



16 MAY, 2024

Dutton must put meat on the policy bones as voters chew over Labor handouts

The Australian, Australia

Page 1 of 5

Budget2024

INSIDE

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**SIMON
BENSON P5**



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SIMON BENSON
POLITICAL EDITOR

Jim Chalmers' budget has gone down like a lead balloon with economists and among the chattering class, but it remains to be seen how it lands with the rest of Australia.

Forget the freakonomics, this is where the true measure of political success resides.

The Treasurer is banking on a time-honoured political formula of human behaviour that no one will reject a handout. Just how grateful people will be is another question, considering where the needle is currently pointing on the misery scale.

Chalmers may have thrown the inflation handbook out the driver's window into the path of an oncoming truck, but this may not matter in the short term, if an early election is the destination.

The key supposition is that families in suburban Australia are paying little attention to the high-

level debate over profligacy, deficits and the dubious forecasts for inflation. Instead, they are fixated on what is coming in and going out of their own budgets on a weekly basis. This is Chalmers' hope at least. And from July 1, these families will be seeing more come in. But this is all relative. For many it is likely to be less than the increases in what is still going out.

None of it solves the underlying problem. Cost-of-living pressures remain. And if economists are right, it could all get worse.

As for mortgage holders – 30 per cent of households – they may well be sitting back in horror at the prospect of endlessly high interest rates, or even an increase, as a result of the budget.

Despite his protestations, Chalmers' third budget is a deeply political document. He has brought forward the sugar hits and delayed the difficult decisions. The \$300 energy handout also smacks of a last-minute inclusion. Chalmers alluded to as much in his post-budget retorts to criticism of its universalism. "We weren't prepared to put the time and

effort and money into designing a whole new system of means testing when this bill relief is delivered via the energy retailers," he admitted.

Clearly the reason Treasury chose this path is because, in order to get the CPI down, the rebate had to be put through energy bills – which can't be means tested. Had it been done through the welfare system, it wouldn't have had the desired effect in headline inflation.

The RBA will see through all of this. Other factors support an early poll theory. The figures in the budget are rubbery. One could also assume that where the economy is headed may be worse than the official forecasts.

Why would Chalmers want to deliver his final budget as recording a deficit?

Finally, any trust that remains over Labor's economic credentials would be shattered if Chalmers fails to meet the benchmark on inflation reduction he has now set himself.

One has to wonder whether private polling by Labor has informed the budget and forced the recalibration in the narrative,



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as it may also have done with Anthony Albanese's decision to throw his Energy Minister, Chris Bowen, under the bus over gas.

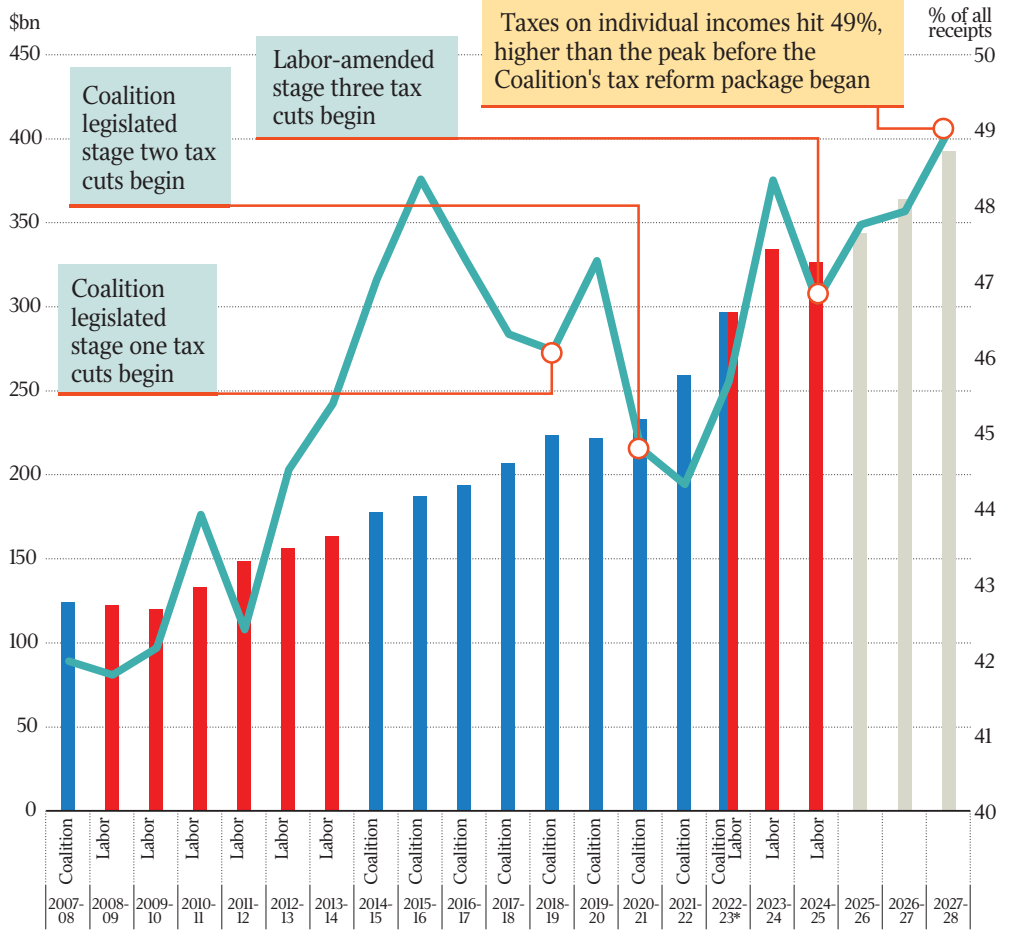
The trend in Labor's primary vote in the published polls has been consistently dropping. This needs to be arrested for Labor to avoid being forced into minority government at the next election.

The big picture question for Peter Dutton in his budget-in-reply speech on Thursday night is whether he takes Labor on over the question of returning the budget to some sustainable path or reject Albanese's cost-of-living measures. Whatever Dutton does on Thursday night, he will have to start rolling out at least two or three key policies that speak to where the Coalition intends to steer the election fight.

Most likely this will involve migration and housing – two key cost-of-living concerns.

Any trust that remains would be shattered if Chalmers fails to meet the benchmark on inflation reduction

INDIVIDUALS' INCOME TAX Source: budget papers



*March budget delivered by Liberal treasurer Josh Frydenberg; October budget delivered by Labor Treasurer Jim Chalmers



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ECONOMISTS' REPORT CARD

PRODUCTIVITY



“ I don't see anything in this budget that's actually going to do much to productivity, and do have some concerns around the Future Made in Australia Act and whether the policies and the spending are actually going to boost productivity ”
Cassandra Winzar, CEDA



“ The two concrete things that the government should be doing about productivity is looking at reducing the corporate tax burden, and the second is by reducing regulation. And I think the government is going in the opposite direction on those issues ”
Bob Breunig, ANU Tax and Transfer Policy Institute



“ There's nothing in the budget that raises productivity, which means there's nothing that will expand the supply capacity of the economy. Ultimately inflation should be the concern of the central bank and productivity should be the

concern of the fiscal outlook ”
Warwick McKibbin, ANU Centre for Applied Macroeconomic Analysis

LOWER INTEREST RATES THIS YEAR



“ We had flagged that fiscal policy was one of the risks that could delay our base case that monetary policy easing would start in November this year. This risk is now more real ”
Stephen Halmarick, CBA

TAX REFORM



“ For everyday Australians, whilst they will see some temporary relief from this year's budget, the tax system will continue to fail them. With such high income tax rates for Australians, workers will continue to be stifled, impacting future generations ”
Scott Treatt, The Tax Institute

BUDGET REPAIR



“ Jim Chalmers has sought to present the 2024-25 budget as one that strikes a balance

between providing support to an ailing economy and keeping pressure off inflation. In our view, that's disingenuous: the combination of increased government spending and fresh tax cuts make it clear that budget repair isn't top of mind ”

Abhijit Surya, Capital Economics



“ With billions being spilled into the economy from 1 July, and without offsetting new spending with cuts elsewhere, the budget has thwarted the task of tightening the structural deficit. Although no significant policy reforms were expected, it does not take away from our disappointment in the lack of reform measures in this budget, especially given Australia's flailing productivity growth ”
Cherelle Murphy, EY

LOWER INFLATION



“ Whilst the government argues that cost-of-living support measures such as energy and rent subsidies will

bring down CPI, we fear they are likely to stoke broader inflation ”

Carlos Cacho, Jarden



“ The direct effect is to soften inflation via the associated subsidies and lower indexation of some other prices the following year. It may also help contain inflation expectations. But there's an indirect effect; the relief provided to households may spill over into extra spending that could see inflation take longer to moderate ”
Luci Ellis, Westpac

FISCAL AND MONETARY POLICY WORKING TOGETHER



“ With more money going into the economy than before, it's hard to see how it makes their (the RBA's) already challenging job any easier. The risk - purely on last night's budget - is they stay on hold for longer. Both policy arms are now literally going in the opposite direction ”
Su-Lin Ong, RBC Capital



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Jim Chalmers at the National Press Club on Wednesday where he delivered his post-budget day address

GETTY IMAGES, MARTIN OLLMAN/NCA NEWSWIRE



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