# ECONOMICS AND GOVERNANCE COMMITTEE

**Members present:**

Mr LP Power MP (Chair)
Mr RA Stevens MP
Mr TR Watts MP
Mr ST O'Connor MP
Ms KE Richards MP
Mr LR McCallum MP

**Staff present:**

Ms L Manderson (Committee Secretary)
Mrs R Mills (Assistant Committee Secretary)

## PUBLIC HEARING—INQUIRY INTO THE QUEENSLAND GOVERNMENT'S ECONOMIC RESPONSE TO COVID-19

### TRANSCRIPT OF PROCEEDINGS

**MONDAY, 13 JULY 2020**

**Brisbane**

# MONDAY, 13 JULY 2020

**The committee met at 9.00 am.**

**CHAIR:** Good morning. I declare this public hearing open. Today's proceedings are being conducted using videoconference and teleconference facilities, so I ask all of our participants and anyone watching the live broadcast to please bear with us if we encounter any technical difficulties. I would like to begin today's proceedings by acknowledging the traditional owners of the land on which we participate today and pay my respects to elders past, present and emerging. My name is Linus Power. I am the member for Logan and chair of the committee. Other members on the committee are: Ray Stevens, the member for Mermaid Beach and deputy chair; Lance McCallum, the member for Bundamba; Sam O'Connor, the member for Bonney; Kim Richards, the member for Redlands; and Trevor Watts, the member for Toowoomba North. I think it is the first time we have all been together in the one room for quite a while.

The purpose of today's hearing is to assist the committee with its inquiry into the Queensland government's economic response to COVID-19. The hearing is a proceeding of the Queensland parliament and is subject to the standing rules and orders of the parliament. It is being recorded and broadcast live via the parliament's website. If you are not joining us via mobile phone on the videoconference connection, I ask that you turn your mobile phone off or switch it to silent. Please place microphones on mute unless you are speaking to prevent audio interference and background noise.

## MANDIGORA, Mr Gus, Senior Policy Adviser, Chamber of Commerce & Industry Queensland (via videoconference)

**CHAIR:** Good morning. To assist Hansard reporters who are transcribing today's proceedings and also for the benefit of those watching, make sure you identify yourself by name when speaking. The committee members will also endeavour to ensure they clearly identify themselves when asking questions to minimise confusion for yourself as well as for members of the public watching the broadcast and to assist Hansard in their transcription of the proceedings. I now invite you to make an opening statement, after which the committee members will have some questions for you.

**Mr Mandigora:** Good morning, Chair. Thank you for having me here. I will not reintroduce myself because you have done that already. I will briefly introduce the CCIQ once again for the benefit of those who do not know us very well. CCIQ is Queensland's peak industry representative organisation for small and medium businesses. We represent over 448,000 Queensland small and medium businesses. I will start my remarks by painting a brief picture of Queensland's pre-COVID-19 economy.

Pre COVID, Queensland's economy was already struggling with a high unemployment rate compared to the rest of the country, a high rate of business bankruptcies and sluggish economic growth compared to the Australian average. It is in this context that COVID-19 came in and delivered a real hammer blow for business.

I will not repeat all the facts and figures about the effects of COVID-19 on Queensland's businesses, but I will highlight two statistics that really stand out for us. In March 2020, we did a survey of the impact of the coronavirus and COVID-19 on Queensland's businesses. Half the businesses we surveyed suffered 50 per cent declines in their revenue. One-third of the businesses we surveyed suffered revenue falls of up to 80 per cent. That is devastating and really brings home the fact that Queensland's businesses were already struggling and COVID-19 made everything much worse, a lot worse than anything we had ever imagined. In this context, CCIQ would like to commend the Queensland government for coming up with a stimulus package that really helped to support businesses when they were struggling.

There is no need for me to go through every single element of the stimulus package and give our assessment of it because we have already done that in our submission. We would, however, like to highlight one or two really important points to note. The first one is that for a small business the adage is 'cash is king'. Any form of stimulus that allows a small business to get cash to pay the bills and pay their staff will always be extremely effective. The second issue we would like to highlight is that rebates and relief on taxes, levies and fees are always really appreciated, even though those take a much longer time to actually come to the fore and help a business.

The last part to highlight is: it is really important that the Queensland government came out and announced all of the stimulus packages and helped to support businesses, but it is also important that the engagement that we had with the Queensland government was also really good. It ranged from having ministers come on our teleconferences with Queensland's chamber movement and answered questions live to Queensland's ministers meeting with CCIQ and listening to our feedback when things were not going very well. It also consists of the Queensland government responding to any criticism and fixing any issues that arose as they came about. I would like to commend that form of engagement.

Having said that, it is also important to talk about the things that did not go so well and the things that we believe we should learn from in order to support businesses better, if ever we are faced with another crisis. One big issue was the omission of sole traders from any form of the stimulus package. That is 280,000 small businesses in Queensland that did not receive the benefit and recognition that they could have. It is also important to highlight the fact that timing is everything when delivering a stimulus package like this. What we mean is that the Queensland government was usually really quick to make announcements, but it then usually took a really long time for the relief to flow to a company, and in that time a lot of companies would not have been able to hang on.

Finally, in terms of implementation, particularly as restrictions have begun to ease, a lot of the rules ended up being an impediment to trade in more ways than they should have. For example, one of our Townsville chambers informed us that the restrictions on restaurants were much higher for the same number of people than the restrictions that applied to private properties for people who were having functions. That hampers business and is not good for recovery. It is also important to note that, even with the small business adaptation grants that were rated really highly by business, a lot of businesses have not received feedback from the first round of applications, never mind the second one. Implementation is really key, even though we acknowledge the hard work that the Queensland government put in.

I would like to close by highlighting one set of really important factors. The stimulus package was really helpful for Queensland businesses, despite the challenges that we spoke about, but we have a long, hard road ahead of us. CCIQ submitted to the Queensland government a transformational stimulus package proposal which will help to lift us more permanently out of this kind of situation and make Queensland far more resilient. Again, I will not go point by point into every single issue that we raised but will highlight one or two quick things. In terms of deregulation and regulatory reform to make it easier for Queensland businesses to do business, we have learned from the crisis when the government moved quickly and would like to keep some of these deregulation moves for the future. We would also like long-term reform in the energy sector to reduce the cost of energy for businesses. We would also like Queensland to be an exporting economy to do more diversification work and to be supported by government in this endeavour.

There are a lot of other issues we highlighted, but we believe that, together with shovel-ready infrastructure projects, this will help to deliver a transformational package that will help to take Queensland from this tough situation we are in to a more resilient and prosperous Queensland for us all. I will pause there as I could talk for quite a long time about the reform agenda and next steps. I am happy to take any questions. Thank you once again for the opportunity.

**Mr STEVENS:** I am Ray Stevens, member for Mermaid Beach on the fabulous Gold Coast. We have had quite a long time of border closures, which would have been fairly costly for small business, as you would understand. You have probably had lots of complaints through your members on the Gold Coast. You have identified some benefits and some concerns for your members regarding the Queensland government's suite of payroll tax relief measures. What effect has the overall payroll tax relief package had on CCIQ members? Is it a good, quantifiable measure? How successful was that payroll tax relief for most of your members?

**Mr Mandigora:** We have some qualitative rather than quantitative evidence. Businesses appreciated the payroll tax relief. There were, however, two issues that we would like to highlight, despite them having benefited. The first one was that businesses that were below the payroll tax threshold clearly derived no benefit. The second issue is that initially we were talking entirely about a deferment of payroll tax which raised the risk of what we will call a fiscal cliff when those payroll tax receipts became due. There has been more of a move towards a waiver rather than simply a deferment, and we welcome that. However, CCIQ's position is that we would like to push for the abolishment of payroll tax because, for us, it is a tax on creating jobs. If we are talking about long-term reform that makes Queensland a better place to do business, we would like to push for an abolishment of payroll tax. I hope that answers the question.

**Mr STEVENS:** It does. Abolishing payroll tax is another issue all together. You mentioned that a lot of your members did not receive any benefit from the payroll tax measure. What percentage did not or did receive some benefit from that payroll tax exemption?

**Mr Mandigora:** I would have to do the number-crunching on that offline, because all we had was qualitative responses, which were people speaking to us. I will take that on notice.

**Mr STEVENS:** Thank you very much.

**Ms RICHARDS:** I will give you an update on the submission that you made. We had a departmental briefing from Queensland Treasury. In terms of your stats, giving a more current picture rather than December last year, unemployment was at 6.8 per cent in April, up from 5.7 per cent in March 2020. They suggested that hours worked was a better measure in terms of looking at unemployment—7.6 per cent in April, and Queensland recorded the smallest decline of all states. When we are looking at interjurisdictional comparison, that is really important data to have, as well as the ABS's weekly payroll jobs and wages data, which showed the number of employees in jobs fell from 6.1 per cent over the seven weeks to the week ending 2 May. Again, this was lower than the national fall of 7.3 per cent over the same period. In terms of looking at the national comparison, that is good data for you to have. I am curious in terms of CCIQ's assessment and analysis of where Queensland is at compared nationally when we look at the stage 3 easing of restrictions. Have you had feedback from your businesses on how quickly Queensland is moving by comparison to other states in small business?

**Mr Mandigora:** If I can clarify, is it in terms of how businesses feel the easing of restrictions and doing business is going compared to other states?

**Ms RICHARDS:** Correct.

**Mr Mandigora:** We have not yet done a survey on that. From what we understand, on the one hand, businesses are really appreciative of the easing of restrictions; however, the implementation has raised a couple of issues. I spoke really briefly about the feedback we had whereby restaurants seem to have a far higher burden in terms of conducting business as compared to, for example, households and lodges. We feel that those are things that we can bring to the government and hopefully they can get addressed. If I am to summarise and give an answer, I would say that there is a feeling that Queensland, in terms of the rules, is doing reasonably well; however, the implementation is where we are getting quite a lot of issues that need to be resolved in order to get the full benefit.

**Ms RICHARDS:** To clarify, you mentioned restaurants, so are you talking about the hospitality industry as one particular sector or more broadly? I am sure you represent a whole range of industries.

**Mr Mandigora:** Yes, this is across the board. When I am talking about the inconsistencies in how the law should apply and how the restrictions should apply, we are talking across the board. It is just that restaurants was one particular example given by one of our members as recently as Friday last week. That is the reason I highlighted it. This is across the board. We had a meeting with about 12 chambers on Friday and they spoke about how, across the board, they are experiencing issues around the actual implementation of the rules around stage 3 restrictions. I reiterate: it is across the board, with restaurants as one example.

**CHAIR:** On that point, once the government had made decisions to move to a new stage, your preference would be to not implement that and to keep businesses closed even though they had the advice that it was safe to proceed? To give more people time, they could only make that decision after they had determined it is safe to proceed, but you would somehow want us to not allow that opening and to keep it closed, only to give more notice of a date? Is that the position of the CCIQ? For instance, in the example of the restauranteur, if we had received the best advice from the health scientists that it was now safe to proceed to open, we should delay that opening, even though we had been given the advice that it is safe to open, in order to give more time?

**Mr Mandigora:** I would answer that in a two-pronged response. The first response is: when we are speaking about giving businesses adequate notice before opening, we are talking about certainty. I will give you one example with regard to the border openings. What we were pushing for was an announcement of a firm date with clear guidelines of what it would take for the border to open when those guidelines are met. Our issue was: if we can have certainty on dates and on guidelines, that is what is particularly useful. We are not referring to an announcement and then unnecessary closure in order to give more time. An early announcement of a firm date gives us enough notice and gives businesses enough to work with.

**CHAIR:** Those dates, for instance, are dependent on what is happening outside of Queensland. Let's take the border example. Your position is that we should have announced weeks before the school holidays that the border would be open to both New South Wales and Victoria so that people had time to book and prepare? The health evidence was not clear that there was not community transmission. The Queensland government was completely clear that reduction in community transmission was necessary in order to make that decision. Are you seriously putting the position that we should have, weeks before the school holidays, announced that Victorians would be coming up for the school holidays?

**Mr Mandigora:** In our view, that statement is a little too specific. That was not our position. Our position was that if we commit to a date and we announce a date—

**CHAIR:** With respect, on page 2 you say—

Holidaymakers book their school holiday destinations well in advance of school closures.

Your submission makes absolutely clear that you expected the Queensland government to open to Victoria weeks before the school holidays.

**Mr Mandigora:** Our position, which I believe is actually reasonably clear, is that we were looking for an announcement before the time with clear guidelines on what would be looked at to make that decision. We felt, and our members felt, that that was what was lacking. There was no commitment to putting forward a date and being really clear on what criteria would be needed to allow that date to be the border opening date. That is really our position, the fact that we were not clear what was going to happen and what the criteria were well enough in advance. It was not our position—

**CHAIR:** When the Queensland government repeatedly said that the criteria needed to be a reduction in community transmission in New South Wales and Victoria, that was not clear to yourself or to members of the CCIQ?

**Mr Mandigora:** That was not clear enough. The criteria were not clear and specific enough for us and for our members. We felt that—

**CHAIR:** I will have to forward you some transcripts where the Chief Health Officer said that explicitly and clearly.

**Mr Mandigora:** We would welcome that, because that really is the stance of our members and ourselves. The commitment to a date and the criteria to commit to that date were not clear enough, early enough in advance, to allow particularly our tourism industry to benefit from holiday bookings. We would welcome that clarity, thank you very much.

**Ms RICHARDS:** I think everybody around this table, and hopefully all of your members—I know from talking with businesses in my community and with my chamber of commerce on a near-on daily basis, they seemed to be fully aware of what the road map looked like and those milestones for review points. Are you saying that the feedback to CCIQ from its members is that it did not understand the road maps and the milestones on how we planned to reopen, providing the health advice at the time met those milestones?

**Mr Mandigora:** Yes, that is our position. We felt that the milestones leading to the decision were not clear enough and we could not make a firm commitment based on the information at hand. Yes, that is CCIQ's position.

**Ms RICHARDS:** I think we should move on then.

**CHAIR:** That is mystifying.

**Mr WATTS:** Gus, I am interested in your thoughts around energy reform for small business coming out of this. As we know, in regional Queensland there is no price competition available and there is no alternative supply available, so you cannot seek the same advantages that exist in South-East Queensland. How would you interpret that kind of policy setting for your members in regional Queensland going forward?

**Mr Mandigora:** Again, I will give a two-pronged response to that. The first part of our response is that we would encourage and support competition in the distribution sector in regional Queensland. We absolutely would. I believe that CCIQ has spoken about it and has a formal policy position on that. I would also like to add to that point, if I may. We also believe that the regulation of Queensland's electricity networks needs to change. We have put in a formal proposal to the Queensland government as to what needs to happen in a way that will more formally and more permanently lower prices for Queensland's small businesses. On the one hand, yes, we welcome more competition in regional Queensland; on the other hand, we need far more comprehensive reform, particularly on transmission and distribution of electricity in Queensland. I can talk through some of the detail, but we have put in a formal submission before.

**Mr WATTS:** What do you think that would mean for regional businesses' competitiveness going forward?

**Mr Mandigora:** As a general rule, we believe that competition helps to drive up quality and drive down prices. We believe there are possibly quite a few gains to be made in terms of lowering prices and increasing quality if we have more competition in regional Queensland.

**CHAIR:** Just to clarify, there is a difference between retailing and distribution. In this case, with competition in distribution, you are suggesting that the CCIQ is encouraging the privatisation of distribution networks?

**Mr Mandigora:** We did not say that. It is not a formal CCIQ position. Our position is that we encourage more competition. We are not about advocating for either private or public. We are not saying to privatise and we are not saying to bring back into the public sector, because we believe that that in itself is too simplistic. Whether an entity, an electricity provider or an electricity distribution company is private or public is not really the main factor in what prices look like. I could give some examples if you are interested, but we are not engaging in the debate of private versus public. We support competition, we support adequate regulation and we believe that is what will drive down prices regardless of whether the entities are private or public.

**Mr McCALLUM:** You mentioned transmission and distribution in terms of the electricity sector and the regulation. When you say 'more competition', given that it is a physical monopoly, are you putting the forward the position that you would like to see other physical assets built? Otherwise there is only one set of transmission lines and there is only one set of distribution lines. I am curious as to what you are intimating there.

**Mr Mandigora:** I will take a step back in case I was not particularly clear, which is fair enough. In terms of the transmission and distribution network throughout Queensland, yes, we are dealing with monopolies, or we are dealing with state owned entities that do not have any effective competition. What I am referring to is that in regional Queensland, particularly for distribution and for retail, competition is the issue. We believe that, for example, things like splitting up existing networks for regional Queensland can help to enhance competition. We are talking about a corporate split-up rather than putting up new poles and wires in order to compete with existing poles and wires. As you can imagine, that would not help economically. It would not make economic sense.

**Mr O'CONNOR:** To follow up a little more on the small business support grants that you mentioned in your submission, what were the key issues that you found? You mentioned the importance of getting the funding out as quickly as possible. Was it the lateness of the funding? Was there an inadequate amount, the $200 million? What sorts of things do you think could have been improved and what were the key issues?

**Mr Mandigora:** I will start by saying that the small business adaptation grants were very much appreciated by the companies that received it and the CCIQ is fully in support. In terms of the issues, yes, we believe that the $200 million was not enough. The oversubscription, we believe, was evidence of that. We believe that more cash support would have been really useful. In terms of the other issues that we came across, I mentioned earlier in my presentation that some companies that applied for the first round of grants have not received any response up to now and it is still pending. They were not sure whether to apply for the second round of grants. Some did; some did not. Again, the slow response rate for some businesses is a real issue.

The second part of it is that we believe that a lot of effort was put into making the grant application process reasonably simple, but we still found a couple of businesses that struggled with that. The main lesson coming from that would be: the more we can advocate for simplicity, the better for business. Finally, we found that a lot of businesses were already hanging on by a thread by the time the first grant was announced. Again, speed is of the essence. This is not to fault how quickly disbursement happened for companies that successfully applied, but it is always important to emphasise that for this kind of relief speed is always key, because some businesses will fail in the time between announcement and disbursement of the grant.

**Mr O'CONNOR:** Earlier you talked about confusion. Was that from things like statements of the Premier suggesting September and the Chief Health Officer saying two incubation periods in southern states before people could be let up? Then away from the border issue businesses were happy with the restrictions being eased but there was a 12-hour notice period between them being eased and when they could get patrons in and so on. Was that some of the confusion?

**CHAIR:** I am a bit confused by the question. Do you want to perhaps restate it?

**Mr O'CONNOR:** Was the confusion related to statements from the Premier suggesting a September opening of the border and other statements suggesting that you needed two incubation periods and just the general lack of guidelines around what would constitute the reopening of the border? Was that where the confusion came from?

**Mr Mandigora:** I take it you are referring to the border opening rather than the business adaptation grants?

**Mr O'CONNOR:** Yes.

**Mr Mandigora:** Yes, a lot of our members came to us and said they really were not clear around which date we were looking at. There were a couple of changes that were made in terms of when the Queensland border was likely to open, and businesses just were not clear. That is why the CCIQ was pushing for a firm commitment for a date with really clear guidelines because, again, as I mentioned earlier, a lot of our businesses were not really clear on what was happening and could not plan accordingly. I completely agree there was a lack of clarity in terms of opening dates and what it required to take us to that point.

**CHAIR:** The LNP put out a plan that said there would be an opening of the border dependent on community transfer and other conditions. In that sense, is the position of CCIQ that anything that did not have a fixed date and was not dependent on conditions—so anyone that did not have a fixed date irrespective of conditions in other states would not have clarity over dates?

**Mr Mandigora:** That is not QQIQ's position. Our position—

**CHAIR:** Well, it seems to be that—

**Mr Mandigora:**—and I apologise if I—I am sorry, I beg your pardon.

**Mr STEVENS:** He is answering the question. Would you mind letting him answer the question?

**CHAIR:** Sorry. Continue.

**Mr Mandigora:** I apologise if I am not being particularly clear, but I will give it another shot. Our position is that it was important to announce a date, announce the conditions that would allow us to open at that date, and be really clear and to make that announcement on dates, regulations and issues to consider as early as possible before the school holidays came about. It was not to advocate for ignoring public health concerns or ignoring community transmission in other states. We believe it is really important to look at the medical evidence in front of us but to be really clear about the medical evidence, what the benchmarks are, and committing to a date based on that. That is what we believe—

**Mr STEVENS:** Thank you, Gus. As a former small business man, I understand exactly what you are saying.

**Ms RICHARDS:** Could you talk a little bit about the delay in JobKeeper kicking in for businesses back in the early stages of the pandemic—what that meant for your businesses and what your members are reporting to you at the moment in terms of the uncertainty around JobKeeper and where that sits for those businesses?

**Mr Mandigora:** Absolutely. This sounds like a cliche, but I will give a two-pronged answer again. Please bear with me. One prong is that JobKeeper has been incredibly valuable for businesses, and we have heard that quite regularly when we have been speaking to our members. On the other hand, one of the issues that consistently came up was the fact that JobKeeper only came into—for lack of a better phrase—each company's bank account after several weeks, when a lot of them were really struggling. It goes back to our 'urgency is everything and cash is king' comment. That is the first thing.

The second issue is in terms of business planning and business certainty. You are absolutely right. Uncertainty around the future of JobKeeper is a really big issue weighing on businesses. We have started a dialogue with the federal government through our partners, the Australian Chamber of Commerce & Industry, addressing that very issue, seeking clarity and making suggestions and recommendations on what needs to happen. I completely agree with you that that issue is weighing on businesses. The CCIQ has already started working behind the scenes with our members to talk about how important it is to have clarity as early as possible on the future of JobKeeper or whatever form it takes.

**Ms RICHARDS:** In terms of its importance, having run small businesses before and understanding that wages are any business's biggest expense, as you sit here on 13 July knowing that you potentially have six weeks left before it might be taken away, do you have a gauge or a feel on how much that will impact your members? When you talk about businesses having to close their doors, what will be the knock-on effect if JobKeeper ends on 30 September?

**Mr Mandigora:** Not only us but a lot of commentators have referred to what we call a fiscal cliff, and that is really what we are looking at. We are looking at quite a lot of businesses that will effectively go bankrupt if JobKeeper suddenly ceases at the end of September. JobKeeper has allowed a lot of companies to stay open during this crisis when they otherwise would have closed. It has also allowed a lot of employees to stay connected to the employers, and without it we would have far higher unemployment, far more misery, far more businesses closing their doors and lots of really bad things. We completely agree that JobKeeper is extremely valuable. The uncertainty is a huge problem. Continued certainty or a sudden end to JobKeeper will be devastating. What we would really love and what we would really appreciate is certainty around what will happen, and the earlier we get that certainty the earlier businesses can plan on what to do.

**Mr McCALLUM:** You mentioned in your answer that through your federal counterparts you were having dialogue with the federal government and you were making recommendations et cetera. Are you able to elaborate on that? Are you effectively seeking an extension to JobKeeper beyond the current 30 September date? Any information around that would be really helpful.

**Mr Mandigora:** Absolutely. I can give a couple of general pointers, because there will be a formal release that will happen in the next few days. What we are pushing for—apart from certainty, which I keep hammering on about because that is really important for business—is some sort of targeted support based on objective criteria. That criteria could be a fall in revenue beyond a certain amount or the criteria could be regional, based on the worst affected regions. Whatever it is, we are looking for some sort of continued support which allows businesses to keep their workers on board.

We have made a couple of more specific recommendations on how this kind of scheme could run in a way that benefits business more. We have been speaking about potentially making the payments in advance rather than in arrears because of cash flow and how that impacts business. That is something we are discussing. We are also talking about how it is important to try and relook at the amount and figure out ways to make it a lot more practical for workers who are earning more than they would be earning if they were at work, so some sort of recalibration is necessary. I will not go into too much detail, but that is one of the practical recommendations we have made. I think, in essence, it is continued support—we do not have to call it JobKeeper—and more targeted. We can look at the amounts, and the most certainty and the earlier we can get that the better. There will be a formal press release or communication in the next few days with far more detail.

**Mr STEVENS:** My taxpayer's dollars are paying for JobKeeper right at this moment. When do you as the CCIQ think that my taxpayer's dollars will stop the JobKeeper program continuing?

**Mr Mandigora:** That is a pretty tough question, because it is hard to put timing on things with the current conditions. COVID-19's economic effects are completely unprecedented. Our view is that we need to continue some sort of support using taxpayers' dollars for as long as it is needed. We believe that it is important to balance the books and to be fiscally responsible, but in this current climate if we withdraw support from the taxpayer far too quickly we will find there will be fewer taxpayers and more people needing more support. I cannot answer with a time line, but I would say as much support as is needed for as long as possible while being fiscally prudent. I am hoping the crisis passes relatively quickly, but the economic consensus is that we have a very long, hard road ahead of us and potentially far more work for your tax dollars in the next couple of months and years.

**CHAIR:** Thank you very much. There being no further questions, I might end this session.

**Mr WATTS:** There are further questions.

**CHAIR:** My apologies to the member Toowoomba North. We do not have any more time allocated to this witness. Thank you for appearing to assist the committee today. There were no questions taken on notice.

**Mr Mandigora:** Thank you, Chair, and thank you for allowing us the opportunity.

**HALLAM, Mr Greg, Chief Executive Officer, Local Government Association of Queensland (via videoconference)**

**SUTTON, Ms Shayne, Acting Lead, Intergovernmental Relations, Local Government Association of Queensland (via videoconference)**

**CHAIR:** Good morning. Before we proceed, I would like to request that you identify yourself by name when speaking, particularly when speaking for the first time or when speaking other than in response to a direct question. Committee members will endeavour to ensure they clearly identify themselves when asking questions to minimise any confusion for yourselves and members of the public watching the broadcast as well as to assist Hansard in the transcription of proceedings. I now invite you to make an opening statement, after which the committee may have some questions for you.

**Mr Hallam:** Thank you, Mr Chairman and other members of the committee. We welcome the opportunity to appear before you today. I suppose I should preface my comments by saying that at 20 years now I am the longest serving member of the Queensland Disaster Management Committee. I have been through all nature of disasters, biological as well as flood, fire, cyclones, drought and the like. This has obviously been another level test for us all. I only have praise for the way the government has conducted itself through these proceedings. Obviously, today's focus is on the economic recovery, but I need to say that the arrangements that have been put in place and adhered to from the outset have been very well done. Great credit to Dr Young and her team for being prepared and ready. I want to express deep gratitude to the Premier and her director-general, Dave Stewart, and the disaster coordinator, Deputy Commissioner Gollschewski. The level of honesty, candour, openness and flexibility has been extraordinary. We literally speak daily. We have our formal channels every week—DG meetings, QDMC meetings and meetings between the Premier and the mayors. So much work has happened outside of those meetings. It has been amazing. I think we are on 30 different task forces here at the LGAQ.

We can only comment at a high level. Individual councils or groups of councils may well have another dimension to add. In essence, clearly the first part of the response has been dealing with the health challenge, but from day dot we were also focused on the economic activity. The LGAQ were the first of the peak bodies to develop a detailed plan, and my colleague Shayne Sutton was very instrumental in that. It is what we call the battle plan. The government have adopted large parts of that, and we thank them for that. I also thank the opposition, who adopted it in full obviously subject to them taking office. We have had a great response from both sides of politics. It has been a great thing for Queenslanders that we treat them the same politically.

The challenge for local government has been pretty enormous. There are 400 border crossings in Queensland. People might find that a bit strange to hear. Local government has looked after a lot of those—it has not just been the police—because of police numbers in remote areas. There are 30,000 cafes, restaurants and nail salons; 10,000 parks; 500 beaches; 10,000 kilometres of bikeway; and add those 400 road crossings and you can see the enormity of the task. Local government has dealt with it in a number of ways. Obviously we have drawn on cash reserves. We cannot deficit finance, so we cannot go and borrow for those things. We have been able to work well with the unions—and I give credit to particularly QSU, who signed an agreement quite early with us about redeployment of staff. That meant that if we had facilities such as libraries and the like that were closed, where there were a considerable number of people we were then able to redeploy them into other areas without any great administrative difficulty. That has worked well for us. Equally, what I would call workarounds have worked quite well. We have had to change the way we start people at work and on jobs, how many people can be in a dual cab and all those practical things. I thank particularly Neil Scales, the Director-General of the Department of Transport and Main Roads, who has been very good. Neil has certainly passed on their best practice to us and we have taken some of that up.

In terms of the planning for the recovery on the ground, a lot of that has been done regionally. We are working in two different directions sectorally, and we play a part in a number of those—obviously around tourism, agriculture and a bunch of other things. There is also the spatial element. A lot of those segments are also spatial in nature, as you would appreciate. From day dot we were able to be involved in the discussions around itinerant workers in intensive agriculture and that has been useful. Equally, a lot of the work we did around the battle plan had a tourism element. A lot of the work had an agriculture element in respect of natural resource management, and we are still talking to government around some of those ideas around NRM, foreshores and dunes and things.

I will finish by saying this and then I will be happy to then take questions. Throughout all of our response we have thought about the long-term economic consequences. What we said we would do with the battle plan, the $600 million plan, was to build a bridge to the future. The thing that we can do very quickly—and we have done this historically since the Great Depression—is spend money quickly locally and engage local people, trades and, indeed, businesses, supplies and resources. That is what we have sought to do here: to be that economic bridge to a better future and have a six- to 12-month focus on it. We will have Works for Queensland money and the extra federal money spent quickly as well as implement other elements of the battle plan. To that end, we are having regular meetings, either face-to-face or these sorts of meetings, with Neil Scales and Brendan Moon, the head of the QRA. Believe it or not, we are very mindful that we do want to create an economic logjam. We want to make sure that we layer the spending so we are not competing for the same resources and we can extend the length of the stimulus due to how those three agencies all work together. From top to bottom I think it has worked very well. I only have praise for the people involved. There have been lots of mistakes for sure but also lots of great successes, and that stems from having a good process and having outstanding people from the state government around that table. As I said, the number of times they were prepared to listen to us, change things and do things differently I think is testament to the relationship and to the maturity of all the parties.

**Mr STEVENS:** I note in your submission there are plenty of requests around the finance aspect and the burden on local government. As I recall, the numbers were that—and I think they are still similar—the federal government gets 80 per cent, the state government gets 16 per cent and local councils, the group that you represent, get four per cent of the taxation dollar. I think that is still current.

**Mr Hallam:** Correct.

**Mr STEVENS:** We have seen through JobKeeper and JobSeeker the federal government take a lion's share of the burden, mainly because they have 80 per cent of the taxation dollar, in terms of support right across the country for keeping people in work and keeping the economy—and this inquiry is about the economy—going. Obviously state government employees are not being subsidised under JobKeeper or JobSeeker or any of those sorts of programs, yet I get the impression that you, representing local government—the four per cent of the taxation dollar—are intimating that there is not a role for local governments to play in the burden economically in the recovery process. Can you explain to the committee how you see local government assisting in the recovery and the long-term support that people need for jobs and for businesses?

**Mr Hallam:** That is a very good question. All those figures are right. We have the least amount of money in terms of the ability to provide stimulus. I think it is very important that every request we have made has not been about local governments' internal operations; it has been about putting money into the community. We believe that Works for Queensland and similar programs are terrific. Equally, the federal government's program is good. That will pump a lot of money and create about 6,000 jobs.

The thing that most councils are doing, those that have some capacity, is deferring rates payments and some have stopped charging—not all but a number of them—some of the business fees, registration and other costs. There has been a streamlining, in concert with both federal and state governments, of approvals and rapid assessment of projects. Largely, our role has been to continue to employ people. As you know from your experience in Western Queensland as well as on the Gold Coast, we are the largest employer in a lot of communities. Continuing to provide that stimulus and spending the money quickly locally has been the way we got through it. I understand that the impact on councils is around $400 million. This may be surprising but the likes of the Diamantina shire have missed out on $1 million in camping fees alone due to the cancellation of Big Red Bash and, indeed, this year's Birdsville Races, and the Rockhampton Regional Council has lost $8 million in revenue from the airport operations. There are rural councils where there is no childcare market that have lost around $2 million.

The federal government have brought forward, not out of the additional money, the financial assistance grants because some councils were having difficulty with cash flow. That has been very helpful. It will create a problem in an accounting sense down the track, but that is when you bring those moneys forward. By and large, as the level of government that has the least impact on the demand factors, we have done everything we can locally to do our bit. We have copped a hit, but as I keep saying, as opposed to councils in other states, we have not sought money for councils. We said that we would take that pain; we would use whatever tools we had available; and our focus would be on the economic recovery of our communities and spending in those communities.

**CHAIR:** In some ways you are saying that, with local councils being on the ground and closely connected to projects, needs and other things and being the level of government closest to people in the smallest area, you can be a good partner with state and federal governments in order to deliver new infrastructure that keeps the economy and jobs going?

**Mr Hallam:** That is absolutely correct. I am an economist, ex federal Treasury; I started my career down there almost 40 years ago. This is a different approach by the federal government—and that is not in any way to say it is the wrong one. Historically, they have undertaken the Works for Queensland type programs. If you go back to the Depression and the Susso, to post-war reconstruction, to the 1982-83 recession and to the 1991 recession, all those big employment-generating programs were, in fact, federally funded. This time they have sought to keep people in work rather than deal with consequences downstream. It has been a different response and a different playing field for us because, fundamentally, the bulk of the money that is coming to us is coming from the state government at about a rate of four to one. The state government is spending about four times as much in our area conducting the local economic stimulus as the federal government. That is not to say that the federal government are not playing a very large role—and good on them for doing what they are doing—but theirs is directly to the unemployed or people who are partially unemployed.

**CHAIR:** No doubt the burden for local councils on rates from JobKeeper would be significant, but it would be significantly worse if JobKeeper were not in place. I have a question about local projects. Obviously we want to see shovel-ready projects that are ready to go. Often those projects were intended to be budgeted by councils themselves. That is why there was so much preparation work. How do we see new projects rather than state money being substituted for projects that were perhaps already in a local government pipeline or were planned?

**Mr Hallam:** I think it is a grant reform process. Over the last number of years we have worked through a different way of delivering. Works for Queensland has demonstrated without a shadow of doubt—there have been external studies done; the Auditor-General has looked at it—that this is largely new money. Where we have had a problem in the past is we have always had to build new, and so much of what we need to do is to carry out special maintenance or big maintenance on projects. The beauty of Works for Queensland is that it will be available to do a lot of renewal work.

If you look at our annualised capital spending—Works for Queensland has been in place for four years—you can see the lift in the capital spend in local government. The amount of extra money that has gone in is almost commensurate with what has been spent. There is more than enough work to be done. To be honest, a lot of the real focus we have is on building smarter and better but also doing strategic renewal works, and that has been where a lot of the money has gone. As I said, the record shows that it has not been substituted. We have not even used our own workforces in large part, perhaps with the exception of some of the western shires. These are all jobs that contractors have got. There are some great stories about people who would have otherwise been out of work. We are talking about some fellow with a backhoe or a water truck or a gravel truck, the local hardware store, the local tradies; they are the sorts of people who have been employed with this money.

**Mr McCALLUM:** Thank you for the feedback in relation to the Works for Queensland program. It is certainly making a big difference out in my electorate, where we have several projects stemming from that program in terms of upgrades to community infrastructure and sports fields. The state government has also guaranteed $50 billion worth of infrastructure going forward as well as set a procurement target for 25 per cent of goods to be from local and small businesses. I was just wanting some comment with respect to the LGAQ's position when it comes to procurement policy and how that will support jobs in local government areas.

**Mr Hallam:** That is very important to us. By dint of section 234 of the local government act we operate a major procurement facility called Local Buy. We have just spent $8 million. A renewed version of it kicked off just last week. Through that process we have been able to double the number of local providers on the panel, so we have gone from 1,500 to 3,000. It is now fully digitally enabled. We use a one-stop-shop portal using a major common piece of software that is out there in the market called VendorPanel. We have put inside that technology now some very advanced artificial intelligence that shows us where the spends are coming from. We can show right down to the last dollar where the money is sourced, where it is being spent. We can divvy it up any number of different ways. We also have a smart contracts provision in there to make it easier and simpler for those supplying to the panels. Finally, we are in the process of finalising block chain enablement to deal with any fraud issues identified previously over a number of years by the Auditor-General—not with our operation but with councils' operations generally.

I have only just spoken in person again last week to both the Treasurer and Under Treasurer and we had a follow-up meeting. There has been some more work around digitally enabling a lot of the local suppliers to play a role. I think there is a real danger—and this is a bit of a distraction but it is true for the recovery—of a digital divide. If you are a small enterprise, a mum-and-dad operation, it is hard. It is one thing to do a webinar; it is another thing to have some information out there about how you might go about it. These people are very busy. Some of them have not had the benefit of being educated in these things. We said to government that there really needs to be—whether it starts with CCIQ or someone else—someone actually to go into the businesses to help them to access these panels. It is one thing to tell someone how to do it and show them how to do it, but in a lot of ways we have to work with the community and smaller businesses, single operators, mums and dads, to get them into those marketplaces.

As I said, we have done our bit. We have spent $8 million in real money and we have had a doubling of the number of local providers, but we think we can do a lot better—and I think state and federal governments could do as well—to create a really hands-on approach to digitally enabling a lot of small businesses.

**Ms RICHARDS:** In terms of the VendorPanel, you have noted the increase in the number of suppliers. Having previously used the software, how many councils are now on board? About five years ago it was limited in terms of the number of local councils on board, so I was just wondering how many councils are on board. Is the percentage still the same in terms of how much the VendorPanel takes in terms of the clipping of the contract price?

**Mr Hallam:** Yes, as far as I am aware. I am not the expert, but yes. The whole idea with the $8 million direct expenditure—this is real cash that we have injected, the LGAQ—is to take their costs away so there is no cost burden to council. For that reason, we believe that within five years we will see a quadrupling of the amount of transactions that are done. Brisbane uses it, the Gold Coast uses it extensively and some of the smaller councils use it. It will probably never replace the big one-off capital projects—that is not the nature of it—but we are talking about the normal things like tyres, windscreens, fuel, bitumen spray, pipes, internal services that councils buy and knowledge services that councils buy.

I think we turn over something like $750 million through the program as it currently stands, but with what is a unique operation in Australia, the one-stop shop—we call it Local Buy Next Gen—with all those elements I went through before, I think there will be a very large take-up, and we are seeing that now. We have put on extra people to go out and help enable that, as I explained, from both the private sector and the council end. As I said, whether it is the LGAQ or state or federal government, I think there is a task at hand because there is probably 20 per cent—it might be a bit higher but something of that nature—in terms of current suppliers that struggle with a digital environment that really need hands-on help.

**Mr WATTS:** I am interested to understand local government's requirement for budgeting this year. Who will be delivering what budgets? What need is there to do a budget? I note that both the Toowoomba Regional Council and the Brisbane City Council have delivered their budgets. What impacts and difficulties come from the state government not presenting a budget this year? How does that impact local government's ability for its budgeting process itself?

**Mr Hallam:** That is a really good question. We have been given a surety around the major sources of funding that come to us. Through our relationship with Main Roads we know exactly where we stand in terms of road management, performance contracts and construction work. We know where we stand with Works for Queensland. They are the major issues. The larger councils in Queensland are 80 per cent to 90 per cent self-sufficient. The issue for us with budgeting is not knowing about the second wave of coronavirus and, putting my economist's hat on, what sort of recovery. Is it a V? Is it a W? Is it a U? Is it a step function?

One of the good things the government did—and Brisbane City Council availed themselves of this—was have the ability to do two budgets, two lots of rating in a year. You may have seen that Brisbane has put in a 2½ per cent rate increase but delayed until the start of 1 January. By and large, we are in the same boat as state and federal governments: there are unknown unknowns in terms of our revenues. If you are a small shire you are 80 per cent or 90 per cent dependent on external funding from the state or federal government and, as I said, those certainties and sureties that were given to it.

**Mr WATTS:** Even though there are some unknowns, local governments are delivering a budget?

**Mr Hallam:** They are, correct. At the end of the day, in this situation we have three places to go: we can use our cash reserves; we can stop capital works; or we can put people off. By and large, we have been running cash down. The very good position of the Queensland local government sector is that our net debt position to start was half a billion dollars, which is quite extraordinary; that is, debt over cash reserves was half a billion. That is not uniform or in any way ubiquitous but, generally speaking, depending on where you were against any projected cycle, councils did have cash reserves. Some of those may well be at the cost of future works. If we have money set aside for developments into the future then that will be a challenge.

I think throughout this whole process we have probably lost 400 or 500 members of staff only, and they were casuals. As far as I am aware—and we are the registered industrial organisation for local government in the state of Queensland—I do not think there are continuing stand-down orders in place. As far as I am aware, it is the regular workforce. We have been fortunate. I am not one who is normally here praising the unions in any way, shape or form, but with respect to the Queensland Services Union, which covers most of the workers in the libraries and those community engagement spaces where we had to shut up shop, that worked rather well and we were able to redeploy those people into very useful community works.

**Mr O'CONNOR:** One part of your submission related to temporary use licences and some concerns that local government had where the application will go ahead despite concerns raised by the local government. Could you get into that issue in a bit more detail and let us know whether it is a widespread thing or whether these are just some minor concerns that have been around the place? It was on page 15 of your submission.

**Mr Hallam:** I guess the fear is that it is continuing. We are obviously trying very hard to keep people in employment and to keep small businesses going, and to the extent that we can permit some at least temporary uses that would enable that to happen that is a good thing and we welcome it. The difficulty is if it then ceases to be temporary and becomes something else.

Obviously I was around during the GFC, and lots and lots of waivers were put in place because of the building—I cannot think of the name of the program, building revolution or whatever it was called. We were able to work with both state and federal governments around those things. As I said, it is largely the larger councils. Most small councils would die for any sort of development and they would be the first to facilitate it. Where you get the rub is where you have a mixed-use type activity where you have homes or dwellings or other planning uses that are antithetical, I guess, to these temporary uses.

I can remember—and Mr Stevens would remember—when work was done for the original light rail. There were quite a few of those temporary uses along the Gold Coast Highway that were there for six to 12 months to enable the work to happen more efficaciously. As long as we can contain it and it is grandfathered for a period we will live with it but, as I said, the difficulty is we get the first phone calls. We get the people ringing up in the middle of the night or six o'clock in the morning, they have been parked in or the noise is horrendous or there is some other consequence of that temporary use. It is largely the larger places that will live with it for a time, but it really does affect people's amenity if they were to go on.

**Mr O'CONNOR:** Point 7 of your submission talks about having local government representation at the national cabinet level. How do you think that would look? Would it be similar to how local government is represented at COAG? Have you put that to the Queensland government, and are they supportive or do they have any thoughts on it?

**Mr Hallam:** Yes, I have. I have been fortunate enough to talk to the Deputy Prime Minister directly and put that to him. He has indicated there will be at least one meeting a year with the ALGA, our national body, and it was pretty much similar to what we used to call the Premiers' conference, which was the annual financial distribution of the FAGs and other major federal programs. What we have sought is to be at the regular meetings of national cabinet.

The Premier has guaranteed in writing, as has the minister, that they will continue to push for local government's involvement in that important forum. I think that to date they have done terrific work, the speed of which sometimes catches us on the hop because we have obviously had decisions of national cabinet and then had to deal with them later on in that same day, which can sometimes be confronting, but to see the wheels of the machinery of government move so quickly I think is a great thing. I think the fact that COAG was so labyrinthine—there were so many layers; there were so many standing committees—meant that it was not really capable of dealing with crises or even modern government. There is definitely a place for local government as the genuine third sphere of government in those proceedings. I am hopeful and thankful to say that both the Premier and the Minister for Local Government have accepted that and made those submissions in those fora.

**Mr STEVENS:** When we move past the health crisis, it will be a long time before the economic crisis is remedied because of the world situation. Because local government has always been seen as a child of state government and from a federal government perspective you might not necessarily be included in the economic recovery as much as if you were constitutionally recognised as being important in the recovery for Australia, does the Australian Local Government Association, and you as a branch of that, have any intention to pursue constitutional recognition so that you are at the table when it comes to the long-term economic solution to the coronavirus?

**Mr Hallam:** Thank you for your question. It is still our stated policy. At the minute we are trying to deal with the immediate, but clearly in the longer term that is necessary. There have been two High Court decisions in the last five years—the Williams and Pape cases—that make it absolutely clear that the payments that do not go via the state—in other words, the non-section 96 constitutional payments—are invalid. Both sides of politics in Canberra concocted a bill with the intent to say that they had circumvented that arrangement. Our very strong legal advice—Queen's Counsel advice, senior constitutional lawyer's advice—is that if those programs were attacked one by one then those moneys would fall over and they would have to come via the state. There is obviously a conduit—there always will be—via the state, but we believe in the nation's interest, as the third level of government, as the level of government closest to the people and as the deliverer of enormous amounts of services for state and federal government, that it is fundamental we are there.

I leave you with this thought: we raise more money for the state of Queensland than they pay us. Through the annual rates notice, what we collect through the emergency levy and what we collect through the waste levy now is approximating a billion dollars. In an ordinary sense we would probably get about $400 million a year from the state. It just gives you a sense of how complex the financial flows are between the levels of government. Queensland I guess always is at a disadvantage in some of those federal fora but particularly the COAG and national cabinet situation, because the relationships are so different between state and local government in the other jurisdictions. We have had our ups and downs with both sides of politics in Queensland, but there is a very different place in our federated model of government in Queensland than the other jurisdictions. We do water and sewerage; we have much more extensive planning powers. Because of the decentralised nature of Queensland, we have a much bigger role to play than the state. The other states, and there are many well-written histories of these things, have never conceded big powers to local government—nor have they ever allowed a large city council like the Brisbane City Council to be created—because they saw them as a threat to themselves. It is a difficult thing for us in the federal jurisdiction to argue our case because, as I say, the other jurisdictions are very different. That even comes down to things like natural disasters. Our preponderance to have those is exponentially higher than the other jurisdictions. Queensland local government is very much disadvantaged in the event we do not sit at those tables.

**CHAIR:** Thank you very much. On behalf of all members we recognise that local governments throughout Queensland have a big role to play, both in ensuring that businesses can open in a healthy fashion without any more spread and also in the continuing economic recovery. Thank you very much for appearing today. The time allocated for this session has expired.

**BIAGINI, Mr Peter, Queensland Branch Secretary, Transport Workers Union**

**CLIFFORD, Mr Michael, General Secretary, Queensland Council of Unions**

**FENTON, Ms Deb, Private capacity**

**FILDES, Ms Kirstie, Private capacity**

**KING, Ms Jacqueline, Assistant General Secretary, Queensland Council of Unions**

**PASOS, Mr Peter, Private capacity**

**WEBSTER, Mr Steve, Private capacity**

**CHAIR:** I welcome from the Queensland Council of Unions Michael Clifford, the general secretary, and Jacqueline King, the assistant general secretary. I would also like to welcome the Kirstie Fildes, an early childhood educator, and Deb Fenton and Peter Pasos, both workers in the aviation industry. As with previous speakers, I ask that you identify yourself when speaking, particularly when speaking for the first time or when speaking other than in response to a direct question. Committee members will be attempting to do the same. I now invite to you make an opening statement, after which committee members may have some questions for you. Mr Clifford?

**Mr Clifford:** Thank you, Chair. You have identified Peter, Deb and Kirstie as speaking. There is a fourth union member that we have, Steve Webster from dnata, who is significantly impacted around issues like JobKeeper and JobSeeker. We would ask the committee if Steve could also be afforded the opportunity to speak very briefly. We promise that all speakers will keep our submissions brief to allow adequate time for questions, but we just ask permission of the committee for Steve to be able to address the committee as well.

**CHAIR:** Thank you, Michael.

**Mr Clifford:** I will keep my opening statement brief. You have our submission, which goes into some detail about recommendations the Queensland Council of Unions is making. Our broad statements, however, are that in response to COVID-19 we believe that the most important thing we can do is to ensure there is appropriate stimulus in the economy and to help workers and help their families. In that sense, we argue strongly against going down an austerity path which governments have done in the past in times of economic crisis. We believe that deepens recessions rather than pulls us out of it. That would be our first comment.

We applaud the support that the government has provided so far to both businesses and families and workers. The one thing we would encourage the government to do in any ongoing stimulus package to business is ensure those packages are linked to the creation of jobs. We see that the most important thing in the economic response to this crisis is ensuring people have not just jobs but also secure jobs that provide people with the certainty they need to be able to support themselves and their families and to be able to engage in their local economies.

The immediate issue before us is one that is a federal issue. That revolves around the ongoing support from JobKeeper. As you would know, Chair, the union movement called for a wage subsidy to be introduced here in Queensland. The Queensland Council of Unions was calling on the federal government to introduce JobKeeper, and we joined with the chamber of commerce to do that. It is something that has support from employers and unions. We believe that JobKeeper is absolutely necessary to give workers the support they need, and cutting it off in September, as currently proposed, is going to be devastating. We call on the Queensland government to advocate strongly to ensure that JobKeeper and JobSeeker are maintained at the current levels for another six months.

The other thing we would say is that, in terms of the stimulus that is provided, we believe that infrastructure spending is important but that any infrastructure spending should be targeted at building productive capacity for the state and future building for the state. Providing jobs through infrastructure is important, but if we can do that in a way that sets us up for the future then that is a much better way for us to go.

In terms of the spend that we have on infrastructure, or any stimulus that we have to create jobs, we believe that the state government should be putting a gender lens over that. The committee may well be aware that the people who have been hardest hit through COVID-19 have been women. Any measures that we adopt to stimulate the economy and to support workers need to have a gender lens cast over them to ensure that women are supported and that women are able to access a secure economic future. We also think an age lens needs to be cast over any stimulus packages or infrastructure spending. Again, that is because young workers have been hard hit during this crisis. The other lens that we believe needs to be cast over it is one of equality. We have seen in education, for example, where much of the education has had to move online because of COVID. There are still many students who do not have access to the technology they need to be able to learn online. We know that in remote communities, in many regional communities, people simply do not have the technology or the access they need to be able to engage online. We have seen a lot of people move to working from home, we have seen a lot of business being done online, and we expect that that is something that will continue well past COVID, but we are leaving many people out if we do not ensure they have the connectivity, if they do not have the technology to engage as full citizens. That is the other lens that we would be encouraging the committee to look at. With those opening statements, Chair, I will now ask Peter Pasos to speak first. Thank you.

**Mr Pasos:** Good morning. My name is Peter. I work on the ramp for Jetstar, loading baggage and cargo. I have done so for eight years. I am currently on JobKeeper and have been for the last three months. When this pandemic started, I worked with 46 employees in Brisbane. We were told that only six would be needed on a rotational basis and the other 40 would literally not be receiving an income. I am very thankful for the JobKeeper support that I have been getting. I am the major breadwinner for my family. My wife works part-time. I have two young children. It is very much a safety net to keep my family going. It is probably the minimum I require to keep my family going. A lot of guys I work with have had to dip into their super just to get by, and they will probably have to do that again. My workplace is male dominated, and most of them are the major breadwinners for their family. We are thankful for the support we have been getting.

If this support were to turn off in September, it would be the equivalent of a financial cliff for them. At the start, we were given the option to burn annual leave. That only lasts so long as well, then that is absolutely turned off. When all this started and we were told that we were not going to be required for an unknown period of time, I cannot emphasise the anxiety among the workplace. Knowing of the implementation of this safety net helped out thoroughly in that respect. Please consider strongly extending this for an unknown period of time or as long as needed, because a set date end is just not an answer. We need this moving forward for as long as we can have it. At the moment in Brisbane we are up to about 75 per cent capacity in our workplace so the need for JobKeeper is reducing, but the same cannot be said for my colleagues in Melbourne, who at the moment are at about 15 per cent to 20 per cent because of what is going on there. I would like to think that, heaven forbid, if something happened in Brisbane I would still have a safety net here.

**CHAIR:** Thank you very much, Peter. I know it is a tough time for everyone in the aviation industry. I have family members in similar circumstances. Is there another speaker?

**Ms Fenton:** I work for Virgin Australia Airlines. I have worked for Virgin for 19 years now as a cabin manager on board. The last three months has been a roller-coaster, that is for sure. Our business is a little different to Peter. Obviously we are in administration, so there is a very uncertain future, despite the latest media around our buyer. JobKeeper has allowed our family to keep its head a little bit above water. My partner is a pilot at Virgin, so we have both incomes affected. The uncertainty for both breadwinners in our family has been a lot to take on. While we are grateful for JobKeeper, it is essential post September that Australia recognises the need to retain a group of aviation specialists, I guess. The people we work with have a specific skill set that you get over time, and that keeps our industry one of the safest in the world. When Australia is ready to fly again, if we cannot retain these individuals—pilots, cabin crew, ground staff, ground crew—we are concerned that there will not be staff available to go again. That is where we are just now.

**Mr Webster:** I work with dnata in Brisbane. I have been 25 years in the aviation industry, and prior to that it was 20 years with Qantas. As you all would be aware, we have found ourselves ineligible for JobKeeper. I and my co-workers also did not satisfy the criteria for JobSeeker. This stand-down, which originally was for three months and now has been extended for another three months, has actually put us under a lot of duress. We are struggling to keep our heads above water. With 10 per cent capacity at work being offered to those staff available in four-hour stints, it is probably the only capacity that most people have to make any type of income during the week. My thoughts are that when aviation gets up and running it will be essential that a fully trained workforce is able to stay engaged with their employer and employment. It has definitely been a struggle for me and my work colleagues to keep our heads above water, but gaining access to JobKeeper would allow us the opportunity to stay fully connected with our jobs and our workplace.

**Mr Clifford:** Steve, do you want to explain who dnata is, what work you do and why you cannot get JobKeeper?

**Mr Webster:** Dnata is an airline catering service that looks after Qantas and a number of third-party client airlines. We look after probably 90 per cent of the catering requirements of all aircraft that fly within not only Australia but also internationally.

**Mr Clifford:** What about Qantas?

**Mr Webster:** Qantas sold themselves to dnata. That is the impact.

**Mr Clifford:** And dnata excluded from JobKeeper because—

**Mr Webster:** Because of the foreign government entity that goes with it. All I know is that we all are Australian taxpayers. Everything we have is spent and used in this country.

**Mr Clifford:** Our last speaker is Kirstie, who is an early childhood educator. She cannot disclose who her employer is because of some internal policies but, as you know, for early childhood educators JobKeeper finishes on 20 July.

**Ms Fildes:** I am a senior educator and educational leader for one of the country's biggest providers. The impact on our workplace has been absolutely tremendous. Originally, with my particular employer we were not considered eligible for JobKeeper because we earned too much. There was a lot of stress and uncertainty. In the end, my employer and the United Workers Union had to go and fight to get us on JobKeeper.

I reiterate Michael's point about gender focus, because we are a 97.3 per cent female dominated industry and we are the first ones being kicked off JobKeeper. It is unacceptable. What will happen to our Victorian colleagues in a new lockdown?

In terms of the impact on educators, it has been incredibly frustrating that our industry has always been looked down at by the federal government. Suddenly—overnight—we became essential. Now that we are no longer needed, we are getting kicked back to the scrap pile. Again, that is unacceptable. Teachers' safety was prioritised over our own. This caused a lot of drama in the workplace. Not a day went by that there were not tears in the staff room. Nobody wanted to sit in the staff room. There were people crying in storerooms. They did not know what was going to happen. Every time a child coughed, every time an educator even looked sick, everyone thought, 'Is that the next person? Is that what is going to bring it in?' It has been an incredibly stressful time.

At the end of the day, we have had disrespect shown to us. We have been expected to keep the country running, but now there will be no JobKeeper—too bad, so sad. The free childcare scheme that ended today was ill thought out and was not used by essential workers. It was just a nightmare. It had people scurrying for cover. We were told that if we were sick we had to use our own sick leave. In our profession we get sick a lot, because we have little kids. There were educators with no sick leave left. Then they were saying, 'Use your annual leave. If you have lost days, if you have lost hours, dig in to your annual leave.' There are people without annual leave. I am a single parent. The stress of thinking, 'If I lose my job, how will I feed my kids? How will I pay my rent?' was horrible. I got to the stage where I sat my parents down and I said, 'If I get sick, take my kids and leave me here.' That was the level of stress.

As I said, teachers' safety was handled. They got them out. They got their children to safety. We were left. We had no PPE because at that time most of the PPE was going to the hospitals. Fair enough; they need it. We at one stage had no hand sanitiser and no gloves and we could not wear masks because it scares children. That is how we were left. The government did not care that we had no PPE. We were begging, 'Get us PPE.' There was no comeback. It was only because the UWU stood up and implemented its six-point plan—and not every workplace decided to implement that six-point plan. It is amazing that no educators got sick or fell ill. It is just amazing. We still had children coming in snotty. We still had children coming in with coughs. We still had parents coming in with coughs. There were a lot of centres still doing walk-ins: 'Come and have a look around our centre.' This was mid pandemic. It is not good enough. Now we are getting kicked off JobKeeper. That is ridiculous. That is all I have to say.

**Mr Clifford:** That is all from us. We are happy to take questions.

**CHAIR:** Thank you, Michael. Are there any questions?

**Mr STEVENS:** My question is to Michael as the general secretary of the Council of Unions. Was the union movement involved in the original compilation of the JobKeeper/JobSeeker package with the federal government? It is a multibillion dollar package. In the view of the union movement, has that federal government taxpayer funded program of JobKeeper/JobSeeker been a successful program in cushioning the economic effect of the terrible health crisis that we and the world are suffering?

**Mr Clifford:** The union movement as a whole was calling for a wage subsidy. The wage subsidy that we were calling for was based on 80 per cent of an employee's wage capped at a particular level. In terms of the design of JobKeeper, my understanding—and the question is probably better answered by Sally McManus or Michelle O'Neill—is that, no, the union movement was not involved in the design, but we were certainly the most vocal group calling for a wage subsidy to ensure that workers were connected to their workplace. I did a number of interviews with media on that basis. I know that the ACTU was in constant contact with the federal government, urging it to introduce a wage subsidy.

In terms of the design, I know that it is not perfect. We have continued to call for access to JobKeeper for workers who have been left out of it. You have heard from some of those workers today. We also believe that cutting it off—for early years educators, for example—on 20 July is the wrong thing to do, and we believe that cutting it off in September would be the wrong thing to do and would be devastating for people.

There are significant groups of people who have been left out of JobKeeper who simply should not be left out of JobKeeper. The university sector is one. Casual workers who have less than 12 months service with an employer are another group of people. Again, when we cast an age, gender and equality measure over these things, those workers are particularly vulnerable and should never have been left out of JobKeeper. Certainly in terms of the design of it, the union movement has consistently argued that those people should be included. Visa workers are another group of people who are incredibly vulnerable. They have been invited to our country to work and have been left stranded by not being included in JobKeeper.

Yes, we welcome it. We think there are some design flaws in it. I have heard personal stories of people who were earning $400 or $500 a year as a football coach who are now getting $750 a week under JobKeeper. We think it could be better designed to ensure that those people who are left out now should not be left out. There are some design issues but, yes, absolutely it has created great support for workers who are included in it. That is why we are saying that it should be continued.

**Mr STEVENS:** I want to follow up on that, although you have almost answered the second part of my question. I understand that the British system was 80 per cent of the wage. I know of quite a few instances of part-time employees who were on $350 for a couple of days work a week and who are now getting $750. They are quite happy with receiving $750 as opposed to $350 and are not that keen on heading back to work now that coffee shops and cafes are opening up. Is the union movement amenable to tweaking the current federal JobKeeper and JobSeeker payment scheme more towards the British system, where you are paid 80 per cent of your wage, which you mentioned you have suggested before?

**Mr Clifford:** I would have to consult with the ACTU, but absolutely we would consider any changes that make it fairer. But those changes would have to include an extension of JobKeeper and they would have to include an extension of the two groups of people who are currently cut out of JobKeeper, to make it fairer. It would also have to be considered side by side with the current levels of JobSeeker, which we say are appropriate. To drop JobSeeker back, to cut it in half at this stage, would be a nightmare. In fact, we think that at the moment JobSeeker is a more appropriate level of income support for people who do not have jobs.

Absolutely, the union movement would be prepared to sit down, talk about it and consider the design of JobKeeper. I would not want to pre-empt what that design would look like, but I point to the record of what we have been saying in the past about who is currently not included and should be included.

**Ms RICHARDS:** Could you outline what the engagement has been like since the establishment of JobKeeper and the increase in JobSeeker? What does that look like to this point in time? Is there a strong dialogue between yourselves and the federal government in terms of the cliff that we will hit on 30 September, with JobKeeper potentially ending?

**Mr Clifford:** I know that the ACTU is in regular contact with the federal government on this. Again, it is perhaps a question better directed to the ACTU, which has the primary responsibility for engagement with the federal government. I know that you would have seen plenty of media coverage about the relationship that the ACTU has developed with the federal government on this. The ACTU has consistently called for JobKeeper to be extended to those groups of people who are currently cut out of it, and some of those people are here today. The ACTU has been absolutely consistent in calling for JobKeeper and JobSeeker to be extended at the current levels for another six months.

**CHAIR:** On JobKeeper, I want to refer to issues raised by Steve Webster, who spoke so well before, about the corporate structures of a company, whether it is foreign owned or in examples where part of the company is making money but still some workers have been stood down. Is that something that needs to be revisited if we are going to continue JobKeeper, to ensure that those workers are not worse off just because of the corporate structures that employ them?

**Mr Webster:** Definitely. We need to be looked at as what we are, which is as citizens and residents of Australia. We should be treated in that manner, not so much on the back of the fact that there is some foreign ownership involved within the structure. That is the downfall that has come our way, based only on that. We would appreciate recognition of the fact that Australia-wide working for dnata you have almost 6,000 employees who are all Australian citizens, and all Australian taxpayers to boot, but who are ineligible for JobKeeper and have been for the past four months.

**Mr WATTS:** Mr Clifford, your third recommendation talks about casual workers on rolling contracts with the government. Last week the Queensland Labor Treasurer stated that the numbers of non-frontline public servants would be capped and external consultants reduced. Do you know how many workers are on rolling contracts and how many are set to lose their jobs from contracts not being renewed by the government?

**Mr Clifford:** I do not have that number. In terms of work that is outsourced in the government, we think it is appropriate that that is looked at. The union movement has long argued that much of that work should be done in-house. We think it gives people more certainty and more security. It touches on an issue that is really central to our submission, which is the importance of certainty and security in people's employment. We think people who are on temporary and casual employment in the Public Service should be given opportunities to convert that employment to permanent employment. We think there should be mechanisms that are fixed up to ensure that happens sooner. Where you have an employee who has been working casually for 12 months on regular and systematic hours and they have an expectation of ongoing employment, those people should be converted to permanent employment to give them and their families the certainty they need. We think that is really important in the context of COVID because unless you have certainty you are not going to engage, you are not going to spend money, you are not going to generate activity in your local economy. We think that is really important.

More than that, outside of the Public Service we would like to see the Queensland government advocating for more certainty and more security in the private sector as well. You would be aware that there have been a couple of Federal Court cases recently where you had casual workers in labour hire firms working regular and systematic hours and, despite that, being treated as casuals and missing out on things such as annual leave, sick leave and all of the other entitlements that casuals miss out on. The Federal Court case has found that those people were, in fact, permanent employees and should have been getting annual leave.

We think there is work to do in the federal arena to make sure we have more workers who are currently labelled as casual and who are currently on temporary contracts that are just rolled over, time and time again, giving people no certainty—that there should be changes in the federal jurisdiction, as well as changes at the state level, to ensure we do not see temporary contracts rolling over time and time again and we do not see people languishing on casual employment when we could be giving them the certainty they need around permanent employment.

I do not have the absolute figures. We do want to see temporary and casual employees converted to permanent contracts where that is relevant. We think more work should be done in-house, unless it is absolutely necessary for it to be contracted out of the Public Service.

**Mr WATTS:** Do you support the recent changes for a pay deferral and the cap on the Public Service?

**Mr Clifford:** No, we do not support an arbitrary cap on the Public Service. We think the Public Service should be of a particular size that is needed to do the work. Again, what we have seen through COVID is the importance of the Public Service in a number of respects. One is that it provides really vital services in our communities and, again, COVID has really shone a light on that. The second is that it has an important role as an employer, and we think it should be setting the standard as an employer. We think putting arbitrary caps on employment in the Public Service simply does lead to things being outsourced. Sometimes that can lead to increased costs for government, not reduced costs for government. We are not a fan of arbitrary caps on employment.

On the deferral, we argued against the wage freeze. It is pretty clear from our submission that we are in favour of maintaining decent wages for workers so that they can engage in the economy. We think austerity measures are going to stifle people's ability to participate in the economy and it is going to stifle people's ability to support themselves and their families. You have people sitting around the table here who know what it is like to have people out of work. Many public servants were actually supporting people who have lost their jobs because of COVID. To then take a pay freeze on top of that is significantly problematic, which is why we argued against a pay freeze. A pay deferral is better than a pay freeze, but of course we would have preferred to see public servants continue to get the wage increases that have been negotiated for them.

**Mr McCALLUM:** First of all, I would like to acknowledge the sharing of personal stories from impacted frontline workers. Thank you very much for your very powerful testimony today. Mr Clifford, as we move forward and unite and recover and try to rebuild Queensland's economy, and touching on your remarks around infrastructure, could you share with us your views in relation to the opportunities around procurement spend, particularly around government infrastructure, and also opportunities in the manufacturing sector going forward?

**Mr Clifford:** I will answer that briefly and then I might throw to the assistant secretary, Jacqueline King, to expand on what I have to say. The procurement policy is particularly important. It is one of the ways that the Queensland government can ensure we have secure employment throughout the state. Where we spend government money, we should be spending it in a way that is connected not just to jobs but also to secure jobs that give people certainty. I think a procurement policy that is linked to secure jobs is of great benefit to the state. We should not just be looking for the cheapest product that we can find; we should be looking for products and spending opportunities that provide capacity and job security to people because, again, in the end, that is going to benefit the Queensland economy overall.

COVID has highlighted some gaps in our manufacturing. Anything we can do to build our manufacturing industry would be most welcome. We can do that in a number of areas that have been identified through COVID. We heard Kirstie Fildes talking about the lack of PPE. I know that there are efforts to try to improve that in Queensland. That is an area where we have identified gaps. There have been a whole lot of supply chain gaps where we have highlighted the importance of providing manufacturing. I think we could be looking at where the government spends money overseas and, for example, putting a particular levy on that to go towards training apprenticeships here in Queensland. Those are some of the things that we should be looking at. I will ask Jacqueline to expand on that if she would, because there are perhaps some other areas, particularly around clean energy, that we should be looking at in terms of government spending.

**Ms King:** First of all, one of our recommendations is that the government reviews its own procurement policy and has a look at the services it is procuring to identify where those gaps currently are. We have identified that PPE was a particular problem with the local supply chain, but we could investigate that further. We do not have the answers to all of that, obviously, but that is something that the government should review as a priority.

Another issue that we would advocate for is to look at opportunities, particularly within the regional areas, so that people who were already being affected or are about to be affected in the near future as a result of the clean energy and the government's commitments to renewable energy can transition into different industries within those regions. We acknowledge that the government has been looking at skills development and potential skills transfers for workers in those industries but, with the impact of COVID as well, maybe this is an opportunity to also consider manufacturing, waste recycling services and so on, and bringing those things forward ahead of the federal government's timetable of 2024 to invest in particular areas within the state such as around Kingaroy and the back of Rockhampton in terms of clean energy or around Cairns, which has taken a massive hit in terms of the downturn in tourism.

We see there is a very strong link that should be made between investments in those industries and investment in skills and training for workers who have been previously locked out of training opportunities, whether that is at university or through vocational training, and offering that type of training through scholarships for workers who have already lost or been displaced from their jobs, particularly in tourism, hospitality, retail and also aviation. In that space we can look at opportunities to retrain those people so that we have a workforce that can go forward into new, locally stimulated jobs, whether that is in manufacturing, as I said, waste recycling and the new clean energy areas into the future.

**Mr O'CONNOR:** With the focus on the aviation industry, we have seen reports of a huge potential for job losses at Virgin Australia. I think some are saying up to half of the workforce. With the Queensland government being involved with the private equity firm that could be the new owner through their $200 million investment, what assurances have been sought from the Queensland government that none of those job losses will be from Queensland?

**Mr Clifford:** We have not sought those assurances at this stage. I have here Peter Biagini from the TWU. He may be in a better position to respond to that.

**Mr Biagini:** When Virgin Mark 2 does take off, there will be a reduction of the workforce. That is the reality. That will be spread right across Australia; it will not be just in Queensland. Certainly they have guaranteed that the head office will stay in Queensland, which is really important. Something like 900 people work out of the head office at Bowen Hills. When it comes to the rest of the workforce, that is something for the new owners. We will be sitting down and talking to them when they get to that stage. It is not signed off yet. It still has a number of weeks to go.

**Mr O'CONNOR:** But you will be advocating to keep those jobs in Queensland, particularly given the state government's investment?

**Mr Biagini:** We have already had an undertaking that the head office will stay here. At the airport, we have just opened the second runway and many of those jobs will be saved. It will be shared across the whole nation.

**CHAIR:** That ends our time for questions. In particular, I want to thank the workers who have spoken so movingly for childcare workers, aviation industry workers and transport workers. Obviously, this has a differential impact on different industries. We are really aware of the particular impact that it has on the aviation sector. Thank you very much for coming forward and speaking on behalf of your fellow workers.

**Proceedings suspended from 11.03 am to 11.26 am.**

**DENNISS, Dr Richard, Chief Economist, The Australia Institute, Panel of Economic Experts (via videoconference)**

**MAKIN, Professor Tony, Professor (Economics), Griffith University, Panel of Economic Experts (via videoconference)**

**QUIGGIN, Professor John, Professor (Economics), University of Queensland, Panel of Economic Experts (via videoconference)**

**TUNNY, Mr Gene, Director, Adept Economics, Panel of Economic Experts (via videoconference)**

**CHAIR:** Good morning. To assist the Hansard reporters, please identify yourself as you begin to speak at today's proceedings. Committee members will attempt to do the same. I now invite each of you to make an opening statement, after which committee members will have some questions.

**Mr Tunny:** Thank you for the opportunity to address the committee today. Austan Goolsbee, who was chair of then president Obama's council of economic advisers, said that in a time of pandemic the best thing you can do for the economy has nothing to do with the economy.

The public health response is critical to ensuring the economy can safely reopen and can return to some semblance of normality as soon as possible. On the public health response the government does deserve credit. It may be that in future years, after we have had a detailed look at evidence from around the world, we determine that a different public health response may have had less of a short-run economic cost, but at the moment we are not 100 per cent certain of what that optimal public health response looks like and decision-makers have had to exercise their judgement. I do not really have any comments on the public health response.

Regarding the economic response, I would say that it should be well targeted to avoid waste and minimise additional borrowings and future interest payments, which are a drain on the budget. We should rigorously assess any grand infrastructure schemes that are being proposed to get the economy moving again as they could end up being costly white elephants into the future. It needs to be recognised that the state government has much less capacity to respond than the federal government, which has superior financial resources and borrowing capacity. State government responses cannot be those generally available measures such as JobKeeper. They need to be targeted to those most in need and they need to be well administered.

I would say that the state government may be better positioned than the federal government to identify those state-specific industry and regional needs and address its assistance in that way. The sectors and regions most in need should be obvious to the committee such as tourism and hospitality and those regions most dependent upon them such as Far North Queensland. I recognise that the state government has provided assistance to tourism businesses as well as a range of other businesses.

I have to say that it appears there is a clear need to improve state government program administration to minimise the burden on, and the frustration experienced by, small business owners. I have spoken with small business owners who have been incredibly frustrated by the administration of a couple of programs: the QRIDA loans program and also the COVID-19 adaptation grant program. The first-come first-served nature of these programs has led to frustration and arguably to assistance not going to those small business owners most in need. The state government needs to ensure its programs are well designed and administered by competent and experienced public servants.

On the state budget, I would note that it is clear that the deficit is going to blow out by several billion dollars and total state debt could end up approaching or exceeding $100 billion. I accept the government's point: it is not possible at this stage to produce a full budget. At the same time, I would suggest that the Treasury would have internal estimates that could be published with all of the appropriate caveats about their reliability.

I would note that the Treasurer is right to reject a policy of austerity. It is imperative to avoid a perverse fiscal policy. That said, the government does need to present a long-term plan for constraining the growth of spending over the medium to long term and stabilising the debt. It is announcements regarding what I see as the prudent Public Service freeze and the savings that the government has announced over the forward estimates that appear sensible. We need to see if these plans are ultimately realised, of course.

Finally, we need to capture the lessons regarding this economic response, including an assessment of the pros and cons of the public health measures, in a comprehensive report and incorporate those lessons in our state government's pandemic playbook into the future. One of the important lessons that I have seen is that governments can relax regulations quickly when they need to, such as an example I have heard of the relaxation of regulations to allow a business in Toowoomba to sell packaged liquor with its takeaway food. This is a good example of government moving quickly. I would like to see the government undertake a comprehensive review of the full suite of regulations which are affecting businesses and remove those which do not pass the cost-benefit test.

**Prof. Quiggin:** Thank you for inviting me to address the committee. I am concerned that the strategy really starts with a very backward-looking approach to the state economy. It starts with a list of traditional strengths, which were certainly traditional strengths of the economy in the 20th century but have already become significantly less important in the economy over the past 20 years. The measures that are targeted accept the economy employing about 20 per cent of the workforce in an area that has been climbing.

The problem is that it does not seem to be closely related to the circumstances of the pandemic. That is, if we put forward a strategy of this time and then said which of the sectors would have been the most vulnerable, most of the programs directed here are in sectors like mining and agriculture, which have been largely unaffected by the pandemic. There is no real response to the impacts in areas like health, social welfare and so forth that have borne the burden of responding to the pandemic and are likely to need further resources in future.

We really are working here from a picture of the economy and the future of the economy that is misleading. As I have mentioned, the list of traditional strengths focuses on the industrial economy: agriculture, mining and manufacturing, and then construction accounts for about 20 per cent of total employment. The list of emerging strengths is also largely about energy: four or five energy sources are listed. There is no real discussion of the kind of Smart State strategy that the Beattie government had. This is much more reminiscent of the four-pillar strategy which was ultimately expanded to services by the LNP or even the kind of developmentalist strategies going back to the 20th century era of the Bjelke-Petersen government.

There does not seem to be any real response to the notion that the pandemic is going to fundamentally change the way in which the economy works and that we are likely to need radical adaptation. I think this is further evidenced by the fact that, while we are proposing a strategy which includes large elements of assistance to the industrial economy, the Treasurer is also proposing a freeze in Public Service recruitment and spending, and this just seems to have things backwards. These are the areas that are going to need assistance in the future. In the circumstances of the pandemic, the idea of focusing on the traditional strengths of the 20th century economy seems to me to be fundamentally mistaken.

I think an important issue which needs to be taken into account is the nature of the workforce and who has been affected. The pandemic has seriously impacted or adversely affected women workers and young workers, but the assistance is going to industries that are male dominated and primarily employing prime-age workers, 25 to 54. It just seems to me that this strategy needs a fairly fundamental rethinking.

**Dr Denniss:** I think it is important that committees like this are formed and ask these questions. Thank you on behalf of the Australia Institute for asking us to participate. My opening comments are quite straightforward. As an economist—I have taught economics for nearly 30 years—the first thing we teach in macro-economics is that GDP is the sum of its parts. GDP is equal to consumer spending plus private investment plus government spending plus net exports. I think that is a good framework in which to look at what is happening in Australia, what is happening in Queensland and what the role of government is right now.

Unemployment is set to rise. Population growth is lower than it has ever been in modern history. That means consumer spending is going to be way down on what people expected. Net exports, particularly in terms of tourism and education, are going to be way down based on what was expected. The reason the private sector invests is to meet the demand of either domestic consumers or international consumers. Therefore it follows that if domestic consumption is down and net exports are down, the private sector will invest less, not more. That leaves only one pillar to hold up GDP and that is 'G', government spending. Unless governments at a state and federal level significantly increase their spending, unless they increase their spending rapidly and for a sustained period of time, it is obvious that the economy will continue to deteriorate and the long-run costs of that will dwarf any short-term budgetary constraints.

I think a good analogy for understanding the role of the public sector in terms of the benefits of bringing forward consumption spending and bringing forward investment spending is the tourism industry. All around Australia there are hotels gutting their bathrooms and gutting their rooms in order to refurbish them. Let's be clear: they are running enormous budget deficits to do so. At a time of collapsing revenue, hotel operators around Australia are bringing forward capital spending because they know the single best time to renovate their hotels is when there is no-one in them.

If privately owned hotel chains can understand that budget deficits do not matter, that what they need to look at is future needs and the convenience of doing some things now, I think it follows that institutions like state governments with much better borrowing power and much lower interest rates should be bringing forward enormous amounts of economic activity. That is not just the capital and the infrastructure that we hear so much about; all sorts of consumption spending can be brought forward.

The Australia Institute has published a number of reports—and I will conclude on this point. In bringing forward new spending, in bringing forward planned spending, I would encourage the committee to look at the development of key criteria for deciding what it is and how it is that government should spend enormous stimulus spending in the next couple of years. The key criteria that I would point to—and I am happy to provide the committee with a longer report on this—is to look at the labour intensity of different activities. Construction and mining, for example, create around one to two jobs per million dollars spent. The education industry, the health industry and the entertainment industry create far more jobs per million dollars spent than construction or mining.

It is not just the size of the stimulus that matters; it is also the shape. Local effects need to be considered. Spending needs to be in regions where there is the need for stimulus. Building large infrastructure projects in Brisbane will do nothing to help the tourism industry in North Queensland. In designing spending programs it is also important but not essential when comparing different options to look at which things will deliver the most lasting benefits. Whether it is investing in small-scale renewable energy or energy efficiency, whether it is providing training and education, spending on those things will deliver benefits in five or perhaps 50 years time.

The east coast—and I do not know Queensland as well—of New South Wales and Victoria is full of art deco ocean baths that were job creation programs 90 years ago. They are still providing joy and services 90 years later. Well after the job creation phase has passed, some of the things that we spend money on will be delivering benefits. Those criteria of labour intensity, local significance and lasting benefits are the criteria we have put forward. Regardless, I think all state and federal governments should have clear criteria for what it is they are trying to achieve with stimulus.

**Prof. Makin:** Thanks very much for inviting me to speak to you on a matter of the utmost importance to the Queensland economy and one that is going to leave no doubt long-lasting scars. My understanding is that the committee is looking at both the response to date and perhaps what is to be done going forward. We cannot emphasise enough what a major impact this has had on economies everywhere around the world, causing a bigger jolt to the world economy than the global financial crisis.

Australia has responded in a very generous and, I would argue, perhaps excessive way in terms of the nature of the response compared to that of many other advanced economies. There has been more emphasis on direct budgetary support as opposed to the provision of guarantees for loans and so on, as has occurred in other economies, and the IMF data shows that. At the federal level we have had major initiatives fiscally but also a lot of monetary support through the Reserve Bank.

It is a crisis like no other that we have witnessed in our lifetimes in terms of its impacts on both aggregate demand and aggregate supply. It has been government induced, and I would argue that the way out of it is not through further government action. Government action has been necessary, of course, to support the economy both at the national and the state level. I have an aversion to the use of the word 'stimulus'. It has not really been a stimulus. The dictionary meaning of the word 'stimulus' is something that rouses activity. What we have been seeing is fiscal support to keep the economy effectively on life support, so it is not really a stimulus in the dictionary sense of that word.

I will just say a little bit about the Queensland government's response. I guess I am a little bit more specialised in the federal government's response, but I have looked at what the state government has done. It has been, it seems, greater than the other states, which is kind of curious in that the Queensland budget was in a worse state than the other states with relatively higher public debt—on a per head basis, at least. We are looking at that going to $100 billion, whereas for the nation as a whole on the worst-case scenario we are looking at a public debt of well over a trillion. That is a concern. I will address that shortly and what has to be considered in addressing that public debt.

At the state level we have seen the support come in various forms, of course, as you would be well aware. I think interest-free loans of $250,000 per business was a commendable initiative to tide businesses through. There has been some warranted criticism that I agree with regarding the grants. They seem to be quite ad hoc and they left out the sole traders, I understand, which misses quite a segment of the small business community.

The $500 million training initiative that was allocated I think may have been of use to some businesses, but I think the key problem for the small business sector was actually getting through the crisis as opposed to the need for retraining. I think that was perhaps a little bit premature. That may well be necessary down the track.

I think payroll tax relief was an early initiative which was commendable because it was the private sector that was impacted. Forms of fiscal relief—as I prefer to call them, as opposed to stimulus—were an obvious way to allow the viability of those businesses to continue. I think the electricity rebate seemed to be ad hoc and was not significant in the scheme of things, but there were some sectoral initiatives. The liquor licence fee relief, the tour operator relief and marina charges I think were all commendable responses from the state government.

I want to say a little bit now about where we are at in terms of the budgetary position. A lot of people are going to say—and they are saying it, of course—that the public debt does not really matter. Australia has relatively low public debt internationally. I would counter that by saying that, firstly, Australia's public debt now is about to double in coming years. The problem with that is we borrow from overseas—unlike Japan, for instance. Japan has a staggering debt which I would argue is a problem in itself. It keeps Japan constrained. Its economic activity has been sluggish for decades, in part due to the fact that they keep rolling over this massive public debt at the expense of funds flowing to more productive investment.

Public debt for Australia is something that can be a concern going forward because of the fact that we borrow from overseas. It varies, but between 60 per cent and 80 per cent is overseas borrowing. The servicing on that debt is already very significant. The amount of interest that is paid to foreign bond holders is some four times how much the Australian government spends on foreign aid for developing countries for poverty alleviation. It is a multiple of how much the federal government spends on the Pharmaceutical Benefits Scheme, which keeps medicines cheap for Australians. It is comparable to how much the Australian government spends on universities. It is not insignificant. Given that the escalation of debt is likely to double in coming years, then you can double all of those comparative amounts. It is something that has to be addressed.

At the global level, I cannot but be pessimistic about the staggering increase in debt at the global level. We have seen that ramp up massively. It is comparable at a global level to what has happened here in Australia. It well exceeds what happened during the global financial crisis. Debt as a consequence of the spike from the global financial crisis had not really been addressed. The implications of that are that, as history shows, interest rates are going to be under pressure. The government is issuing all of these bonds and it is likely to put upward pressure on global interest rates. We are already seeing that manifested in some emerging economies—upward pressure on interest rates because of this enormous borrowing requirement from government. To the extent that central banks monetise—that is, they buy the public debt and increase money supplies domestically, and that has been happening here at an unprecedented level—history shows again that is a harbinger of high inflation. We saw that even after the Second World War there were bouts of high inflation as a consequence of the monetisation of public debt.

I predict that the world economy will be turning more Japanese into the future. Japan has had a pretty dismal economic record for the last couple of decades. As I mentioned, I think that is in part due to the enormous public debt that has to be continually rolled over. We saw the world economy had been sluggish post GFC. Some may argue that is due to so-called austerity measures, but if you look at the measures that were taken a lot of it was due to rising taxes, and we saw that here in Australia. To cover the budget deficit there was not much attention to cutting government spending. It was all about raising taxes. Well, that is a negative for economic growth.

We have this legacy now that is likely to jeopardise Australia's credit rating: high public debt. That in itself will increase interest rates across the spectrum for business, included by a risk premium. For every basis point—that is 100th of a percentage—of an increased risk premium due to loss of a AAA credit rating for Australia—and it would flow on to Queensland, which would probably be downgraded and lose its AA rating—the interest on government debt would rise for each basis point by $100 million or more, and that is going to be at the cost of other programs.

As I have said, most of the borrowing is from abroad, and that is no doubt happening as we speak. Foreigners are snapping up Australian bonds, and that in itself is going to be a negative for the economy through the capital flows that are occurring. What we saw post GFC was that the Australian bonds that were on issue were very popular with international investors, adding Australian boards to portfolios, and this meant that the Australian dollar shot up to $1.10 against the US, which is extremely bad for the competitiveness of our tradeable industries. I would argue that one reason we lost the motor vehicle industry in Australia was due to the Australian dollar surpassing $1.10 against the US dollar. That is another risk that is a consequence of these big budget deficits and escalation in public debt.

Let me just conclude with a few comments about what I consider has to be done in light of the circumstances with the budget now in such a state of disrepair that there has to be a means of addressing that issue. Of course, governments only have effectively three options to address budget deficits: one is to raise taxes, one is to cut government spending and another one is to raise revenue by selling off government assets. If you look at the Australian tax system relative to other advanced economies, we see that Australia's GST rate is amongst the lowest in the world. Its company tax rate is amongst the highest. The IMF recently recommended in its article IV review of the Australian economy that there is a strong case for broadening and raising the GST. There was an excellent review commissioned by the New South Wales government just very recently that argued the case for an increase in GST, and I think the Queensland government needs to seriously consider the findings of that review.

There is always the stock response that GST rises are regressive, but there was another very useful study done by the New Zealand Treasury a few years ago before New Zealand raised its GST—without much fuss or fanfare, I should add—and it showed that concerns about the regressive nature of GST can be overstated once you take into account the spending patterns of high-income households—

**CHAIR:** We did look for brief remarks. We were hoping to have some questions, so you might want to take some time to wind up your remarks, if that is okay.

**Prof. Makin:** I will be one minute in conclusion. At the same time, I think the scale of public spending needs to be reined in at the state level. Treasurer Cameron Dick has announced some efficiencies going forward of $3 trillion, which I think is most commendable. On the structural side of things, because the crisis has been caused by a contraction of business activity there needs to be serious consideration given to measures that will genuinely stimulate private sector activity, in particular regulation issues, and a fostering of international trade. Going forward, the way out of the crisis to a genuine recovery will depend on increased trade and increased foreign investment.

**Mr STEVENS:** Professor Quiggin, this is an inquiry around Queensland's economic response to COVID and you mentioned how you felt that Queensland had, as a state, dealt very well with the almost $100 billion worth of debt, which is the highest debt, I believe, on mainland Australian coming into the COVID crisis. Could you explain how the measures that have been introduced by the Queensland government have been more successful than other states, if you like, in terms of their response? Forget the federal government's response for the moment.

**Prof. Quiggin:** Certainly I think the focus on gross public debt is a mistake. Queensland, unlike most of the other states, retains large and highly profitable public enterprises which are returning substantially more than the state government's cost of capital. I think Professor Makin has raised a number of concerns about debt, but the actual number is that the current federal 10-year bond rate is 0.9 per cent, and that is similar to other countries around the world. The upsurge in interest rates of which he speaks is absolutely invisible from the data, and obviously for the 10-year bond we do not need to worry about future increases. Indeed, we can borrow very substantial amounts at those rates which are below the current low rate of inflation and certainly, if there were inflation, would fall even further.

I think in that sense Queensland is in a much better budgetary position than a focus on the gross measure of public debt would indicate. Indeed, the alarming consequences suggested from commissions abroad and so forth failed to materialise. They all suggested that unless we engaged in massively further asset sales the budget would be in a dire position. In fact, that has not been the case. We are in a good position. I think the idea that in this position we need to freeze public sector expenditure and embark on austerity measures is a mistake.

**Mr STEVENS:** One of the other matters that was raised—I am not sure which professor raised the matter—was that the small business grants et cetera had been successful, if you like. I note that 50 per cent of Queensland government small business grants went to businesses in regional

Queensland. Was that, in your opinion, a reasonable direction for those grants to be reserved, considering, I would assume, that a lot of the small businesses would be in the south-east corner, but they went to what we call the regional areas? Is that a reasonable response—50 per cent of them?

**Mr Tunny:** I would have to look at the data and the criteria that have been used, but one thing we should note is that South-East Queensland is approximately two-thirds of Queensland in population terms, if you take into account Greater Brisbane, Gold Coast and the Sunshine Coast. Therefore, 50 per cent to regional Queensland could end up being a disproportionate share. We would expect that disproportionate share because we have regions such as Cairns, Port Douglas and the Whitsundays which are highly dependent upon tourism, international tourism in particular, and you would see a lot of need there. We would have to make sure we are comparing the proportion with the right benchmarks. I do not think I could comment precisely here. We would want to look at the distribution of businesses, population et cetera and do that calculation. That may be a question you could direct to the relevant agency.

**Ms RICHARDS:** Mr Tunny, in your opening remarks you cautioned against investment in large infrastructure with the potential to create white elephants into the future. Could you expand upon those thoughts a little?

**Mr Tunny:** One of the things I have seen is that there is a great desire to get Queensland moving again, and I can fully understand that. We often think that the solution is a huge infrastructure project costing tens of billions of dollars, for instance—

**Ms RICHARDS:** Bradfield Scheme?

**Mr Tunny:** We have to see whether these projects stack up. I know the Bradfield Scheme has been mentioned. We want to make sure that we do a proper cost-benefit analysis of that proposal before committing to it. That is what I was alluding to there. I would be very concerned about committing to a lot of these major projects which could end up possibly losing money for whatever government owned corporation has been established to develop it. We need to make sure these things stack up. We need to do the feasibility study.

I have been involved in a business case process up in Bundaberg for the Paradise Dam. There is a very detailed process. We want to make sure that process is applied to any new infrastructure spending. That is all I want to say there. I am not making a judgement about any particular project. I just want to say that we need to make sure we follow those guidelines and we just do not go and spend a lot of money on projects.

I must say, I did like Richard's point about how he defined the criteria. If you were going to go ahead and do stimulus measures like local infrastructure spending then you would apply some criteria. He mentioned the art deco pools. The example I often give in Queensland is the walking tracks that were built at Lamington and Crystal Creek Bridge up near Townsville at Mount Spec. There may be some small-scale projects that can employ people locally that may have a better bang for buck than some big, grand infrastructure project. That is all I was trying to say there.

**Ms RICHARDS:** Did you have any commentary around the Queensland government's investment in Works for Queensland and the expansion of that to other jurisdictions that are outside of what would traditionally have been eligible in that space?

**Mr Tunny:** I have not looked at it precisely. It may well be a good program. Without having reviewed the applications and crunched the numbers, I would not want to comment. As long as the agency is going through some sort of process to assess whether this is a good use of public funds and there really is that regional need then it may well be a good program. Other than that, I am not sure I can say much about the specifics of it. There is so much going on at the moment that it is hard to keep track of all of the different programs and do that assessment. Ultimately we will have to do that, but at the moment I am not sure I can offer much commentary on that.

**CHAIR:** I note that the paper from Professor Makin was effectively dismissing counter-cyclical investment altogether. JobKeeper is a counter-cyclical investment aimed at keeping workers attached to their enterprise and workplace for future use of the productivity. Professor Makin, you see it as effectively a waste? You have attacked HomeBuilder, JobKeeper and all of those federal programs.

**Prof. Makin:** I do not think you have read the paper that closely, if I may say so. I actually support JobKeeper and I think it is a useful prototype. I would not refer to it as—

**CHAIR:** With respect, it says it is 'an inefficient, duplicative and ineffective means of preserving employment' and it goes on to say that HomeBuilder is 'akin to trade protection'.

**Prof. Makin:** Yes, that is true, but you might be taking something a little bit out of context there. I also make the point that JobKeeper is a useful prototype for fiscal support in the event of future crises. It keeps the workers connected to the place of employment, which I think is a far superior way of coping with this crisis. It is not really counter-cyclical. Cyclical is what happens to the economy normally, and this is a most abnormal event. This is a government imposed recession due to health priorities, so it is not normal at all. There is no textbook explanation for what has happened. I think JobKeeper in principle was worthy, and I have said that. I said that it was a useful prototype and then I instanced some flaws. I am sure those will be highlighted in the federal government review, which is going to be announced on the 23rd. There were obvious flaws in it. I did mention the flaws in it, but, in principle, I said it was a useful prototype.

**CHAIR:** Does anyone else have any comment around this as not part of a natural cycle but instead, correctly, one that was imposed by both the disease and the restrictions of government—the general principles about whether government should step in to maintain confidence and investment in the economy and what role we have and what limits there are on it?

**Prof. Quiggin:** I would like to comment a little. When we look at the general principles on which we have been operating since the 1970s, they are premised on the assumption that crises do not happen very often. We really have not, in crucial respects, recovered from the global financial crisis. In particular, monetary policy has been on emergency measures, quantitative easing and so forth, at the global level for most of the last decade. That is fortunate in terms of capacity to borrow.

In terms of the government imposed nature of the crisis, obviously governments have responded, but even where governments have not responded we have seen this contraction in economic activity. It is probably more precisely described as a technological shock in that, simply, the virus has reduced our capacity to do all sorts of things. The effect with large-scale programs like JobKeeper, which I think will need to be sustained for a very long period, is that calculations based on the idea of an economy at full employment, where capital markets direct resources to their most productive uses and where consumer choices drive things, will be off the table for quite some years to come. We are really in something much more akin to a war economy, and we really need to look at that analogy to see how we should operate. That I think justifies substantial government borrowing and an expectation of low or negative real interest rates in the future. This is the way, in essence, that we got out of the huge debt we ran up during World War II.

**Dr Denniss:** I would agree with that. I think it is wrong to suggest that this is a government induced crisis. As John said, there are states in the US that decided to do very little in the way of public health measures and that saw their retail and tourism industries collapse nonetheless. Then there is credit card data for Australia and for most countries that show that the collapse in demand typically occurred well before governments actually mandated specific lockdowns. I do not think it is helpful or accurate to say that the government caused this crisis. It is not true in any sense and it is also not helpful in terms of understanding what the role of government is in this.

The federal government was adamant at the beginning of this crisis that it was expecting a short, sharp shock. We heard a lot about the economy snapping back. We heard a lot about putting the economy into some form of temporary cryogenic state from which it would rapidly recover. That was wrong, that was unhelpful and it will cause long-run damage. The sooner the federal government and indeed the various state governments accept and understand that the economic consequences of this will play out for years—the sooner we abandon the idea that perhaps a vaccine will come soon and things will get back to normal—the better your state economy will be, the lower unemployment will be and the sooner you will actually receive some form of recovery.

Finally, it is important to understand that in 1991 the recession we experienced was around 1½ per cent of GDP. Commonwealth Treasury has variously estimated the recession we are heading for at between five per cent and eight per cent of GDP. That is three to five times larger than the 1991 recession. If you think about falling off a cliff, we are falling off a cliff that is three or five times higher than the 1991 recession. It is kind of irrelevant whether we then start to grow out of that at three per cent or 3½ per cent. What matters is how far down we fall. Government spending in the short term is the key; it is the No. 1 thing that state and federal governments can control. That change in government spending will have an enormous impact on how far we fall.

Talking about tax rates, talking about interest rates and talking about productivity in the future is nice, but that is icing-on-the-cake kind of stuff. If the Queensland economy falls six per cent instead of five per cent, if it falls seven per cent instead of six per cent—if it falls a per cent further because of state government action, it will be years before small changes in growth rates will ever overcome that.

The government did not cause this, but if government responds to falling consumer spending, falling investment spending and falling exports, particularly tourism and education—if the government response to the falls in the rest of the sector is to in any way slow or cut government spending, you will literally make it worse. The opposite is of course true. Bringing forward spending, spending money now, will literally stop the Queensland economy falling so far. That is the No. 1 priority and it will pay enormous long-run dividends. The quibbles about the long-run cost of debt that Professor Makin referred to before pale into insignificance compared to what a one per cent or two per cent reduction in gross state product will mean.

**Prof. Makin:** Can I respond to that? I disagree with a lot of that. There is the exchange rate effect. We had the experience of government spending in response to the global financial crisis. We saw the exchange rate appreciate. This is just textbook theory; I am not making this up. This is intermediate textbook theory. The capital inflow will push up the exchange rate. That is bad for the tradeable sectors. That would be bad for tourism in Queensland, it would be bad for agriculture and it would be bad for mining in Queensland to the extent that we lose competitiveness. There are several papers published that come to the same conclusion: for every 10 per cent increase in public debt you are shaving off at least 0.2 per cent of GDP per annum. On the basis of that—

**CHAIR:** With respect, Professor Makin, the Reinhart and Rogoff paper, which most of those things are based on, did not make that assertion but instead said that there was a point of debt, and even that has been relatively discredited—

**Prof. Makin:** No, that is not correct. There is literature that has emerged since Reinhart and Rogoff. That literature is a bit dated now. There have been more recent papers that show that there is going to be around a half a per cent annual growth reduction as a consequence of a 20 per cent rise in public debt. There is a recent paper by the IMF that confirms that. The Reinhart and Rogoff literature is a bit dated. There is also literature that suggests that there is an optimal size of government in terms of growth performance. For advanced economies, a number of papers show that that is about 30 per cent of GDP. Australia's is now 37 per cent, so that also acts as a drain on the economy.

The key thing is that if you ramp up government spending you are going to push up public debt. I talked about the problems with that—credit worthiness. Globally, we are talking about interest rates having to rise. They are low at the moment, but that to me seems absurdly unsustainable, given the pressures of borrowing in global markets. The exchange rate will be the key. If we see a repeat of what happened post GFC, when government spending was ramped up, then you are talking about the demise of industries that may well now be viable but that will be under pressure if the dollar goes up again to $1.10 against the US dollar.

**Prof. Quiggin:** Really, these policies Professor Makin is advocating were tried hard in Europe and the results were catastrophic.

**Prof. Makin:** That is not true.

**Prof. Quiggin:** I find it very difficult to believe that we are—

**Prof. Makin:** That is not true. In Europe—look at the data, John. Look at the data.

**Prof. Quiggin:** I do look at the data.

**Prof. Makin:** You will see that—

**CHAIR:** Thank you. You have both put those positions and they are in the paper. The member for Toowoomba North has a question.

**Mr WATTS:** Mr Tunny and Professor Makin, the CCIQ Pulse survey recorded its lowest business confidence on record, Labor had introduced nine new or increased taxes and, in addition to that, we are told that we are looking at $100 billion state debt. How prepared were we for this pandemic and the economic fallout? What risk is this pandemic to our credit rating as a state?

**Mr Tunny:** I am unsure that any government was really prepared for the economic consequences of this pandemic. I do not think anyone foresaw just how profoundly negative the impacts of the social distancing measures we would have to undertake would have on the economy, so I think it is a difficult thing to have prepared for economically. I think we will be learning important lessons through what we are experiencing now.

I would argue—and I did argue in my book *Beautiful One Day, Broke the Next*—that the Queensland government could have done more about the debt situation in the lead-up to this pandemic. Of course, the pandemic is not mentioned in it. At the same time, I recognise that, because of where we had started from historically, Queensland has been in a reasonable position relative to other governments around the world. We are lucky that we had made decisions in the past where we fully funded the defined benefit super liability, so we have those funds that have been saved there.

That said, I have been concerned about the long-term path. I have wanted to see governments have a plan to restrain spending and get us onto a path that led to a stable debt-to-revenue, debt-to-GSP ratio. I was not convinced that governments had done that. Having said that, I do recognise that we are in an economic crisis and now is not the time for austerity measures. The operating balance of the budget is going into deficit and the fiscal deficit is going to blow out much more—that is to be expected—but I want Treasury to be thinking about—and I think Treasury will—what we do in that medium to longer term when we are out of this. One possibility is to think about a real spending growth target or a constraint. In the updated economic and fiscal outlook that the Rudd government put out in 2009—I remember working on this when I was in the Budget Policy Division in the Treasury—there was a rule that was defined that you constrain your expenditure to around two per cent growth in real terms once you get back to trend. Once we get out of this mess we are in, this current crisis, I would like to see some sort of a commitment to restoring what I would see as more desirable fiscal policy.

Regarding the credit rating, quite possibly it could have an impact. It is hard to know at the moment. We are probably in a better position than many other economies, many other subnational governments around the world. In order to maintain that credit rating, to prevent it slipping further, it is going to be important to present that plan for the future—looking at the budget once we get out of this crisis, showing some sort of credible plan to stabilising that debt-to-revenue and debt-to-GSP ratio.

**CHAIR:** Does anyone else want to add to that?

**Prof. Makin:** Yes. I was mentioned in the question. I think it is concerning that the economy, at both national and state levels, did not go into this crisis in a strong position, both in terms of the real economy and in terms of the fiscal accounts. The key weakness in the Australian economy and economies around the world post GFC has been anaemic private investment. That has been the standout feature of economies' performance. To address that, one needs to think about supply-side issues, because private investment undertaken by business is premised on how productive they can be. We need to be thinking not so much about government spending—and this is where I disagree with the other panel members, Richard and John, about the need for more government spending. What we really need is more private investment, and that is a supply-side phenomenon. We are talking about structural reforms that make business more profitable; we are talking about regulation, deregulating the economy; and we are talking about increasing trade. Unfortunately, the global context again is bearing down on us here with a move away from globalisation, which was the source of a lot of prosperity leading up to the global financial crisis.

There is talk about self-sufficiency, which is just another term for increased protectionism. That is definitely not the way for Australia or Queensland to go, to increase protectionism. We need to continue to foster trade, and key to that in Queensland's case is tourism. There was a question earlier about the grants going to regions. No doubt a lot of it was due to the severe impact that the restrictions had on tourism. I know that for a fact, being Gold Coast based. I would say that structural reform should be a key focus going forward.

**Prof. Quiggin:** The decline in private investment, which is global, follows dedicated structural reform along the lines that were recommended, and it really has not delivered the goods in all sorts of respects. That is one of the reasons we have seen a reaction against things like free trade. I really think the correct response is to understand that, partly because of changes in the economy to do with information technology and so forth that I have mentioned but also simply because of the withdrawal of governments from the role of guaranteeing full employment, the deal that was proposed under austerity measures, that governments backed off and the private sector would come in and fill the gap, simply has not happened. We have had a decades long demonstration that unless governments act, as they did during the post-war period, to maintain full employment, we are not going to see sustained growth in private investment.

**Dr Denniss:** Can I just add, it is fascinating to me that we are having such a long conversation about credit ratings. I would encourage the committee to ask the secretariat to go back and look at what the forecast interest rates were three, four and five years ago, because if interest costs are a problem—well, interest rates have collapsed. They are far lower now than anyone thought they would be. They are going to be lower for longer. This is an enormous windfall. All of these concerns about the costs of debt are actually laughable. Adding in a concern about the 10 basis point or one basis point premium for some arbitrary reduction in credit rating, compared to the interest rates that Treasury were expecting, this is an enormous windfall for state and federal government in Australia.

All this talk about the exchange rate—really, we just talked about the Australian dollar going above $1.10 without talking about the mining boom. Let's be clear: if the exchange rate went up to $1.10, which it obviously did, the main determinant of that was the most extraordinary mining boom in Australian history. I will go and have a look, but I would encourage the committee to have a look at Professor Makin's thoughts at the time about the federal government's decision to abolish support for the car industry. If he is worried about the manufacturing industry going offshore—I suspect I know what his thoughts were—and similarly, people like myself and, I suspect, Professor Quiggin were proposing things like a mining tax which could have, by collecting more revenue and investing offshore, suppressed the exchange rate effect that we saw, which is classic Dutch disease, if we want to talk intermediate textbooks. My hunch is that Professor Makin was pretty implacably opposed to any regulation or taxation of the mining boom. If we want to talk about exchange rates and we want to talk about manufacturing going offshore, let's not pretend the main determinant of that exchange rate effect has anything to do with the financial economy. The main determinant was obviously a mining boom.

**CHAIR:** Economists in correlation/causation debates: that is great!

**Mr McCALLUM:** Professor Quiggin and Dr Denniss, both of you, in answers to previous questions, have touched on the role of infrastructure and income-generating government owned assets. Would you like to comment on the importance of the role of income-generating government owned assets going forward and how that might be linked to job creation and economic recovery, particularly in regional areas in Queensland?

**Prof. Quiggin:** As I have mentioned, I think this is important to the extent that there is alarmism about government debt. The fact that the Queensland government owns substantial income-generating assets, yields in return substantially in excess of the very low interest rates we have been discussing, puts Queensland in a much stronger position than is suggested when people simply look at gross public sector debt.

In the current environment, the real focus has to be not on physical infrastructure and not on the physical assets the government owns but on human services. That is what we are going to need to deal with this pandemic crisis, which is going to continue in one way or another for years to come. Even if we get an effective vaccine, the impacts on the services sector in areas like tourism and education are going to be felt for a very long time. That is where we should be focusing our attention, rather than worrying about fiscal measures like debt or a focus on physical infrastructure. These are the areas that, as Richard said, generate the most jobs per dollar of spending, but also they are the areas where we need a radical restructuring of the economy in response to the pandemic and the permanent effects of that.

**Dr Denniss:** To talk about debt without talking about assets at the same time makes no economic or financial sense. BHP has been in debt for more than 100 years. BHP has absolutely no intention of paying down its debt. If BHP borrows today, no-one would suggest that borrowing money today will impoverish shareholders of the future. It is only in public finance that we talk about one side of the ledger, and it is not good economics and it is not good finance.

Let's talk about the conservative federal government elected in 2013. It spent $50 billion in the National Broadband Network funded off-budget with debt; $10 billion on a national inland rail line funded off-budget with debt; $7 billion on a second Sydney Airport funded off-budget with debt; $5 billion on the Snowy 2.0 funded off-budget with debt. That is nearly $100 billion funded off-budget. What does 'off-budget' mean? 'Off-budget' means, according to Commonwealth government accounting rules, they do not count in the budget. They say, 'We expect that will pay for itself over time, so we are not going to worry about it.' That is the coalition government. That is a small-l liberal government that is opposed to public spending. It is ridiculous!

**Prof. Makin:** Richard, that is not—

**Dr Denniss:** Tony, you have had far more time than all of us.

**Prof. Makin:** No, no. I have to correct an error in what you have said, because—

**CHAIR:** Professor Makin, I will give you a chance at the end. Richard, could you wind up, please, because I know that the member for Bonney has a question.

**Dr Denniss:** I agree with Professor Quiggin. Governments should, obviously, be borrowing money at low interest rates to build things that have positive rates of return. Whether those rates of return are financial returns or social returns is irrelevant. The benefits obviously exceed the costs, and the lower the interest rate the more projects will jump over that hurdle. There are all sorts of projects that the Queensland government should pursue, but I think it is a mistake to think that only infrastructure projects that meet those criteria are the sorts of things that a satisfactory stimulus policy would pursue. There is no logical need to choose between the two. Both have benefits. There is clearly enormous appetite on the conservative side of the federal government for public spending on infrastructure for things that pay dividends in the future. That is to be applauded, but to draw a line there and say that they are the only kinds of projects that government should borrow for is not based on economics; that is ideology.

**Prof. Makin:** I would counter that what Richard is saying is ideology as well—that the state knows everything. In terms of the federal government budget—he is talking about off-budget items; you could look at on-budget items—there are very few assets backing the federal government's debt. The federal government's negative net worth has been about 25 per cent post GFC. The proper budget of the federal government has few assets against the ever-increasing liability. Negative net worth is a problem for governments, as it is for the private sector.

**Prof. Quiggin:** And equally Queensland's positive net worth is a major asset.

**Dr Denniss:** And Professor Makin is talking about financial assets—

**CHAIR:** No, we are not having a debate.

**Dr Denniss:**—and is ignoring physical assets.

**Prof. Makin:** That is not true.

**CHAIR:** Order! We are not having a debate.

**Mr O'CONNOR:** Maybe you could all have a group Facetime call after and go through all of these things.

**Ms RICHARDS:** Zoom is ready and waiting!

**Mr O'CONNOR:** Get a Zoom chat going. Just going back to the Queensland government's response, my question will be to Mr Tunny. One of the key elements of the government's response has been the COVID-19 adaptation grants for small business. Some of the commentary you have made about that says it is extremely poor policy and you suspect a large waste of money. You said you were stunned by the minister telling businesses to get in quick and you think it would have worked better if there was a defined period, as you said earlier. Can you expand on some of those thoughts you had on that key program?

**Mr Tunny:** I am going on what is in the public domain. The announcement from the minister when she said, 'Get in quick,' struck me as the wrong way to administer a grants program. I made the point earlier that the Commonwealth is much better placed to have these generally available programs such as JobKeeper because of its superior financial resources and borrowing capacity. If the state government is going to run a grants program, I think it has to be well targeted. From what I saw reported in the media and also what I have heard from people in business who have been in touch with me, this really was not well administered. I really do not like the whole idea of first-come, first-served program. I think the agency should have had the original round opened longer and then assessed the applications as they came in. It was heavily oversubscribed and they were out of the funds in 4½ days, so how can we be sure that the people who received it were those most in need? We should be looking at the financial resources that people have, whether they have savings that they can draw down on.

I recognise that there is a lot of need out there in the community and small business people have been very badly affected by this. I just wanted to say that, based on what I saw in the media, it did not look like it was a well-administered program to me. When I was on 4BC last Friday, the point was raised that there were delays in getting the money into the bank accounts of small business people. That is another administrative failure. There were multiple administrative failures with this program. We need to do better. We need to make sure we have really competent people running these programs. One of the points I made is that sometimes public servants want to be in the policy-making rather than the program delivery. We need to make sure we have competent people delivering programs.

**Mr O'CONNOR:** It was a similar story with the QRIDA loans program, which was a billion dollars?

**Mr Tunny:** I have heard that has frustrated a lot of business owners who missed out the first time around. There were a lot of concerns about the administration of that program. I have heard stories from business owners. I know one of them was in tears over their concerns with the administration of these programs. It is possibly better to hear from those business owners directly rather than from me. I have not applied for it so I do not know the ins and outs of it, but my impression is that these things could have been much better managed.

**Ms RICHARDS:** Mr Tunny, what you might read in the media is not necessarily how it always plays out on the ground. I can certainly tell you that the businesses that have been successful in the adaptation grants in my region and those that have been able to access QRIDA are certainly very needing, very deserving and very grateful for having access to that sort of funding in these most extraordinary of times.

**CHAIR:** Thank you very much for your contribution. Obviously we had some divergence of views, and we knew that going in. We are not here as a committee to only hear from people of exactly the same mind about one of the most challenging economic responses for our state. I thank all of you very much for participating. I thank you bringing your ideas and differing views to it because that is important to this process. A transcript of these proceedings will be on the committee's parliamentary webpage in due course. I declare this public hearing closed.

**The committee adjourned at 12.38 pm.**