shocks” hit the economy from time to time, but positive shocks cancel them out.

No one believes that if COVID-19 caused our economy to collapse by 20%, the economy would snap back just as quickly. Some of the forecasts suggest the economy contains a quick error correction mechanism—just like those life-size dolls that quickly bounce back if you knock them over.

The Australian economy does not need temporary and targeted stimulus. It needs hundreds of billions of dollars’ worth of new public policies and investment to fill the gaping hole that COVID-19 has dug into our economy. And the sooner they get started on those policies, the sooner unemployment will fall.

Any new stimulus has to come from consumer spending, private sector investment, net exports or government spending. When we talk about the size of GDP, we are literally talking about the sum of those four parts. Let’s think about what’s likely to happen to those parts. At the moment only the government is able to overcome the constraints of a shrunken economy.

AUSTRALIA'S UNEMPLOYMENT FIGURES MASK A DEEPER REALITY

by Ebony Bennett

[Originally published by the Canberra Times, 16 May 2020]

This week [14 May 2020] the Australian Bureau of Statistics (ABS) announced Australia's biggest monthly rise in unemployment since the ABS started publishing labour force statistics, shooting up to 6.2 per cent from 5.2 per cent just a month earlier. That increase seemed small by comparison with market expectations. And it did not make sense when employment fell by almost 600,000 people.

The modest increase in the unemployment rate was an artefact of the ABS definitions of unemployment.

- almost half a million Australians left the labour market. Many of them gave up looking for work, one of the criteria for being labelled unemployed.

- The JobKeeper wage subsidy has also skewed the numbers because the ABS actually collects data on hours paid, not hours worked and JobKeeper pays people whether or not they actually worked.

We might describe an 'effective unemployment rate' of 15 per cent, not 6.2. Fortunately, JobKeeper and a more generous JobSeeker payment means the suffering is less than is suggested by 15 per cent unemployment.

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