



Balancing budgets: tough choices we need

**John Daley, CEO, Grattan Institute
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Overview

Australian government budgets are in trouble

- For 7 years a structural deficit was masked by mining boom and GFC
- The Commonwealth has *both* a revenue and a spending problem
- Revenues are returning to long-run averages with bracket creep
- Health and infrastructure increased their share of government spending

Bracket creep is ‘solving’ the short-term structural problem

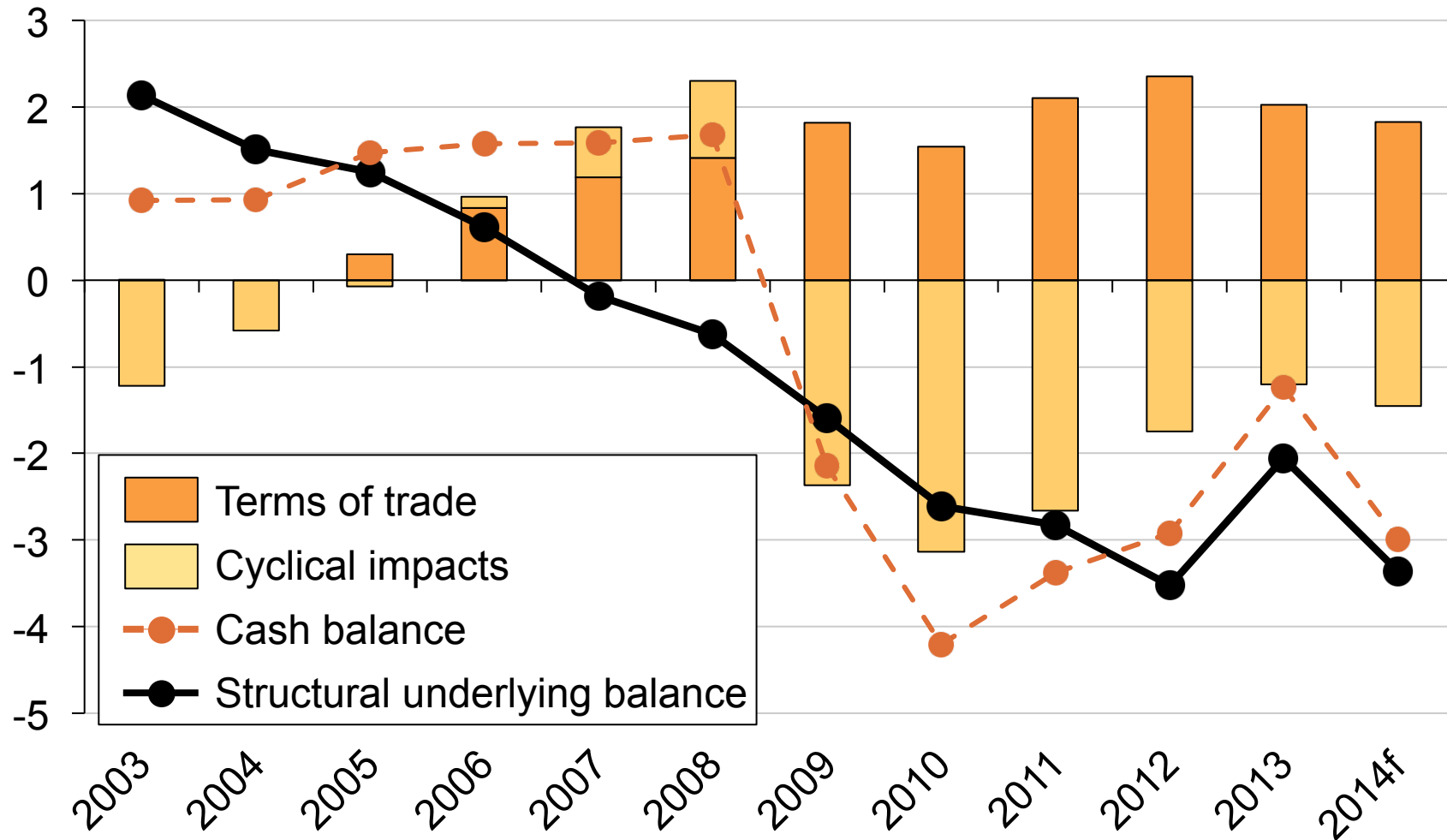
- Highly publicised budget cuts affect a wide variety of groups
- However, most of the structural improvement is a result of bracket creep
- Bracket creep hits middle income earners most, and is unlikely to be politically sustainable

Longer term structural budget problems require tougher choices

- Longer term budget settings are not sustainable given signature policies, rising health costs and other pressures
- All policy choices that improve the structural budget position are politically painful
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The Commonwealth's structural deficits was masked by mining boom and GFC

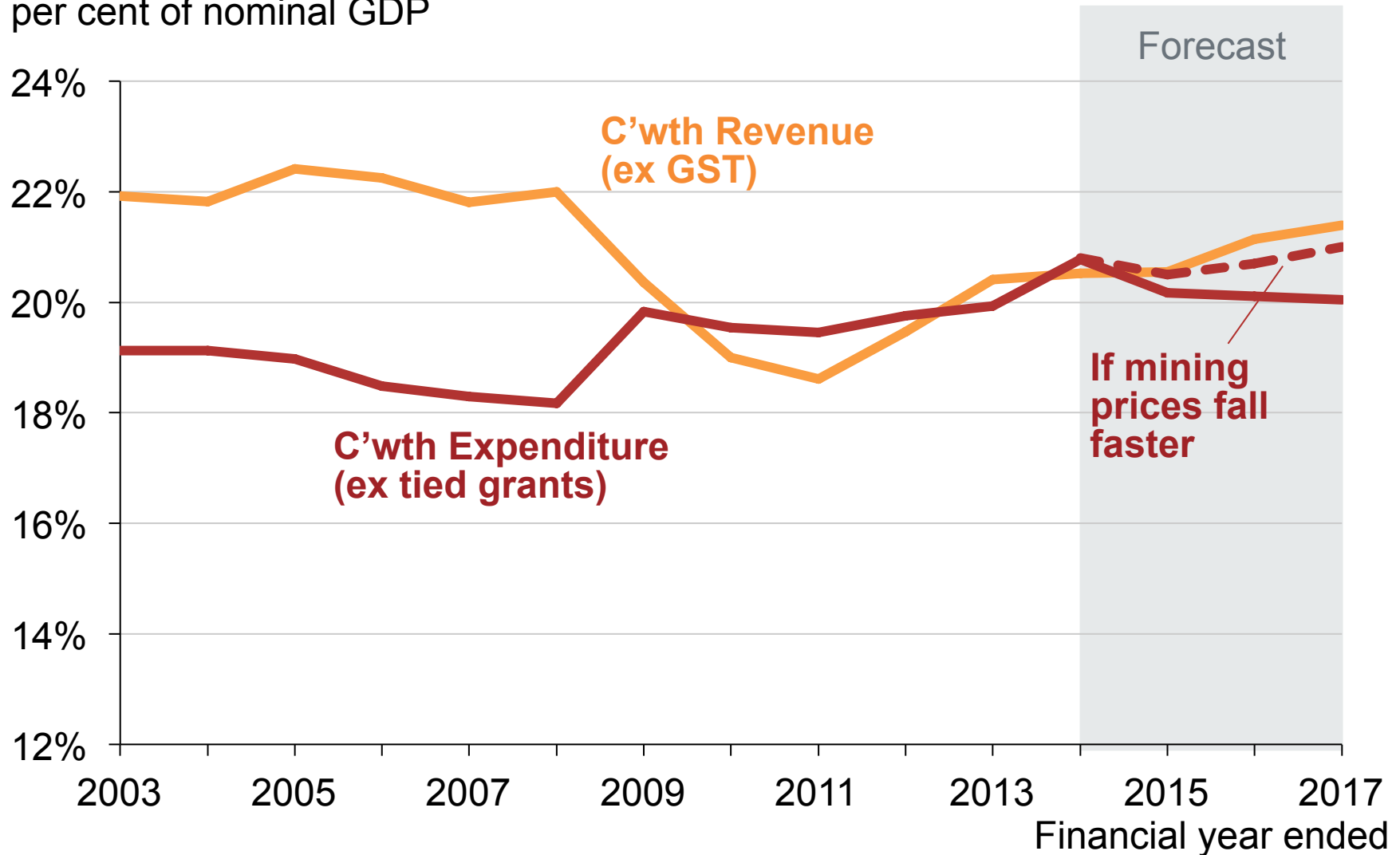
Commonwealth budget balance per cent of nominal GDP



Note: Cash balance is equal to receipts minus payments, minus Future Fund income, (under 0.25 per cent of GDP)
Source: *Budget Pressures 2014*

Both revenue and expenditure are worse than longer-run levels

Commonwealth own purpose expenditures and revenues per cent of nominal GDP



Source: *Budget Pressures 2014*

Commonwealth tax receipts are returning to historic levels

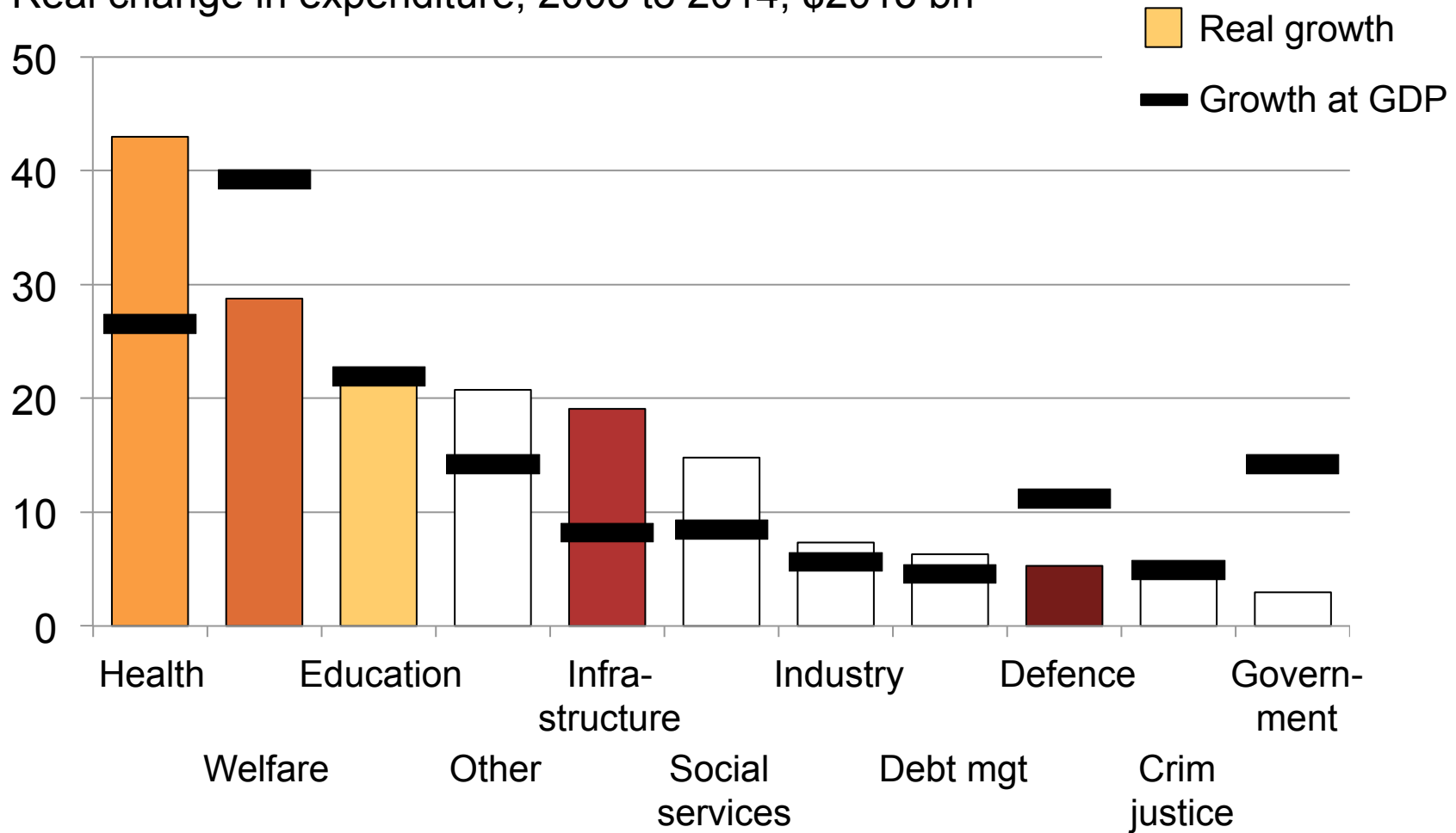
Commonwealth taxes per cent of nominal GDP



Health and infrastructure increased their share of government spending

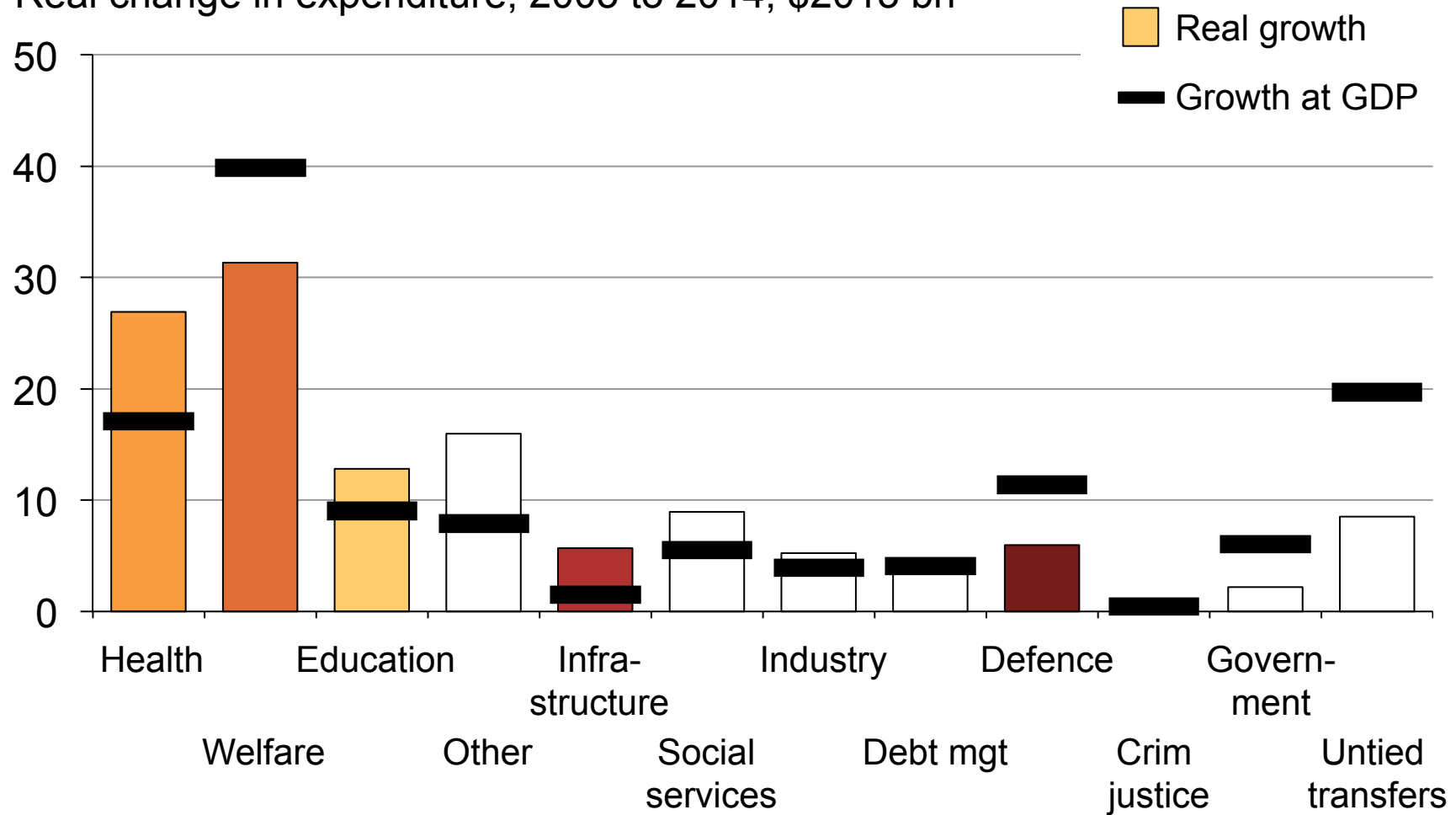
Change in Australian governments' expenditure 2003-2014

Real change in expenditure, 2003 to 2014, \$2013 bn



Health increased and welfare reduced their share of Commonwealth spending

Change in Commonwealth recurrent expenditure
Real change in expenditure, 2003 to 2014, \$2013 bn

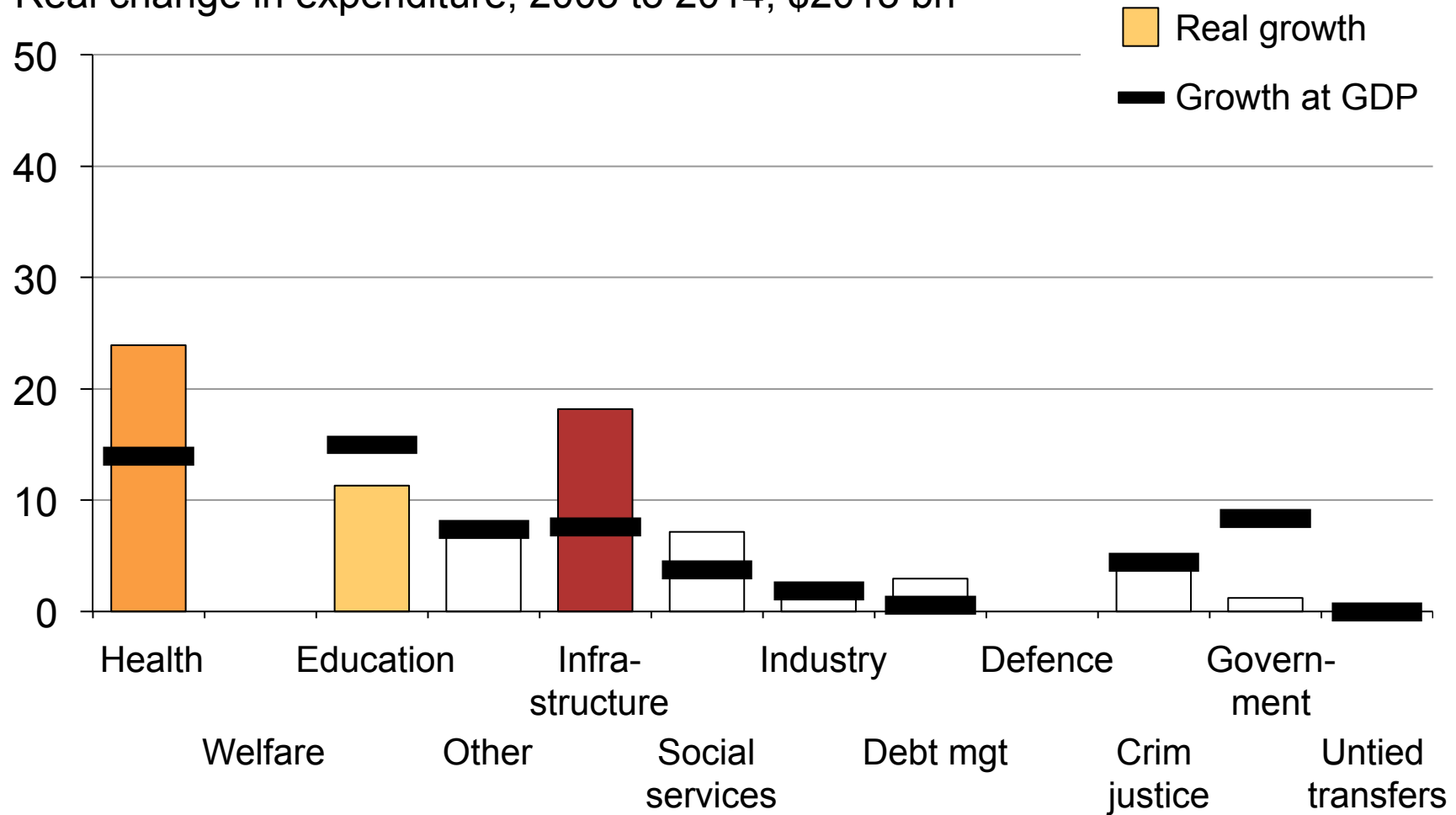


Note: Includes funds transferred to States. 'Other' comprises all expenditure not elsewhere included. 'Social services' comprises ageing and aged care services, disability services, and community services. 'Govt & econ' comprises government operations and economy and finance.
Source: *Budget Pressures 2014, Supporting Materials*

Health and infrastructure drove increases in State spending

Change in State recurrent expenditure

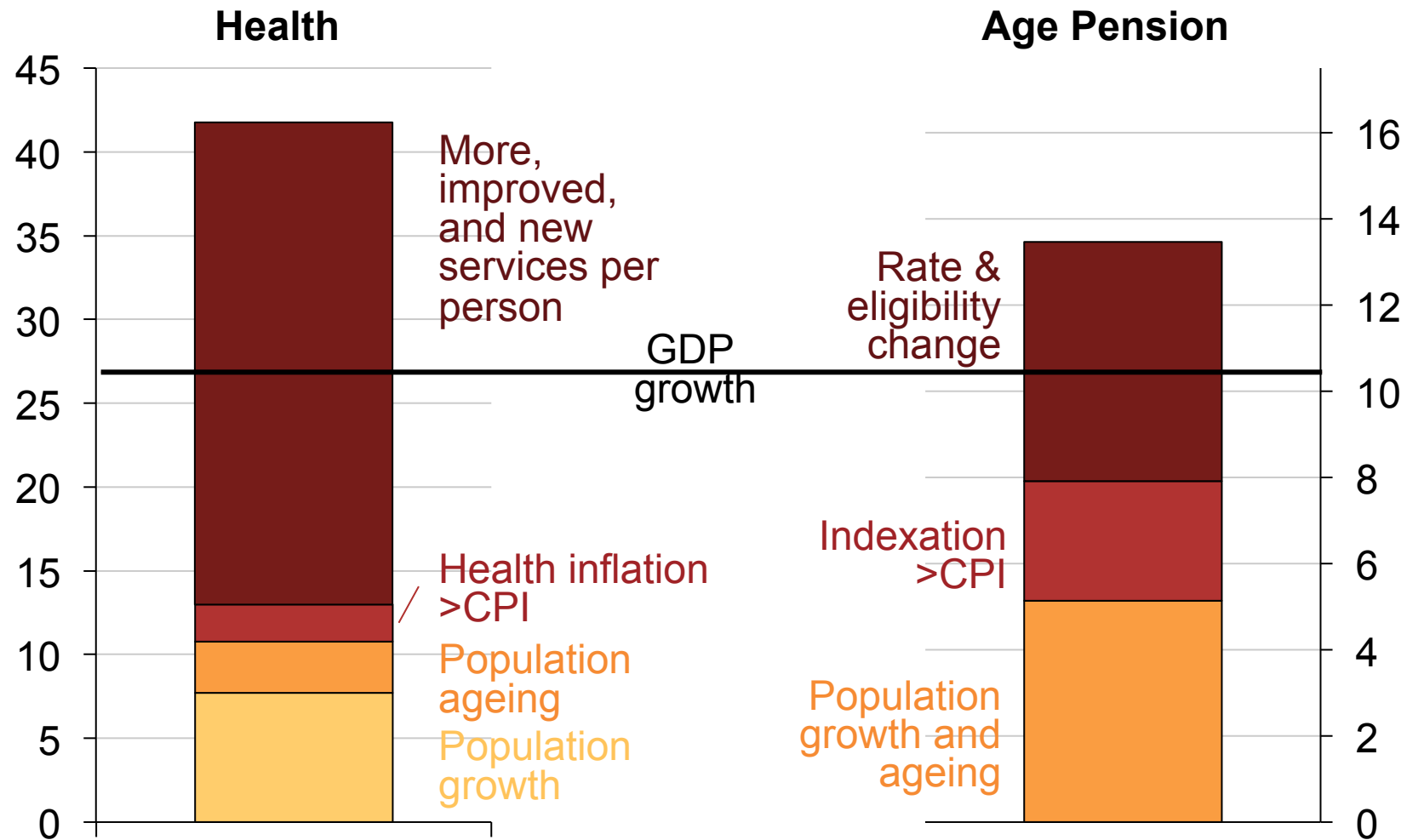
Real change in expenditure, 2003 to 2014, \$2013 bn



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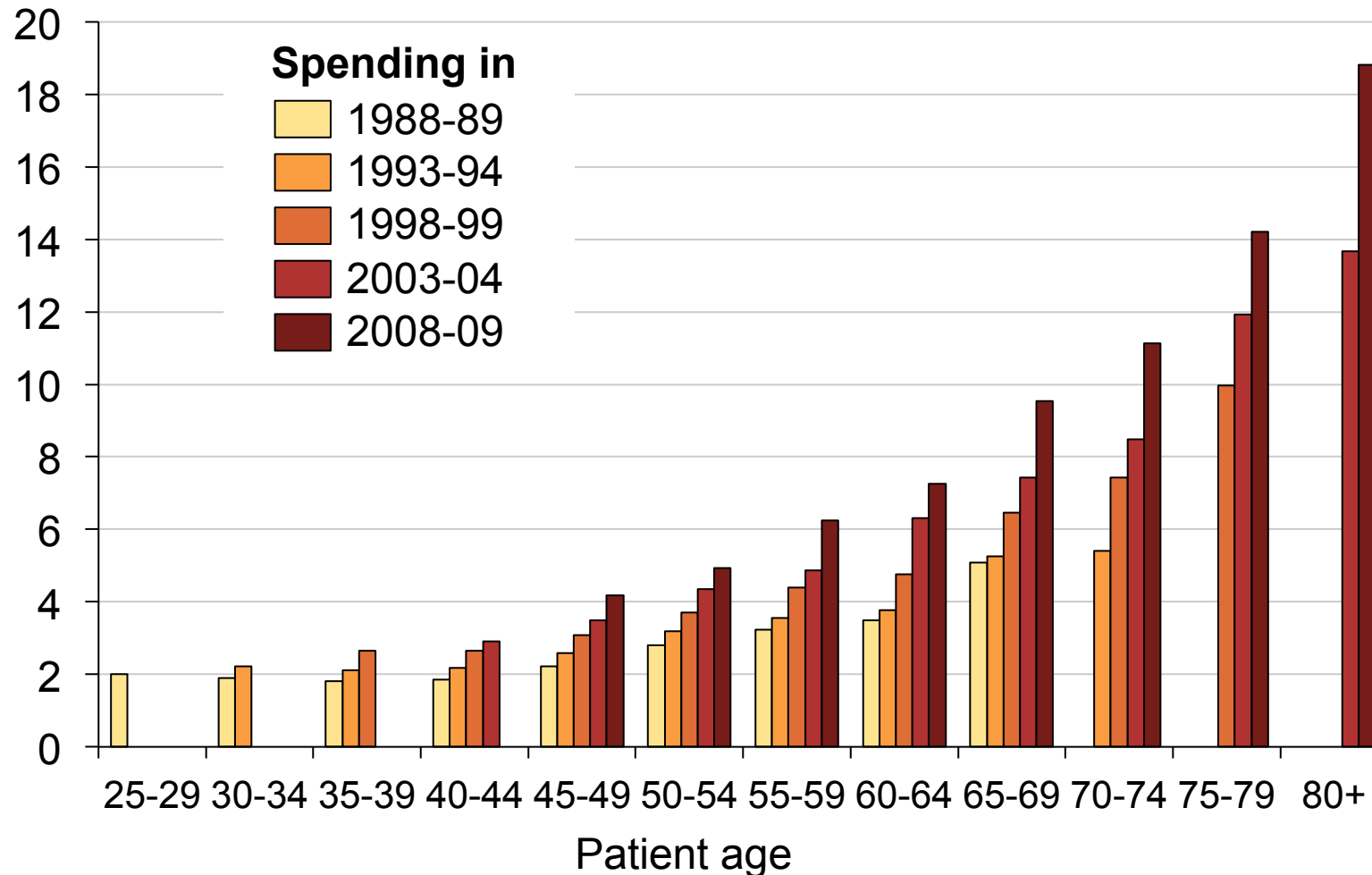
Health and Age Pensions spending were due to policy choices, not population ageing

Real increase in expenditure 2003-2013
\$2012 bn



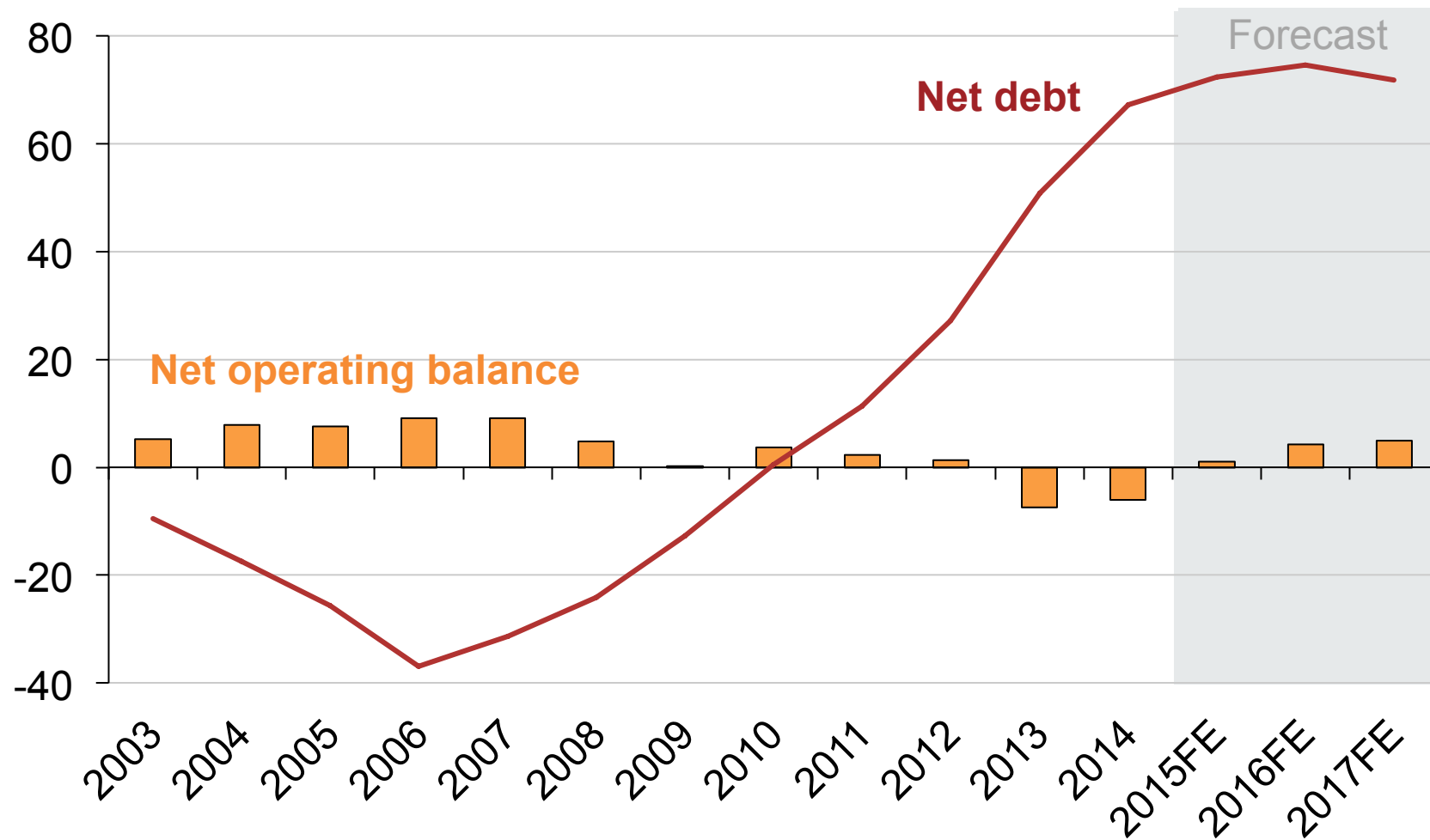
Spending on health has risen for all ages, but is much greater for older age groups

Government spending on health per person
All governments, \$2012 '000 per year per person



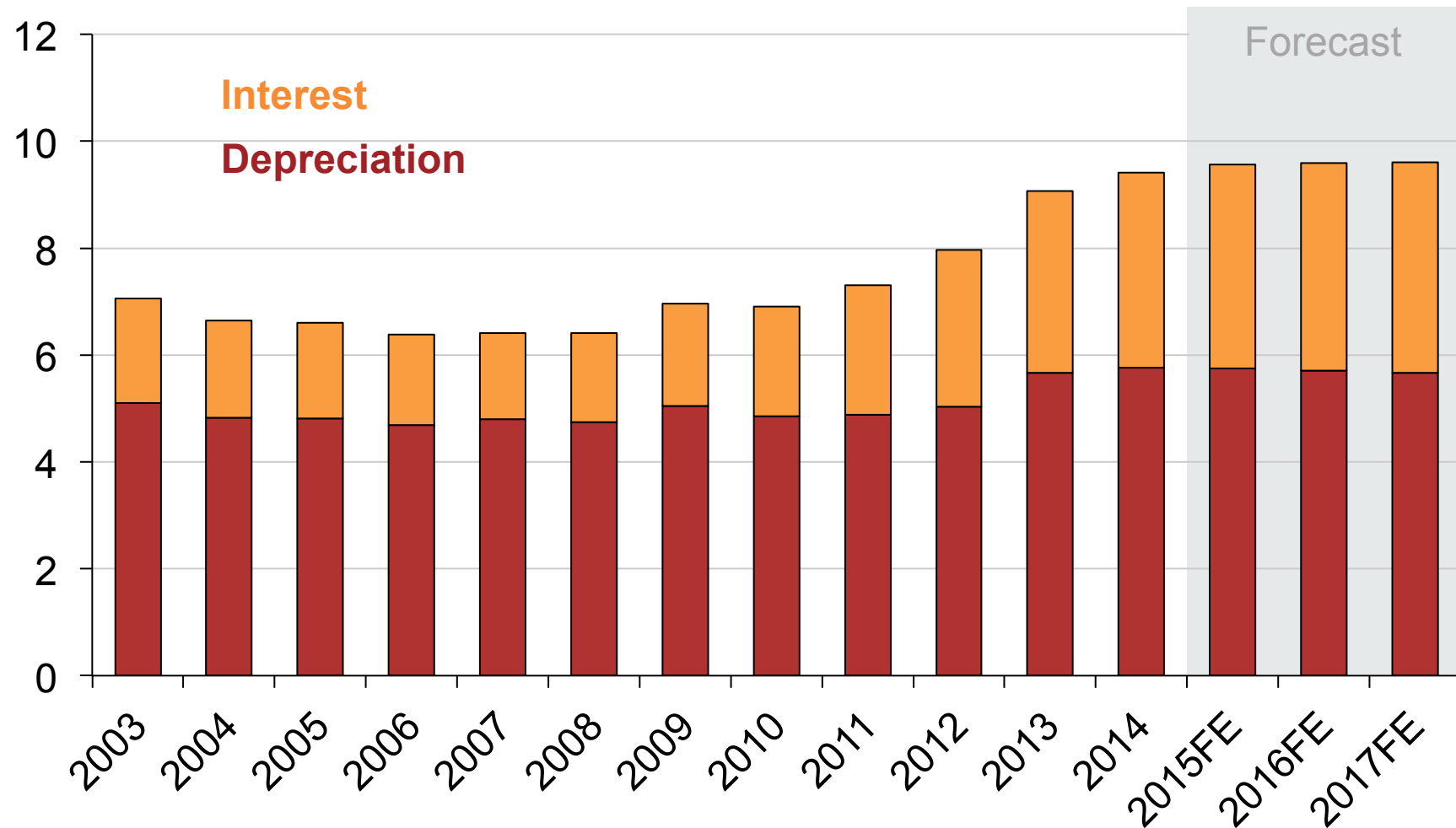
Capex has driven increase in State debt

State net debt and operating balance
\$2013 bn



Recurrent State budgets are now paying for past capex

Depreciation and interest expense as a percentage of State revenue
% of revenue



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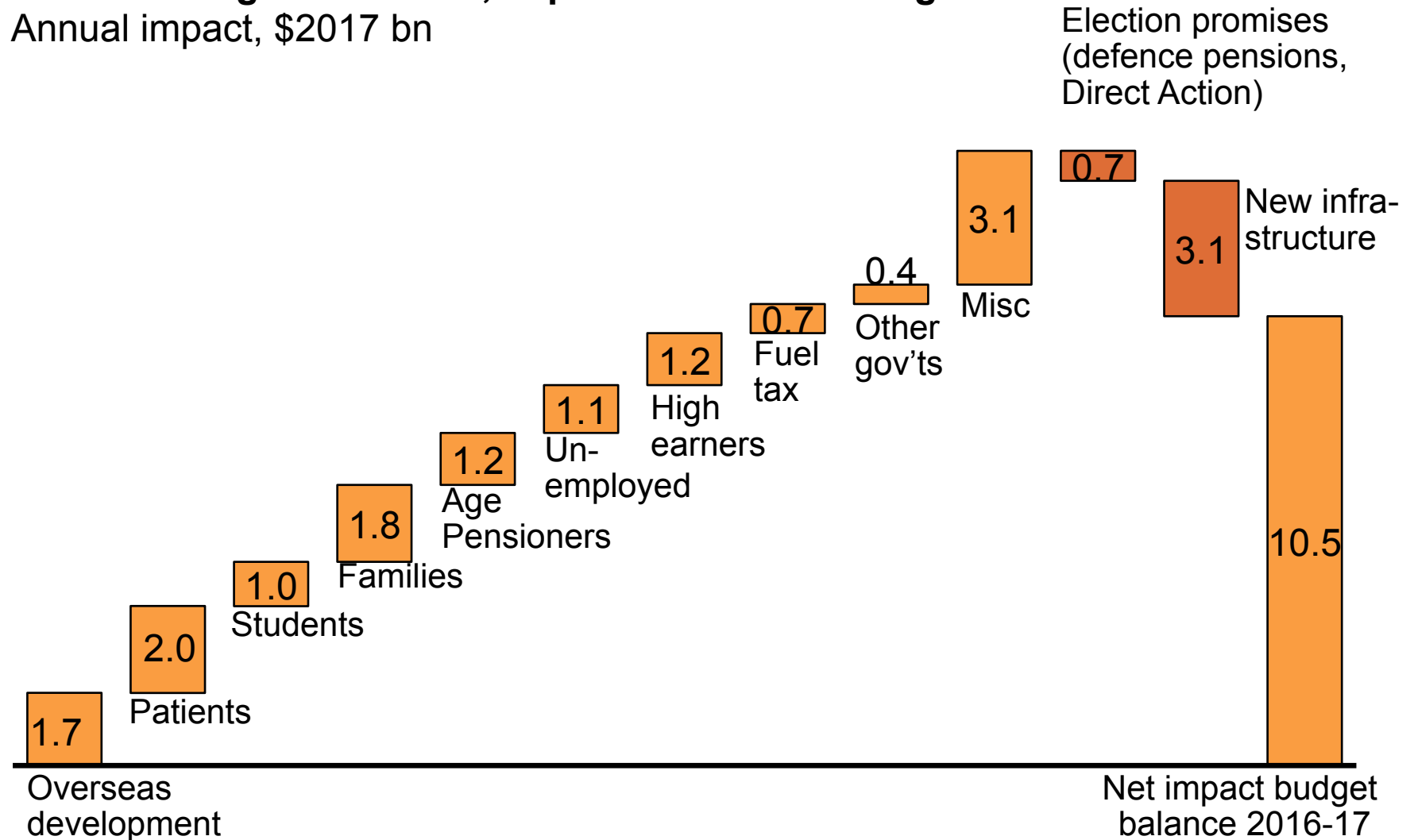
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Budget cuts affect a wide variety of groups

2014-15 Budget measures, impact on 2016-17 budget

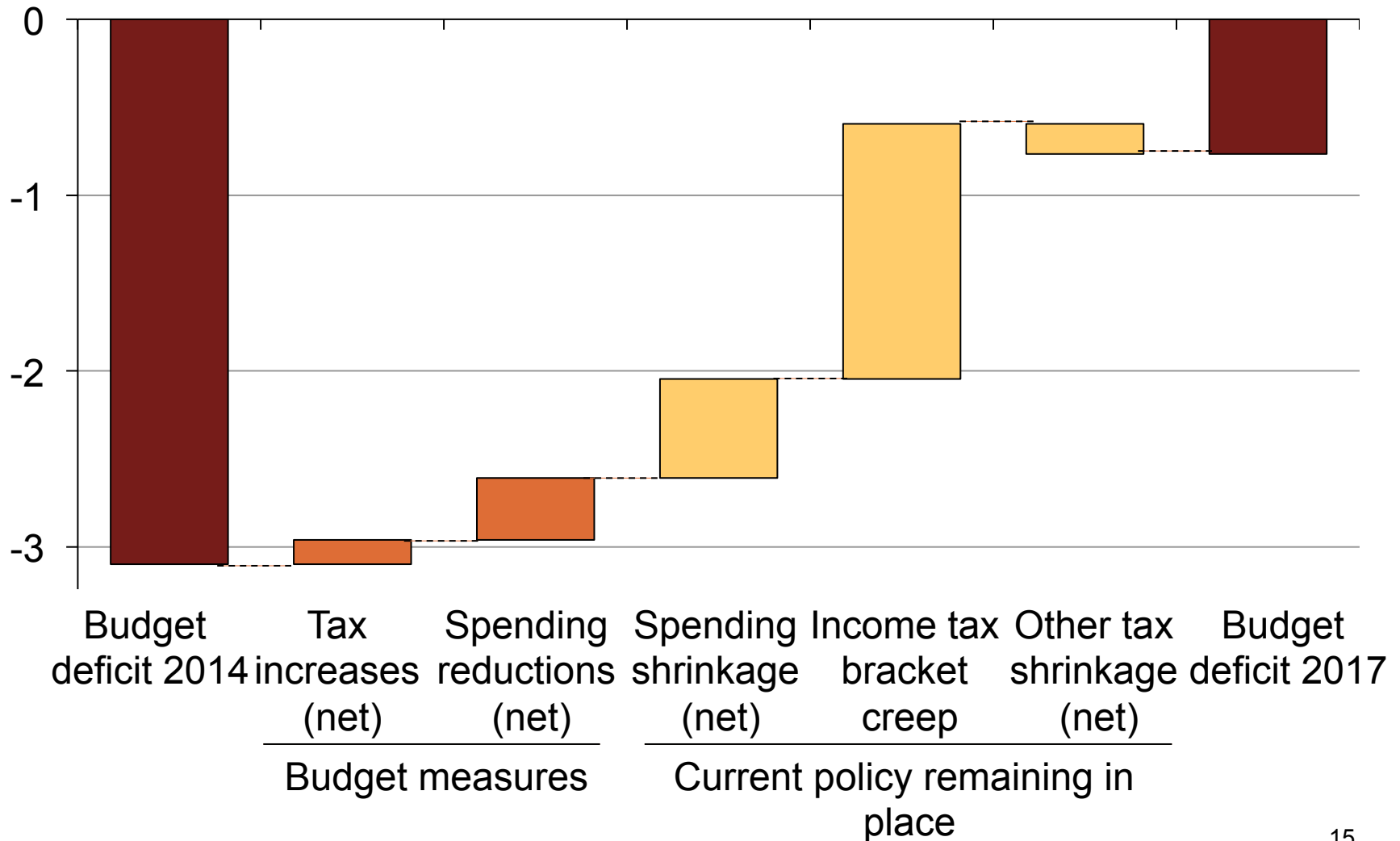
Annual impact, \$2017 bn



Most of the structural improvement is the result of bracket creep

Budget balance as a percentage of GDP

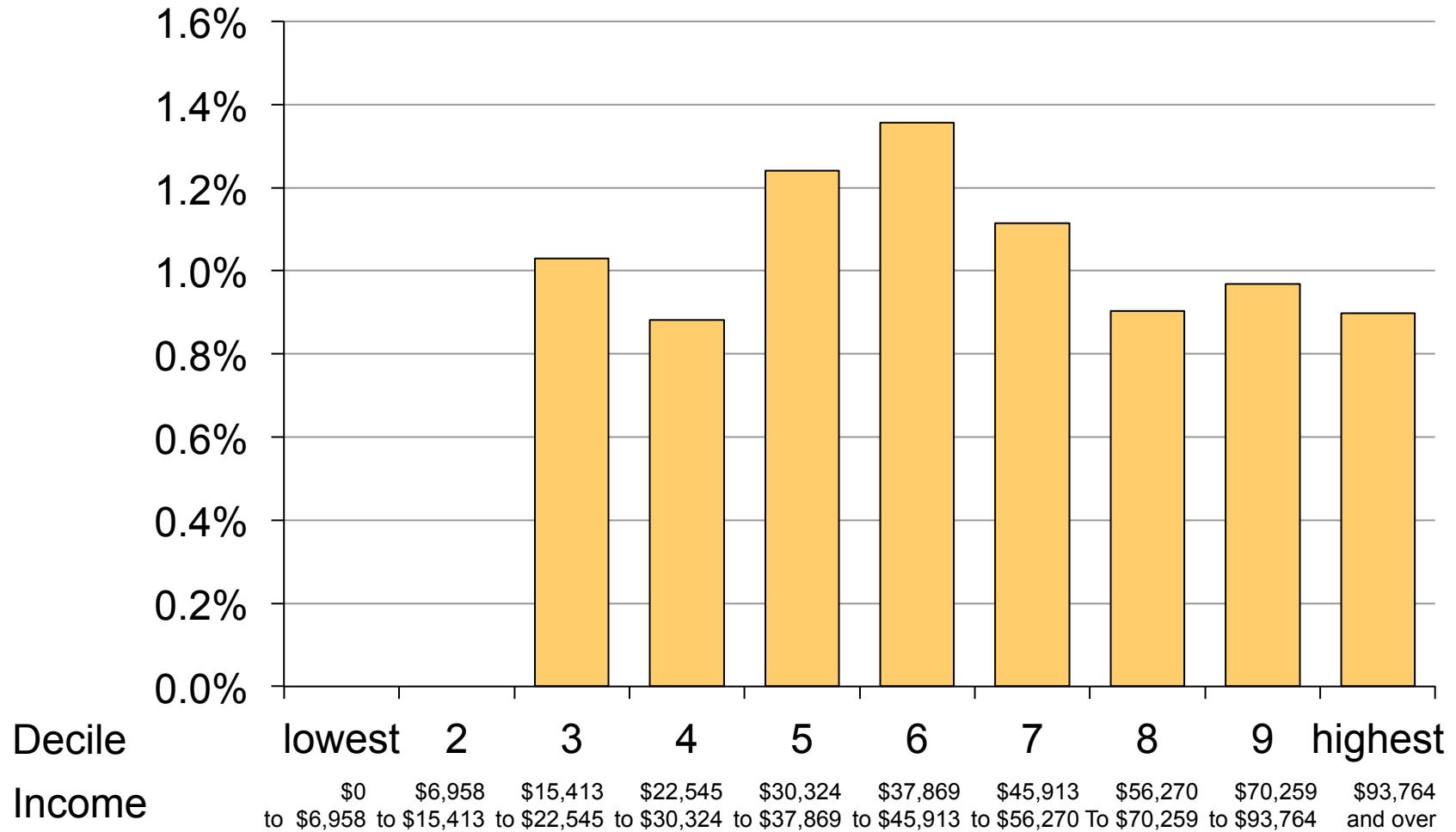
2016-17 budget compared to 2013-14 budget, % of GDP



Bracket creep hits middle income earners most

Impact of bracket creep, 2013-14 to 2016-17

Additional percentage of income paid in tax, by taxpayer income decile



Source: Treasury, *Budget Paper 1*, ATO, *Taxation statistics 2010-11*, Grattan analysis

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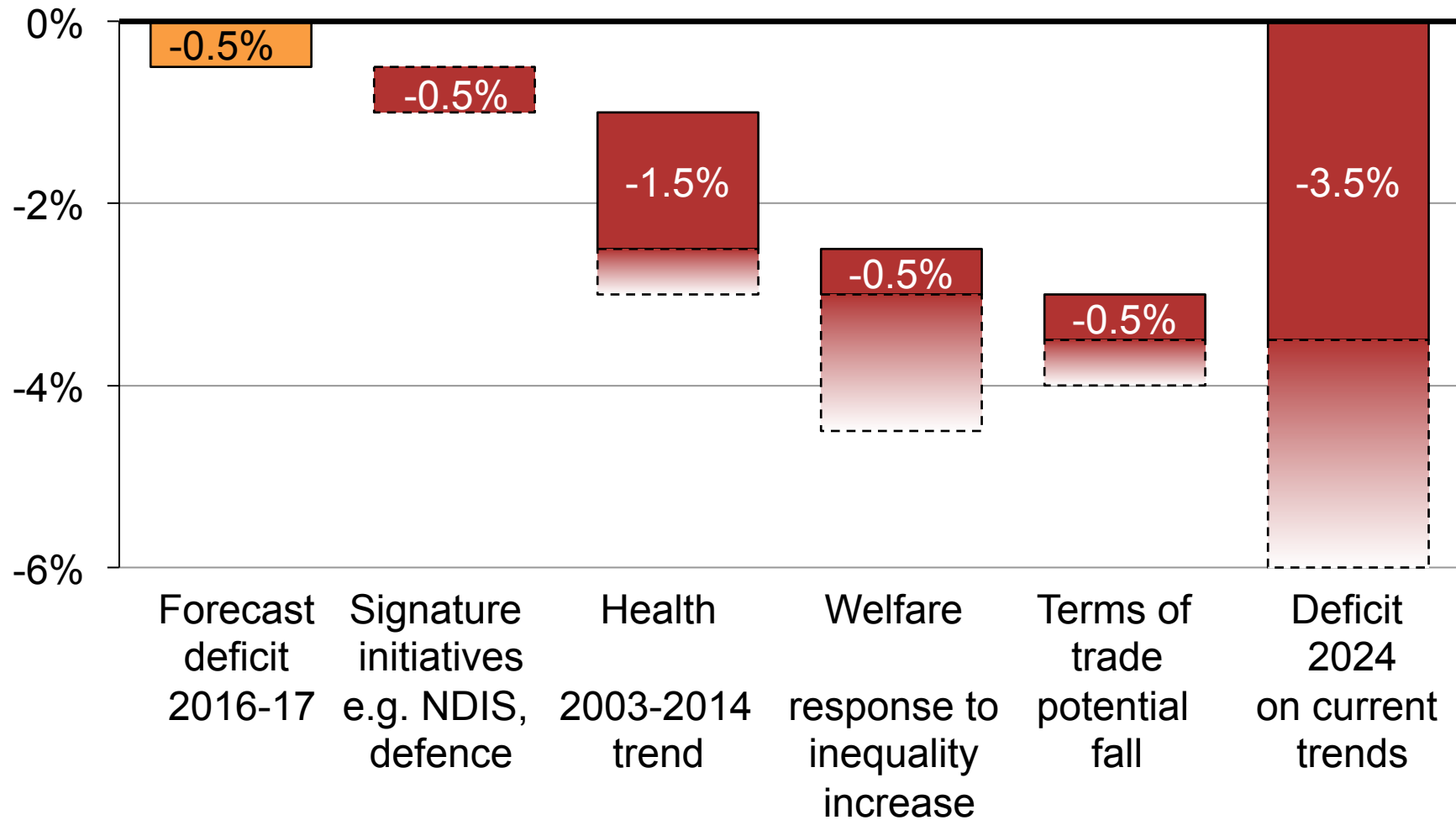
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Longer term budget settings are not sustainable

Potential annual deficit of Australian governments' budgets by 2024
(Percent of GDP)

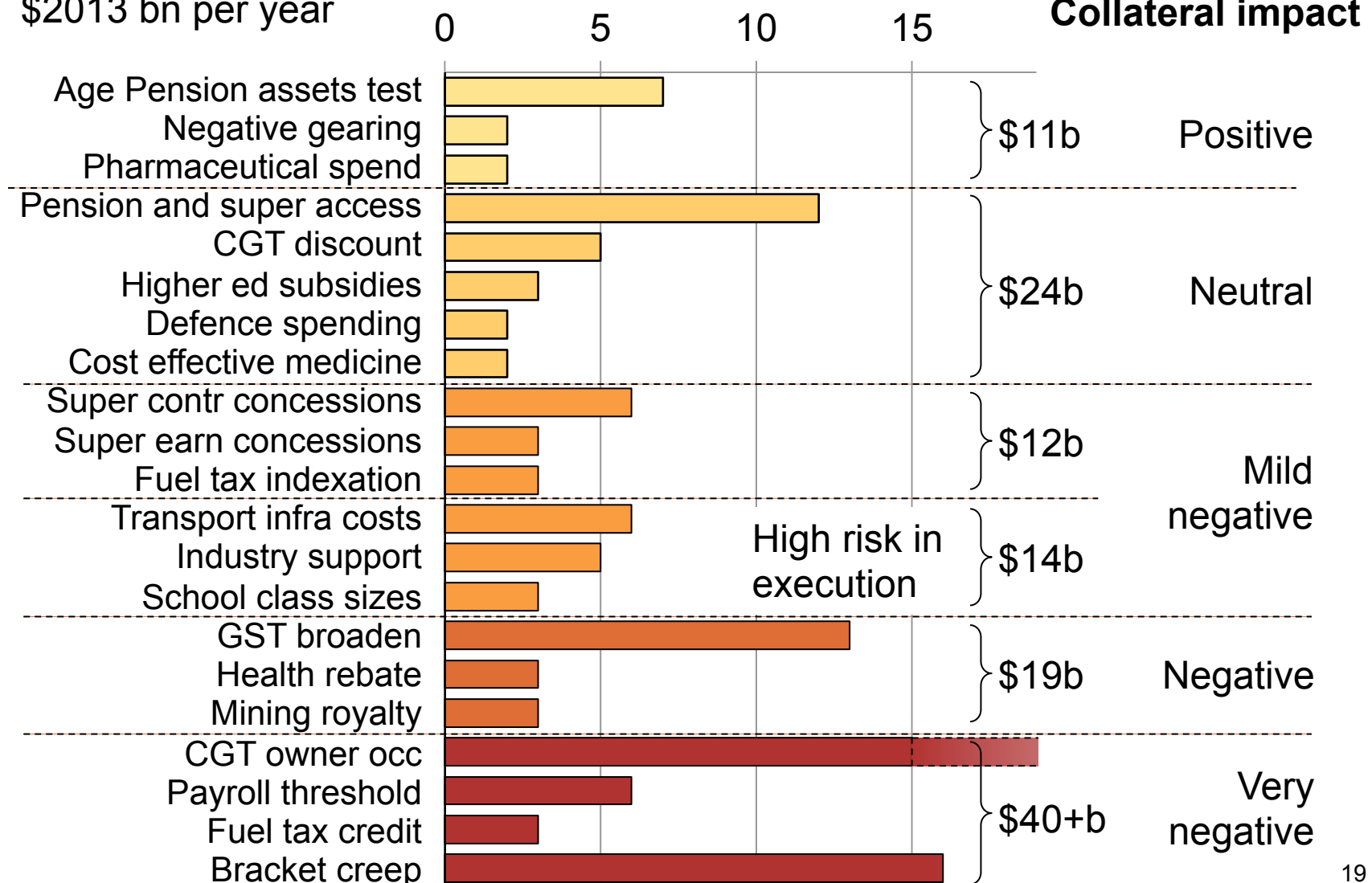


Few options for budget repair are both large and socially responsible

Budgetary impact of tough budget choices in ten years' time

\$2013 bn per year

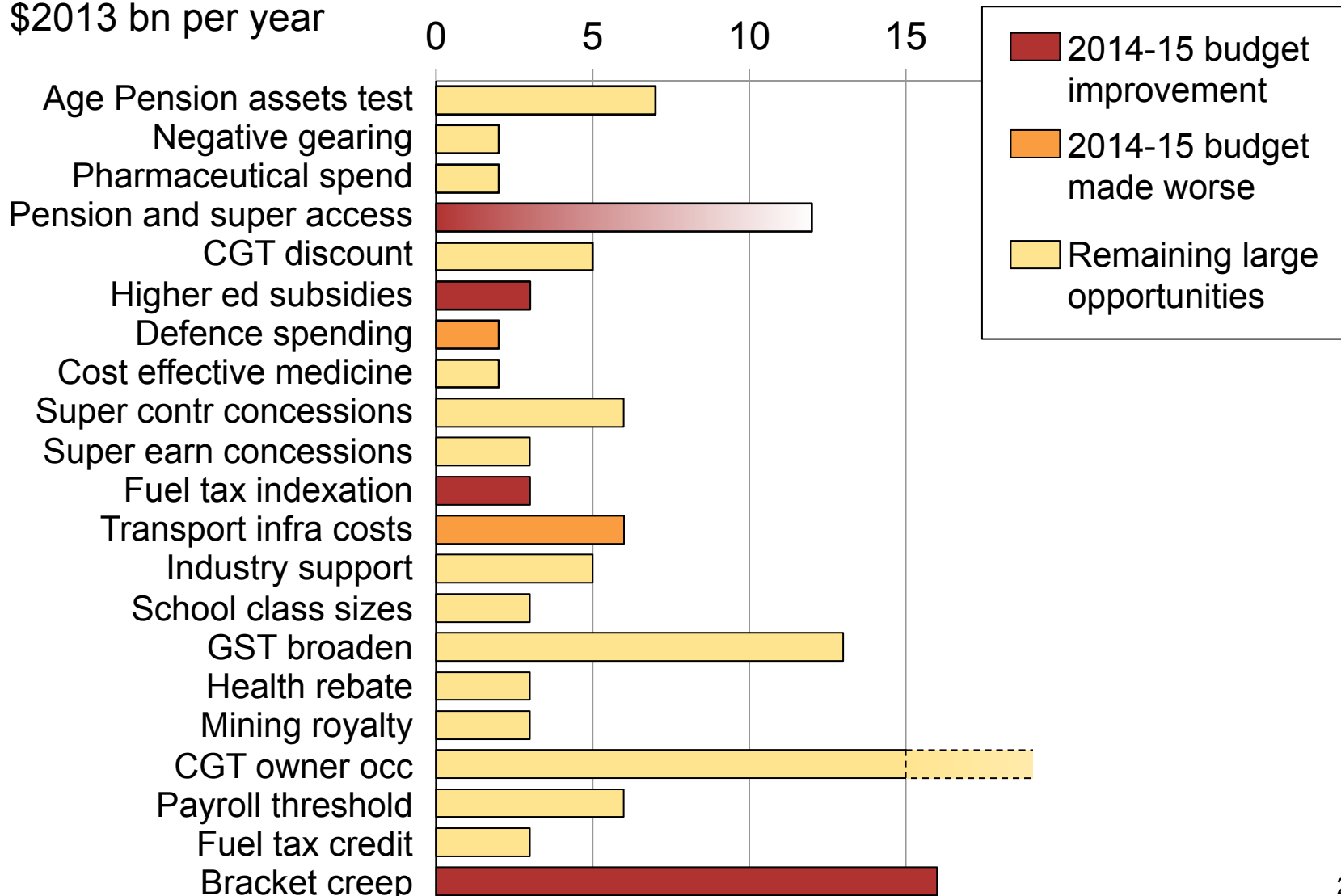
Collateral impact



Some structural improvements are in place, but more will be needed

Budgetary impact of tough budget choices in 10 years' time

\$2013 bn per year



Source: Grattan Institute, *Balancing Budgets*