

Better Economy

Better Budget

Better Future

STATEMENT ON LABOR'S ECONOMIC PLAN AND BUDGET STRATEGY

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Defining Economic Challenges

A better future relies on a stronger, broader, more inclusive, and more sustainable economy – powered by cleaner and cheaper energy, a better-trained workforce with higher participation, and key investments in the care economy, digital economy, and a future made in Australia.

This will give Australians the best chance to earn a decent living, keep up with the skyrocketing costs of living, make ends meet, secure more of the opportunities of a recovering economy, and get ahead.

As we emerge from the pandemic, Australia is unprepared for the most pressing economic challenges – rising inflation, falling real wages, and not having enough economic benefit to show for a trillion dollars in public debt.

Even with the unemployment rate falling in welcome ways, we aren't seeing the wages growth we need in a labour market characterised by skill shortages, underemployment and insecure work. This is a consequence of the Liberals' policy settings, which are deliberately designed to keep wages low.

Labor's five-point Economic Plan is calibrated to reduce the costs of living; drive productivity growth and expand the capacity of the economy to alleviate supply side pressures; get wages growing so that Australians aren't held back or left behind; and invest public money in a way that delivers genuine economic value for Australians.

Of course, this needs to be a private sector-led recovery – that is not contested. We know that our Economic Plan will only be successful through genuine partnerships and collaboration with business.

Achieving this broad, sustainable, and inclusive economic growth together through productivity gains will be the key factor in creating and maintaining more jobs, better pay and better living standards, and putting the Budget on a more sustainable footing.

That's why Labor's Budget Strategy is tailored to Australia's economic conditions and is designed to:

- Make room for smart, targeted investments that expand the capacity of the economy, so that it can grow stronger, broader and more sustainably.
- Improve the quality of spending to generate a Budget position that will allow us to reduce debt as a share of the economy over time, while delivering real outcomes for Australians in essential areas like Medicare, aged care and child care.

We will do this by prioritising smart, responsible and targeted investments that deliver economic value; dealing with the Liberals' wasteful spending including by trimming spending on contractors, consultants, and labour hire in the public service, and through a waste and rorts audit; and by closing down loopholes which allow multinationals to avoid their tax obligations to Australians.

The Government's Record

The release of the Pre-election Economic and Fiscal Outlook (PEFO) points to contemporary challenges in our economy but also delivers a damning verdict on a much longer period of economic underperformance and mismanagement.

After almost a decade in office, average economic growth, average productivity growth, average wages growth, average business investment and average unemployment have all been weaker under this Liberal Government than under the last Labor Government:

- Average economic growth at 2.3 per cent a year under this Liberal Government; lower than the 2.5 per cent of the last Labor Government.
- Average productivity growth at 1.1 per cent a year under this Liberal Government; lower than the 1.4 per cent of the last Labor Government.
- Average wages growth at 2.1 per cent a year under this Liberal Government; lower than the 3.6 per cent of the last Labor Government.
- Average business investment at -2.8 per cent a year under this Liberal Government; lower than the 5.5 per cent of the last Labor Government.
- Average unemployment at 5.6 per cent a year under this Liberal Government; higher than the 5.1 per cent under the last Labor Government.

All of this points to an economy that is less resilient to future challenges than it needs to be.

The Liberals' legacy of record household debt also makes families more vulnerable to inevitable interest rate movements, as the Reserve Bank has observed.

In addition to these weak economic outcomes, the Liberals have taxed more, borrowed more and spent more than the last Labor Government – but delivered less.

In fact, the Liberals are taxing more than the last Labor Government by every measure – in total, as a proportion of the economy, per person and adjusted for inflation:

- This is the second highest taxing government of the past thirty years – the highest was under John Howard.
- The current tax to GDP cap has only been breached four times since Federation, and on every single occasion it was under the Liberals.
- Taxes have been higher every single year under this Liberal Government than the level inherited from Labor.
- Tax as a proportion of the economy averaged 20.9 per cent under the last Labor Government, but that's risen to 22.3 per cent under the Liberals.
- The Liberal Government is collecting over \$170 billion more tax this year compared to the last Labor Government in 2013, equivalent to an extra \$5,275 per Australian.

The Liberals are spending more than the last Labor government:

- By \$230 billion this year compared to the last Labor Government in 2013.
- Spending as a proportion of the economy averaged 24.9 per cent under the last Labor Government, but that's risen to 26.5 per cent under the Liberals.
- The Liberal Government announced \$70 billion in spending between the December update and the March Budget alone, without offsets.
- The Liberal Government committed \$39 billion in its Budget without offsets.
- Analysis in the media indicates that the Liberals have made \$23.3 billion of announcements in the month since the 2022 Budget – which equates to \$833 million a day.

The Liberals have a worse record on debt and deficits than the last Labor Government:

- After promising surpluses in the first year and every year, the Liberal Government has delivered more consecutive deficits than any government since the 1920s.
- Australia will now accumulate \$1 trillion in debt, half of that before the pandemic, with not enough to show for it.
- The Liberals doubled the debt before the pandemic started.

Despite spending more, taxing more and accumulating generational debt without a generational dividend, the PEFO highlights pressing challenges which exist in our economy when it comes to inflation, interest rates and wages:

- Real wages will continue to go backwards this year, which means an average worker's real wages will have fallen \$1,355 this year, and \$3,200 over the last two years.
- **Costs of living continue to skyrocket, with inflation forecast to reach 4.25 per cent by June 2022.**
- Interest costs on the record debt accumulated by the Liberals will be larger than what we spend on child care, the Pharmaceutical Benefits Scheme or Family Assistance by the end of the forward estimates, and Treasury and Finance have warned this could blow out by a further \$2.5 billion given current interest yields.

The Liberals have been part of the problem and not the solution when it comes to inflation, falling real wages, insecure work and failures to invest in a more productive economy.

This Government has a long history of undermining wages growth and of mismanaging the Budget through unproductive spending.

With regard to wages:

- The former Finance Minister admitted that low wages growth has been “a deliberate design feature”, of the Liberals’ economic plan.
- The average Australian worker is \$307 a week or \$16,000 a year worse off than if wages had grown at the same rate as under the last Labor Government.
- Despite the welcome falls in the unemployment rate, we are yet to see broad and sustained wages growth across all sectors.

Instead, we are witnessing skills shortages exacerbated by cuts to training, which have seen job ads at a record high while over 1.4 million people look for work or more hours.

This not only impacts businesses, but also puts increasing pressure on inflation.

While we know that global conditions have an impact on rising inflation in Australia, there is more that government can do to address this issue for workers and families.

We need investments in measures that alleviate supply side pressures.

Instead, the Liberals have wasted billions of taxpayer dollars on rorts and waste, rather than focus spending on boosting productivity and the economy’s productive capacity.

Treasury’s Intergenerational Report last year confirmed that the Liberals’ economic mismanagement over most of the last decade has resulted in an economy that is smaller and will grow more slowly over the next 40 years than the last 40 years.

The Morrison Government has no plan to turn that around.

Labor's Economic Plan

Labor will prioritise broad, inclusive and sustainable growth.

Our Economic Plan addresses the pressing challenges facing our economy, particularly in relation to rising inflation and falling real wages.

It aims to alleviate supply side pressures by enhancing the capacity of the economy, to facilitate higher wages growth to help workers and families manage the skyrocketing costs of living and get ahead.

Labor's policies will boost wages growth by:

- Boosting participation in the workforce with child care reforms, so that people can work more and earn more.
- Adequately funding education and training to address skills shortages and help people qualify for higher-wage opportunities.
- Investing in industries that will provide large employment and growth opportunities in the future, for example, renewable technologies, advanced manufacturing, and the care sector.
- Supporting minimum wage cases that take the cost of living into account, and key wage determinations in the care economy, especially aged care.
- Ensuring there are more secure jobs, by addressing issues in labour hire, empowering The Fair Work Commission to turn insecure jobs into more secure ones and regulating the gig economy.

To boost productivity, alleviate supply pressures and create the right kind of growth, Labor's five-point Economic Plan is:

- To invest in cleaner and cheaper energy through our Powering Australia policy to cut power bills by \$275 a year by 2025, unlock \$76 billion in investment and create over 600,000 jobs, most of these in the regions.
- To better train our workforce through fee-free TAFE and more university places to equip Australians with critical skills to address shortages.
- To invest in cheaper child care which will reduce cost pressures for 1.26 million working families, and boost GDP through higher workforce participation by at least three times as much as the Government's alternative.
- To upgrade the NBN as the first step in modernising our infrastructure to begin capturing the digital economic opportunity, which could be worth up to \$207 billion in GDP per year by 2030 if Australia caught up to global leaders.
- To create a Future Made in Australia with procurement and co-investment plans through the National Reconstruction Fund to stimulate billions of dollars in private investment, secure supply chains and revitalise regions through more jobs and opportunities in more parts of the country.

This plan will lift the productive capacity of the economy and lift the speed limits on growth, without adding unnecessarily to inflationary pressures.

Labor's approach will be focused on collaboration - working with business, unions and all relevant stakeholders to give the private sector the confidence to invest and grow.

We recognise that much more can be done by working with our \$3.5 trillion superannuation sector to boost economic growth. We will establish an all-of-government framework for facilitating partnerships between super funds and projects of national importance like large-scale and regional infrastructure projects, affordable housing, seed investment or farm and manufacturing technologies.

Our Economic Plan will also be complemented by robust processes to ensure that we are able to incorporate rigorous economic analysis into all our policies including by:

- Developing a White Paper on the labour market, which will include a focus on wages growth and secure work.
- Measuring what matters through a Budget that measures progress and wellbeing and a more robust Intergenerational Report in the middle year of every term.
- Undertaking a review of the Reserve Bank and its objectives, including the most appropriate relationship between fiscal and monetary policy.

Labor's Budget Strategy

Labor's Economic Plan and our Budget Strategy are connected and support each other.

The best way to fix the Budget and pay down debt is to lift growth and boost incomes, and the best way to improve the economy and lift growth is to make smart and responsible investments to expand productive capacity, so the economy can grow faster than debt.

Our Economic Plan goes to the first two parts of our Budget Strategy:

- Begin with expanding the capacity of the economy so that it can grow faster than debt.
- Judge spending based on the quality (not just quantity) of investment to ensure our policies are the most efficient ways to achieve maximum economic benefit.

Labor understands that there is not scope to spend on every good idea and that we can't undo the damage done over a decade in one Budget or even one term – and that we need to prioritise and sequence and be responsible.

Our priorities when it comes to new spending are to:

- Create jobs and boost participation.
- Invest in lifting productivity, especially through investment in human capital.
- Generate new business investment.
- Increase wages and grow incomes.

We have been through a rigorous Shadow Expenditure Review Committee process considering each policy in light of these priorities to ensure that they are the most efficient way to deliver the most benefit to our economy, its workers, families, employers and communities.

Australians want to know that government policies work, but a lack of rigorous evaluation characterises much of the Liberal Government's time in office.

In this economic environment with rising inflation as a core risk, the challenge will be to reorient spending towards policies that will lift wages and the productive capacity of the economy while improving the Budget.

This will require three additional parts of our Budget Strategy:

- An internal audit of the Liberals' errors and wasteful spending.
- Trimming Commonwealth spending on contractors, consultants and labour hire.
- Working with other countries to make sure multinationals pay their fair share of tax in Australia where they make their profits.

Audit of errors and waste

Focusing on the quality of our investments means looking to reduce wasteful spending across the Budget.

The Liberals' near-decade in office has been defined by record errors and waste.

Key examples include:

- \$19.7 billion in JobKeeper payments provided to companies with rising revenues.
- \$5.7 billion spent buying votes from slush funds targeted at Coalition or marginal seats.
- Up to \$5.5 billion on submarines that we will never see built.
- \$1 billion in government advertising.

Given this record, an incoming Labor Government will conduct a waste audit across government.

The audit will be conducted by Finance and Treasury within the first year following the election, to identify additional savings to repair the Budget.

Trimming spending on consultants, contractors and labour hire

Under the Morrison Government, spending on external labour and outsourcing has skyrocketed.

The Government's own Independent Review of the Australian Public Service released in 2019 (the Thodey Review) and the Australian National Audit Office have both found that spending on consultants alone has more than doubled since the Liberals came to power in 2013 – and that the use of contractors and labour hire has grown at a similarly alarming pace.

This explosive growth is driven partly by the Liberals' staffing cap policy, which has distorted staffing decisions by agencies for years, promoting a reflexive and expensive reliance on private external labour in order to circumvent the cap.

Labor will make sensible and staged savings from outsourcing arrangements on contractors, consultants and labour hire.

We will reduce spending on outsourcing by \$3 billion over the forward estimates period. This would reduce spending on outsourcing by 10 per cent in the first year.

We will abolish the arbitrary staffing cap which has eroded public sector capability, reduced job security and wasted taxpayer funds.

Labor's plan includes a strategic reinvestment of nearly half a billion dollars as part of the first phase of rebuilding capability in the public service – including 1,080 new secure frontline service delivery jobs at Services Australia, the Department of

Veterans' Affairs and the National Disability Insurance Scheme.

Our plan will not only meaningfully trim spending but also strengthen the capability of our public service.

Ensuring multinationals pay their fair share of tax

Australians have been paying more tax and losing out on funds that should be available for vital services like Medicare, aged care and child care while multinationals have been using tax havens and tax avoidance schemes to avoid paying tax in Australia.

Our proposals to apply and adopt global principles and policies on multinational tax and address the use of tax havens to avoid tax obligations, will also help repair the Budget.

Labor will keep up with global developments on multinational tax through a responsible and measured multinational tax integrity package that will close tax loopholes exploited by multinational companies and improve transparency to ensure companies remain accountable for their decisions on tax practice.

Labor's plan will tackle multinational tax avoidance by:

- Supporting the OECD's Two-Pillar Solution for a global 15 per cent minimum tax and ensuring some of the profits of the largest multinationals - particularly digital firms - are taxed where the products or services are sold.
- Limiting debt-related deductions by multinationals at 30 per cent of profits, consistent with the OECD's recommended approach, while maintaining the arm's length test and the world wide gearing ratio.

- Limiting the ability for multinationals to abuse Australia's tax treaties when holding intellectual property in tax havens.
- Introducing transparency measures including reporting requirements on tax information, beneficial ownership, tax haven exposure and in relation to government tenders.

These measures are expected to raise \$1.89 billion over the forward estimates.

The tax-to-GDP cap

Labor is not proposing tax reforms beyond multinationals.

There is no Labor Government on record that has reached even close to the current 23.9 per cent tax-to-GDP cap, adopted by the Liberals as an arbitrary political device. The Liberals are the only party to breach the cap on all four occasions this has happened since Federation.

Labor is not attracted to the current cap and does not believe it needs to be revisited, given that both sides will not approach it in the forward estimates.

The Budget projections do not have the tax-to-GDP ratio reaching the cap until 2031-32, a decade away. The Morrison Government is using it as a tool to distract from the fact that it is the second highest taxing government of the past thirty years, after the Howard Government.

The tax cap simply reflects the assumption that Labor in government included in its own Budgets – that successive governments have given back bracket creep as financial circumstances and priorities allow.

The objectives when it comes to quality spending that we outlined above are the same when it comes to considering tax relief.

We will always prioritise working families and measures that stimulate growth in sectors that can unlock economic growth and opportunities.

We will deliver the legislated Stage 3 tax cuts to more than nine million Australians earning over \$45,000.

And we are the only party going to this election with a proposed tax cut, which will make electric vehicles cheaper.

A better future and a stronger economy under Labor

The verdict is in – this has been a wasted decade of missed opportunities in the economy and a legacy of rising inflation and falling real wages, and record debt, is evidence of that.

The Reserve Bank Governor has made it clear that interest rates will rise no matter who wins the May election, and that supply side issues and wage stagnation must be addressed in our economy.

The experience for so many Australians is that everything is going up except their pay – and they know interest rate hikes are about to be part of the pain.

Together, Labor's Economic Plan and Budget Strategy can deliver a better future and an economy and society stronger after COVID than it was before, by addressing the key macro and household challenges simultaneously and responsibly.

We have made it clear that we have a responsible, fully costed plan and we note that our opponents released their final costings no sooner than two days before the last election.

Our responsible and measured investments and proposals cost a fraction of what the Morrison Government has rorted and wasted.

The Pre-election Economic and Fiscal Outlook provides the baseline for our election costings.

Now that it has been finalised, Labor will work with the Parliamentary Budget Office to finalise our costings for release in the usual way, at the usual time, towards the end of the election campaign.

If Labor prevails at this election, the policies and plans laid out here will then form the basis of a Budget handed down before the end of the year.

THE ECONOMIC RECORD:

LABOR VS COALITION

	LABOR ▼	COALITION ▼
ECONOMY		
Average GDP growth	2.5% per year	2.3% per year
Average productivity growth	1.4% per year	1.1% per year
Average wages growth	3.6% per year	2.1% per year
Average business investment growth	5.5% per year	-2.8% per year
Average unemployment	5.1%	5.6%
Average underemployment	7.0%	8.6%
TAX		
Average tax to GDP ratio	20.9%	22.3%
Tax receipts (million)	\$340,283 (13-14)	\$512,480 (21-22)
Real per capita tax	\$13,798 (13-14)	\$16,218 (21-22)
SPENDING		
Average spending to GDP ratio	24.9%	26.5%
Payments (million)	\$406,430 (13-14)	\$636,447 (21-22)
DEBT		
Net debt (million)	\$174,577 (September 2013)	\$631,477 (21-22)
Gross debt (million)	\$280,278 (September 2013)	\$906,000 (21-22)
Household debt to income ratio (percentage point change)	- 0.1 ppts (Dec 07 – Sept 13)	+23 ppts (Sept 13 – Dec 21)
DEFICIT		
Underlying cash balance (million)	-\$48,456 (13-14)	-\$79,821 (21-22)