Cheaper Power (Supplementary Appropriation) Bill 2024

Submission No: 2

Submitted by: Australian Institute for Progress

Publication:

Attachments:

Submitter Comments:

Australian Institute for Progress

Submission to Cost of Living and Economics Committee *Cheaper Power (Supplementary Appropriation) Bill 2024*

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Australian Institute for Progress

May 8, 2024

The Chair
Cost of Living and Economics Committee
Parliament House
George Street
Brisbane Qld 4000

Dear Chair,

The Australian Institute for Progress is an Australian think tank based in Queensland. We thank the committee for this opportunity to make a submission on the *Cheaper Power (Supplementary Appropriation) Bill 2024*.

While we appreciate the opportunity to comment, the invitation was made on Thursday May 2 with a deadline of May 8, even though the intervening weekend was a long one. This for an expenditure which is apparently in the vicinity of $2 billion dollars, which is approximately 2.4% of the Queensland budget expenditures for 23/24, and about 14.4% of the projected budget surplus for this financial year.

We wonder whether the government has any real interest in feedback on this bill. Our response is also less detailed than it might have been, given the time constraints.

Should you have any queries you may contact me by email [redacted], or by phone [redacted].

Regards,

[redacted]

GRAHAM YOUNG
EXECUTIVE DIRECTOR

1. Introduction

This is a brief submission because of the time provided to respond.

This measure represents around 2.4% of budget outlays but more significantly, because it is a new outlay, not contemplated in the budget, represents approximately 14.4% of the projected budget surplus for this financial year. It will have a significant impact on Queensland's financial position and the shortness of time to comment suggests the government has no interest in considered debate.

It is not a budget measure that can be repeated, so is not a measure to reduce the cost of living, and voters would be entitled to think, because the presumably one-off benefit will arrive in the three months immediately prior to the state election, that it is for electoral advantage only.

There is no economic justification for the payment, and it actually works against many of the government's policy priorities, such as pricing energy so that consumer's ration its use appropriately.

2. The title is misleading

The title of the bill is dishonest. Electricity will not be cheaper, it will just be easier to pay for it because the taxpayer will have been provided with a credit from other sources. The underlying cost of living problem will not go away and will not be addressed by this bill. In fact, by transferring the cost from the electricity bill to the government it will reduce the incentives in the economy to keep costs down, leading to greater price increases over time. The state government does not have the resources to prevent cost of living, what is the real state of prices, filtering through to the taxpayer, but it can mislead them as to where price pressures are coming from leading to bad decision-making all round.

3. Total costs to consumers will rise

Government spending is fungible. $2 billion spent alleviating power bills is money that can't be spent elsewhere or saved. And the fact that power prices are rising will not go away, it will simply be hidden and distributed through other parts of the economy.

4. Cost of living is not tackled by subsidising consumers, or anyone else.

If the government is really concerned about cost of living it would concentrate on increasing productivity and freeing-up supply chains, this will do neither. It would also change its plans for electricity generation which are increasing the price of electricity to consumers.

5. A genuine cost of living measure would be repeatable

This is not a genuine measure to lower the cost of living because it is unrepeatable. $2 Billion per quarter is $8 Billion per year, and more than the extra revenue being dragged out of coal companies.

6. The claim coal royalties are paying for the credit is misdirection

Given that government income is fungible it is not really being taken from coal company royalties but from general revenue. However, given the cyclicality of coal prices, revenue from the "super royalty" ought to be treated as a windfall and either used to reduce debt or invested in assets with a positive return.

The government has the wrong mindset about the royalties. It should know it has increased sovereign risk and cost future investment and jobs through its actions in levying the highest taxes on coal mining in the world. It tries to justify this by claiming that the minerals belong to everyone. They do, and we, through the government, agreed to sell the minerals at a price, and then changed the deal arbitrarily. At the same time, it seeks to bribe voters by claiming to spend the money on various community "benefits", such as this one.

7. It will be inflationary and lead to higher interest rates

State and federal governments are currently running expansionary programs which exceed the ability of the economy to provide the resources required to execute them. This is causing inflationary pressure which the Reserve Bank is trying to counteract by raising interest rates so as to dampen activity. Measures like this, by stimulating excess spending guarantee cost of living will go up, including interest rates. Not only will this affect electricity prices, but also the most basic necessity – the cost of housing.

8. It is poorly designed

It will give more money to millionaires and billionaires - because they are likely to own more than one property and will receive multiples of the credit - than the poorest Queenslanders, who rent.

The amount of money that will go to small businesses is roughly one-third of that to individuals, yet many small businesses are suffering disproportionately because their power bills are many times that of a household, and the cost will have to be passed on to consumers (otherwise the businesses would go broke), adding to cost of living pressures. Anecdotally many businesses are looking at converting processes to gas because it is now cheaper than electricity, thereby acting against other policy objectives of the government.[i]

9. Electricity is going to be more expensive by design

The policies of this government will have the effect of making electricity more expensive, not less. There is nothing to be gained in the long run by misleading the public about this or pretending that it can be changed by one-off payments.

10. The size and timing of the payment suggest that the government's aim is electoral, not economic

The size of the payment is significantly more than the recent increases in electricity prices, and it will arrive in the financial quarter immediately prior to the next state election. Given all of the considerations enumerated above, plus those factors, a reasonable person would infer that the real purpose is electoral gain, not alleviation of the cost of living.

[i] https://www.abc.net.au/news/2024-05-04/business-rips-out-electric-installs-gas-blames-demand-tariffs/103792258