

FINANCIAL REVIEW

— Opinion

'Chalmernomics' budget sliced up but didn't grow the pie

Tax-and-redistributive politics cannot fix a productivity crisis; it merely distracts from it.

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Assessing Treasurer Jim Chalmers' fifth budget [<https://www.afr.com/link/follow-20180101-p5zws2>] reminds us why we teach our children not to lie. The greatest gift we can ever give the next generation is not real estate, but our personal example: trustworthiness, integrity and patriotism. With this kind of inheritance, the next generation has real tools to build a brighter future for Australia.

Sadly, Chalmers and Prime Minister Anthony Albanese have not absorbed that lesson. Now they will be known forever as liars in the eyes of markets and households. [<https://www.afr.com/link/follow-20180101-p5zv5i>] Their repeated promises across two elections not to touch negative gearing or capital gains tax concessions have been casually discarded in this budget.



The budget offers targeted relief and some resilience measures, but it doubles down on the envy politics-first, then traverses the interventionist economic playbook while shattering voter trust. **Alex Ellinghausen**

This is not a minor “change of view” – it appears to be a calculated attempt to subvert and weaponise younger Australians via the politics of envy. This is both shameful and especially dangerous in the current climate.

The supposed justification for the broken promises is the pursuit of intergenerational equity – no doubt very clever politics. But how is that achieved through a larger overall tax take with no direct redistribution to the young?

By focusing the budget discussion on slicing up the national tax pie and intergenerational equity, Chalmers obscures the real problem facing the Australian economy: it is not producing enough real income growth per person and is now uncompetitive on cost grounds.

Tax-and-redistributive politics cannot fix a productivity crisis; it merely distracts from it. Self-reliant younger Australians facing declining living standards are now less well placed to purchase residential real estate, let alone to pay rising rental costs if their landlords pass on the tax changes.

Since 2010, Australia’s real household disposable income, per person, has underperformed most advanced economies, with Victoria hit hardest.

Underpinning this decline is chronically weak productivity growth, which coincides with the large-scale introduction of weather-dependent technologies into the energy grid.

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The Albanese government has not followed Hawke and Keating in developing a coherent productivity program that promotes workers' welfare through macroeconomic stability, modernisation, and genuine supply side reform. Instead, it continues to plug gaps in the economy by responding to immediate, pressing concerns with redistributive policies.

Sadly, there is nothing in the budget that attempts to address the decline in living standards and productivity head-on. Indeed, after five budgets, the government still lacks a real economic agenda. We don't count slogans like “Future Made in Australia” and “Net Zero 2050”, which are akin to an economic suicide pact. Nor do we count the recycling of elements from Bill Shorten's election manifesto, which were rejected at two elections (2016 and 2019).

What the government does have is “Chalmernomics” – the deliberate strategy of using all available policy instruments to influence workers' wages and employment outcomes more directly. It favours retrograde interventionism, often regardless of productivity links or long-term growth. Chalmers' macroeconomic thinking draws heavily on modern monetary theory (MMT) influences – activist fiscal policy paired with accommodative monetary policy to provide a nominal anchor for wages and full employment. This helps explain earlier RBA review outcomes and persistent dovish tendencies relative to peer economies.

The budget centrepiece – housing tax changes from July 2027 – is illustrative. Negative gearing on residential property will be restricted to new builds. Even if one believes that redirecting tax concessions to new housing is a good idea in principle, it is possible to do the right thing the wrong way, and at the wrong time. What made sense in 2016 may be very risky now.

In the current interest-rate environment, amid a global energy crisis, the treasurer is asking investors (who account for 40 per cent of market demand) to trust him and commit to expanding new housing supply. Meanwhile, he has set in motion the mechanisms that could initiate a downward spiral in market confidence and prices. Price must fall to maintain current yields in the face of the tax changes.

Meanwhile, the budget includes no serious measures to spur greater supply by lowering construction costs.

In the face of market uncertainty, developers might just pause all new development and wait and see how market dynamics play out in the coming quarters.

On capital gains tax, the replacement of the 50 per cent discount with inflation indexation plus a 30 per cent minimum tax rate on gains raises even deeper concerns.

Making Australia one of the highest-taxed capital gains regimes in the OECD cannot be good for growth. Nor is the double taxation of labour income – savings accumulated from already-taxed wages – hit harder on realisation. While the changes purport to tax only “real” gains, the minimum tax floor and added complexity will likely discourage risk-taking, lock in assets, and damage capital allocation at precisely the time higher productivity is needed.

Similarly, taxing discretionary trust distributions at a minimum tax rate of 30 per cent will be impactful for many family businesses and small and medium-sized enterprises (SME) – a disincentive to the operation of the main incubator of private employment, just as the adoption of artificial intelligence is depressing demand.

Overall, these measures impose higher taxes on capital and rising taxes overall. The budget, therefore, provides many reasons to sell up or invest offshore, but few to expand domestic operations and productivity-enhancing capital expenditure within Australia. It is a strange beast!



The multimillionaire Boost Juice founder has criticised the federal budget's tax changes.

Returning to the topic of intergenerational equity, Australia's housing policy has regrettably transformed over the past half-century from one focused on families and fertility to one driven by mum-and-dad "investors". The error goes back to the Campbell committee's implementation by Labor. SME lending got tight and tied to the family home. Quantitative restrictions were scrapped on home lending (especially on investment). The property party began.

The "asset class" has benefited from a four-decade price boom driven by sustained tailwinds such as financial deregulation (easy credit), demand-side tax concessions, and (more recently) massive temporary immigration and easy global monetary policy from the global financial crisis through to the COVID-19 pandemic. But now all these factors appear to be swinging into reverse.

One interpretation of the tax package is that the policies are cleverly masked to hide the real intention: to crash the housing market. Surely, the treasurer is not foolish enough to try to crash the party now.

Recall Mark Baum (Steve Carell) drily observing in *The Big Short* (2015): "BOOM."

In terms of fiscal strategy, Chalmers has largely jettisoned traditional fiscal anchors. Spending-to-GDP remains elevated. In truth, the nation is still riding its luck that record terms of trade will continue indefinitely. In the near term, the drop in the deficit is more about the benevolent economic backdrop for tax revenues.

Ironically, all the big structural savings in the budget were provided by Health Minister Mark Butler's NDIS changes, but these will be politically very hard-fought with the Greens in the Senate and may simply shift costs to other federal and state programs.

Meanwhile, big-spending federal and state governments will complicate the RBA's inflation task. Larger balance sheets and debt issuance echo the logic of modern monetary theory, but risk distorting capital allocation, fuelling higher inflation, or financial repression.

What would a more ambitious treasurer in the Keating mould have announced on budget night to accomplish deeper structural change? Some options include:

- ◆ Replace the company tax system with a cash-flow tax, expensing all capital outlays immediately. This would spur equity investment and domestic supply chains and force multinationals to pay their fair share.

- ◆ Leverage tradeable tax losses to fund a predictable pipeline of 15,000 affordable dwellings annually via tax-credit incentives, without direct public subsidy.
- ◆ Secure energy reliability by maintaining inertia in legacy power systems while funding long-term storage for renewables through the tax reform dividend. To a first approximation, energy is the economy, and our grid is not well-placed to take advantage of the data centre boom.
- ◆ Repurpose the Future Fund as a low-cost annuity provider to supplement super and aged pensions, encouraging sensible downsizing in housing.

Chalmers and the ALP remain caught in an economic “deform” spiral – understandable from historical wage grievances and ideological leanings, but increasingly at odds with current realities and eroded public trust. The question is whether they possess the courage of Hawke and Keating to prioritise genuine productivity over political opportunism and broken promises. Rejecting the Ponzi-like reliance on temporary migration for headline growth would be a start. Without such shifts, Chalmernomics risks delivering higher taxes, persistent intervention, and living standards that lag our long-term potential.

The budget offers targeted relief and some resilience measures, but it doubles down on envy politics-first, then traverses the interventionist economic playbook, shattering voter trust.

The treasurer has been praised in some quarters for “bold” tax changes that his predecessors shied away from. What that fails to appreciate is just how spendthrift this treasurer is and how hungry he is for revenue.

Australians deserve better: an economic program fit for a reforming treasurer that lifts productivity, wages, and opportunity through markets, honesty, and accountability – not despite them. Any takers?

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