

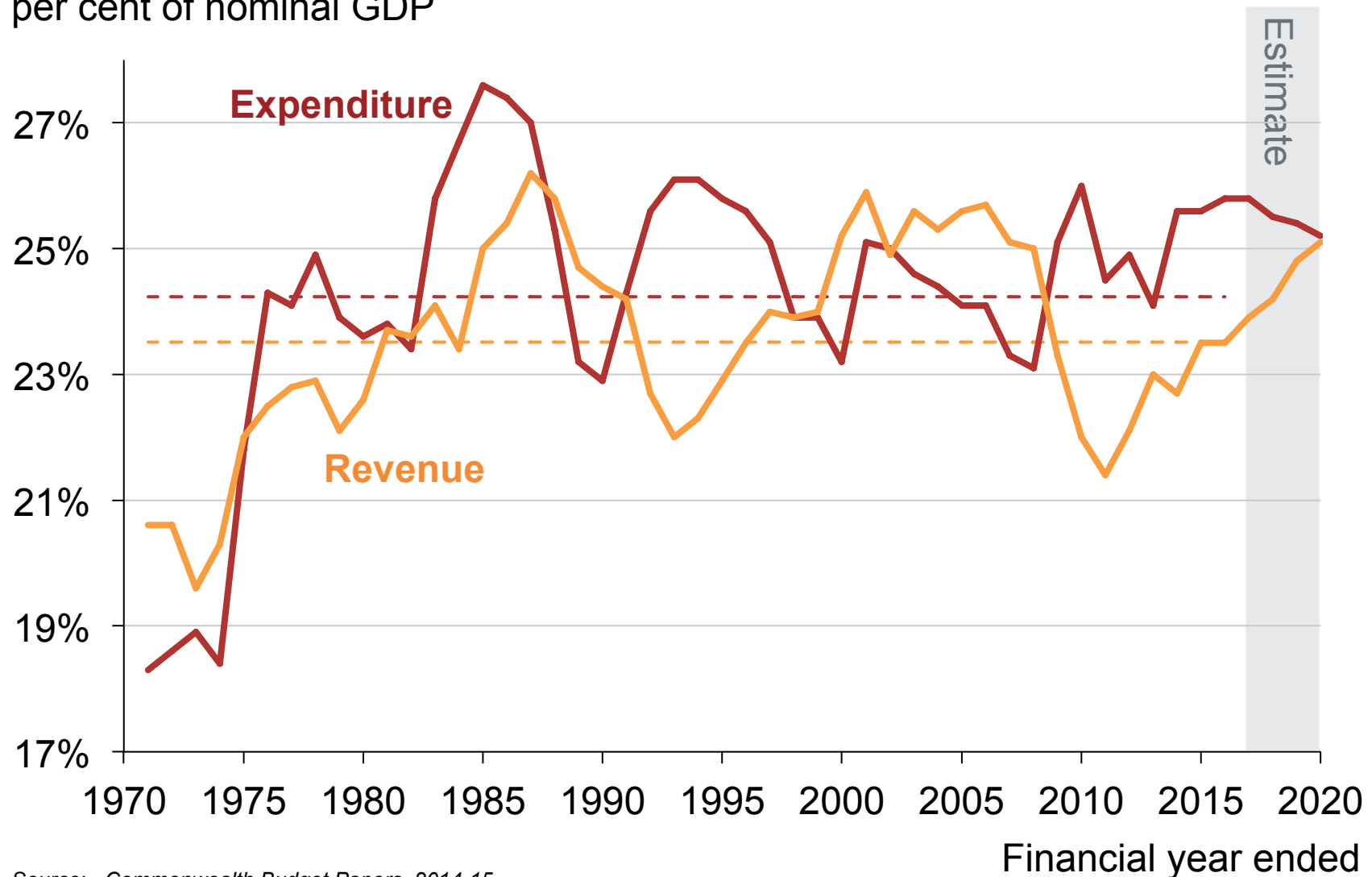


# **Budget repair and the changing size of Australia's government**

**Crawford Australian Leadership Forum  
John Daley, Grattan Institute  
June 2016**

# Commonwealth expenditure is high relative to history; revenue is typical of last 30 years

## Commonwealth expenditures and revenues per cent of nominal GDP

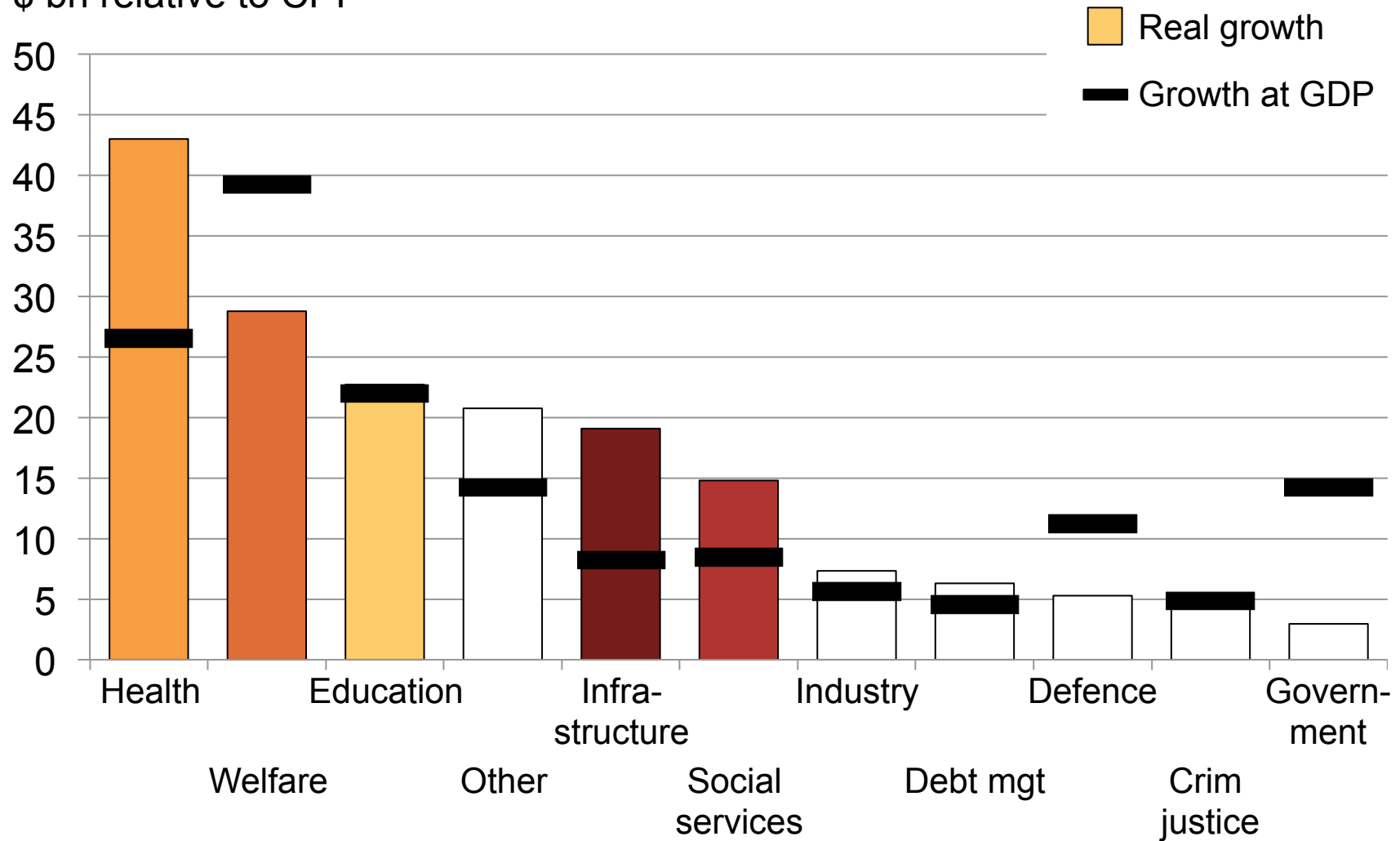


Source: Commonwealth Budget Papers, 2014-15

Financial year ended  
2

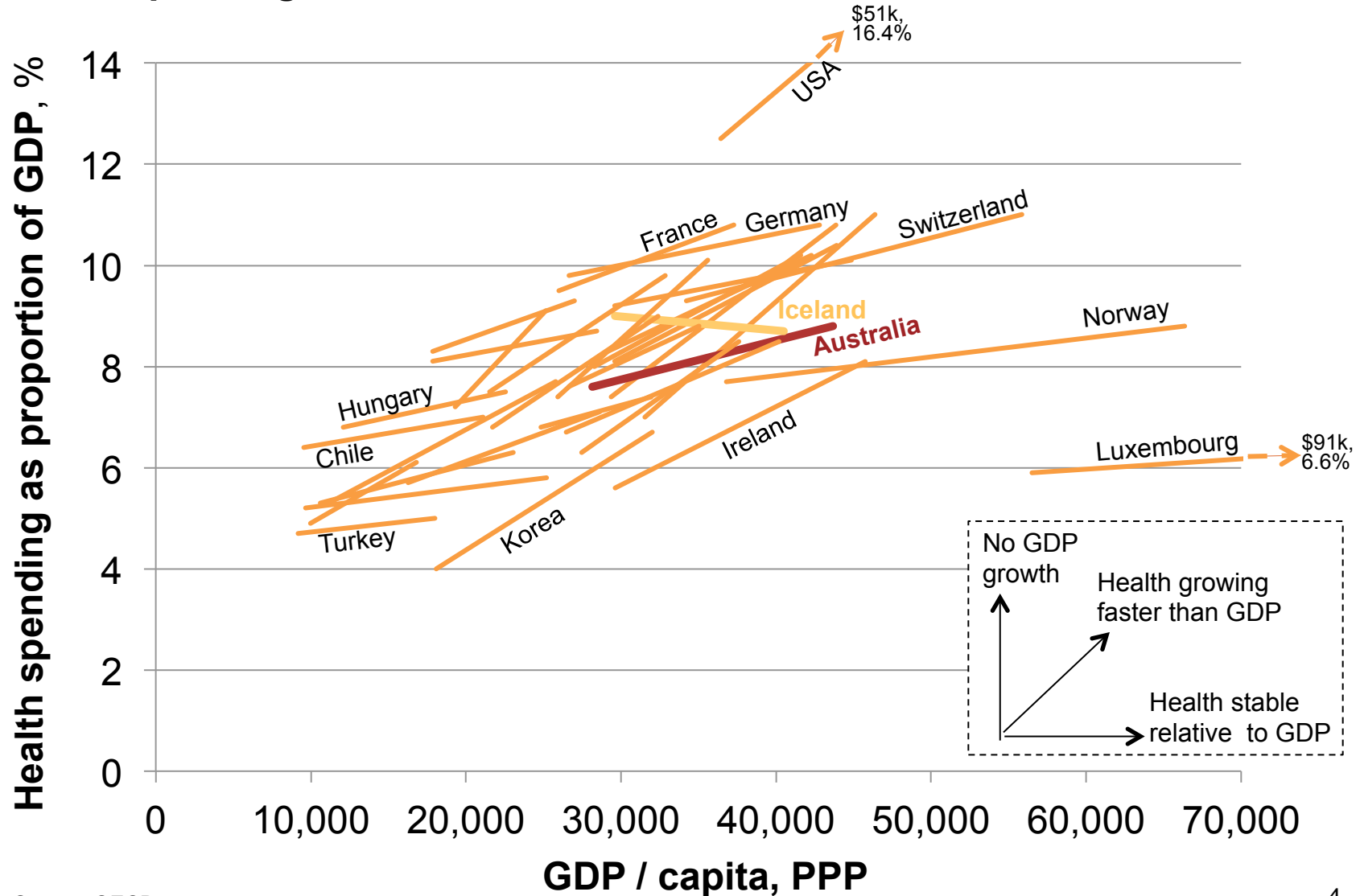
# Health has driven the increase in expenditure ...

**Change in Australian governments' expenditure 2003-2014**  
\$ bn relative to CPI



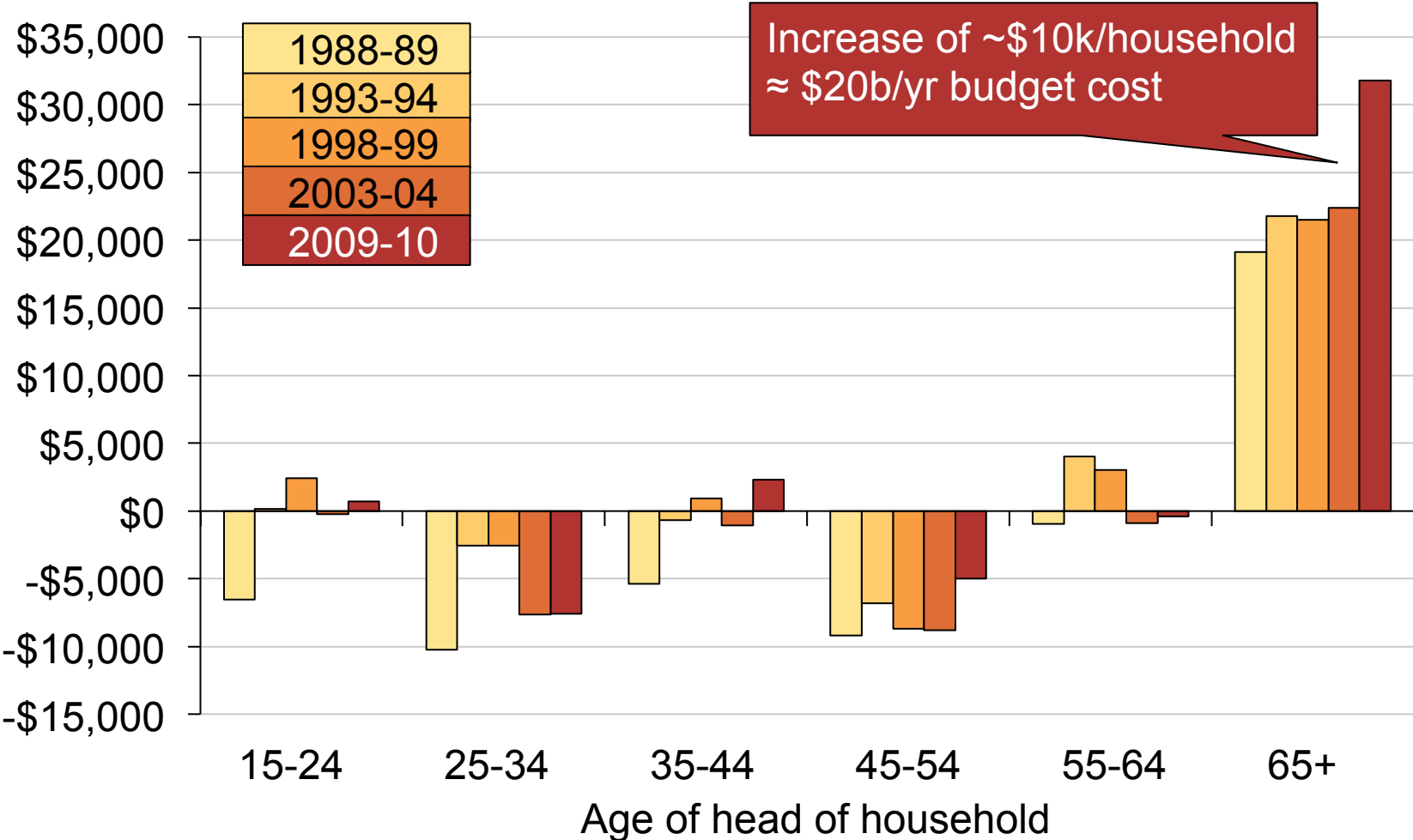
# ... as it has in all OECD countries as they got richer (except Iceland)

Health spending and GDP, 2000 to 2012



# Big jump in net transfer to older households also hurt budget balances

Average net benefits per household (government payments, less tax)  
2010\$

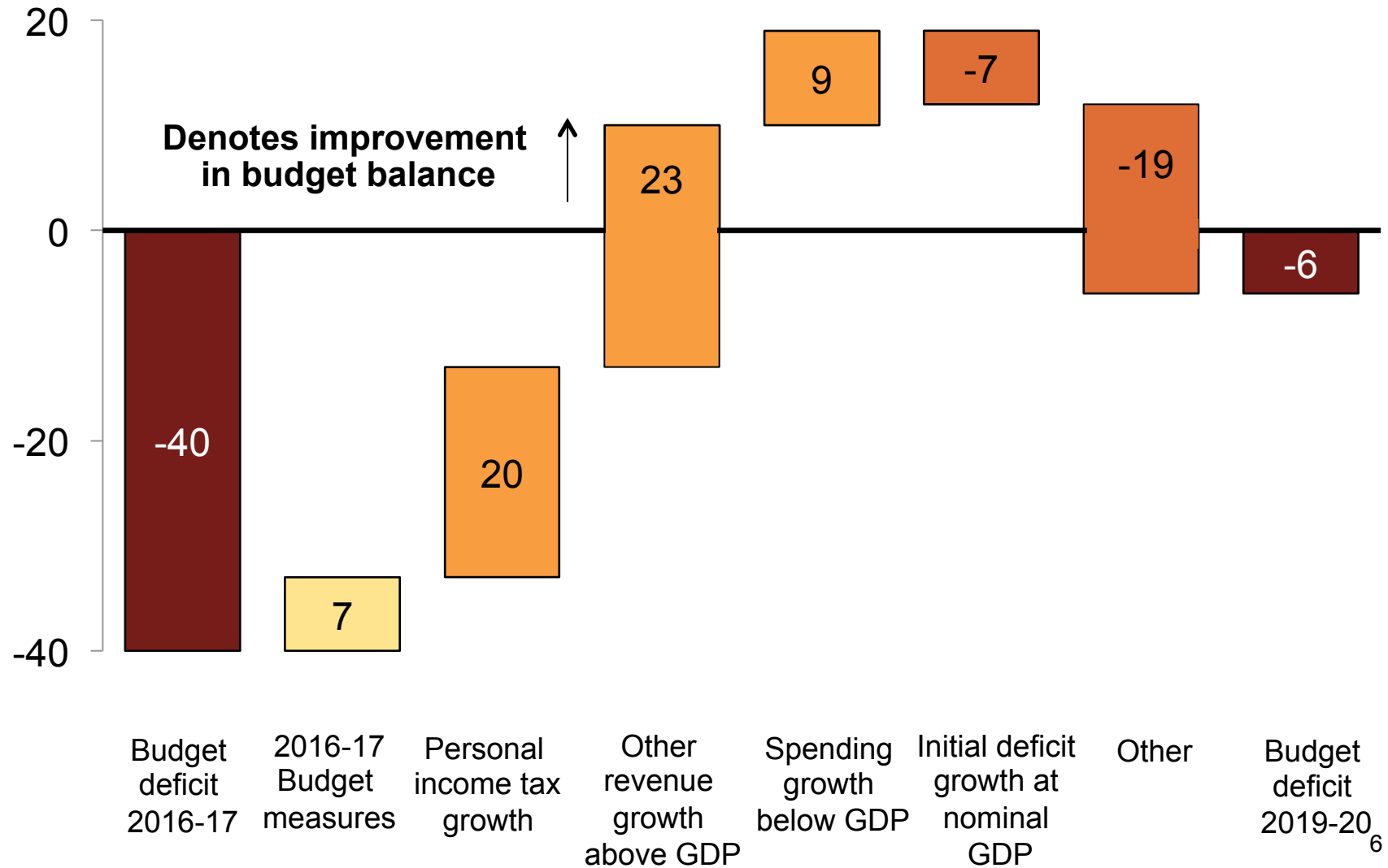


Notes: Net benefits are social assistance benefits in cash plus support in kind (such as health and education), minus income and sales taxes  
Source: Grattan Institute, *The Wealth of Generations*, p.22

# Most of the planned structural repair relies on organic increases in tax collections

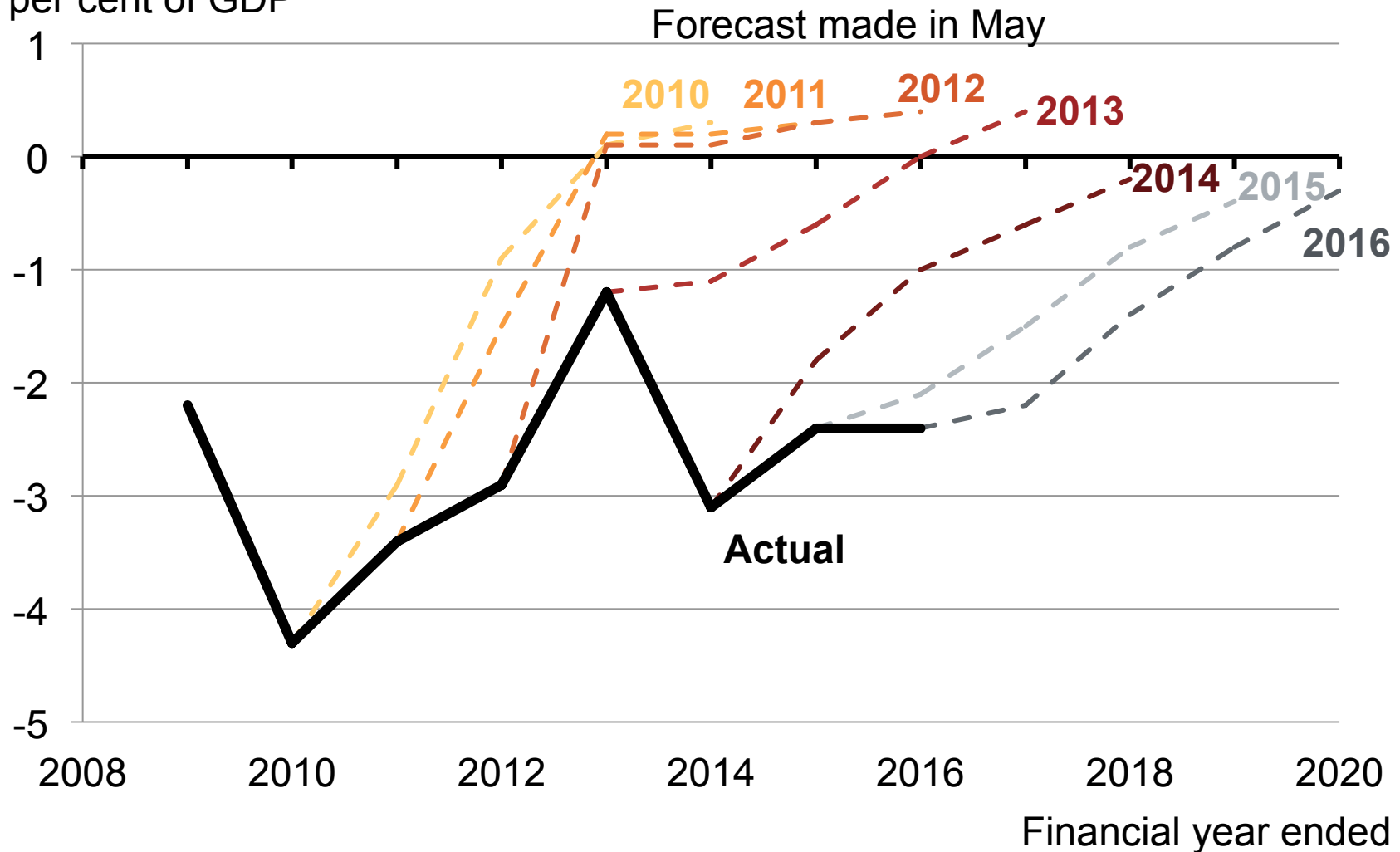
## Budget balance

2019-20 budget compared to 2015-16 outcome, \$2015



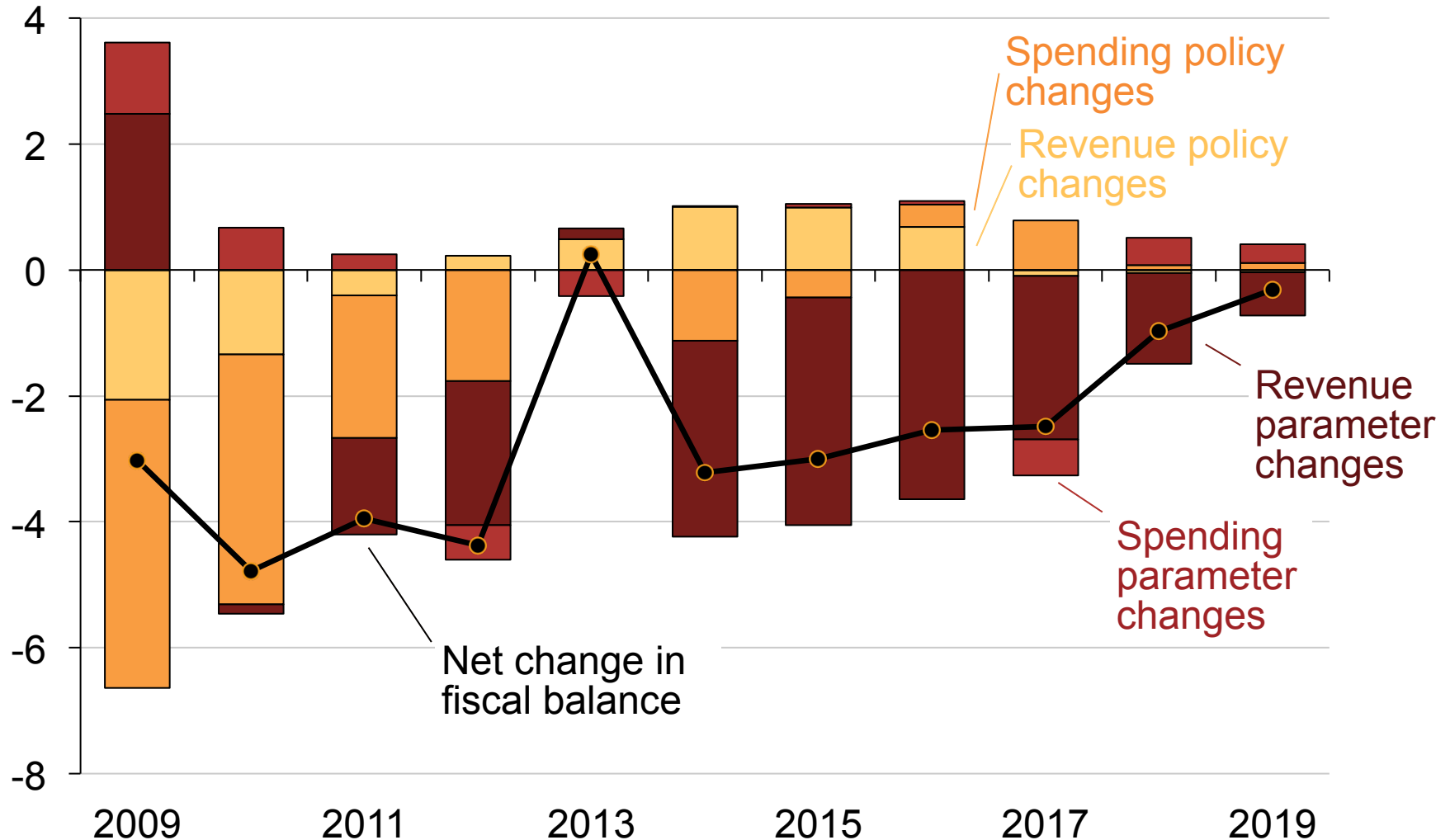
# The planned drift back to surplus isn't happening

Actual and forecast Commonwealth underlying cash balance per cent of GDP



# Reality undershot as spending rose 2009-14, while revenue has disappointed since 2012

**Change in budget outcome from original forecast**  
% of GDP





# Belief about what is important drives priorities about taxes and spending

## What do you care about most?

### Budget balancing

Companies reluctant to invest while budgets don't balance

Structural deficit won't be solved by economic growth.

Politics requires budget repair through both revenue and expenses

↑ Taxes

↓ Expenditure

### Small government

Smaller government increases economic growth and reduces budget deficit

If government reduces taxes, it will be forced to cut expenditure.

↓ Taxes

↓ Expenditure

### Economic growth (short run)

Increasing economic growth will solve the budget issue

↓ Taxes

↑ Expenditure

### More services that government provides (health)

As income increases, can spend more on health and other services

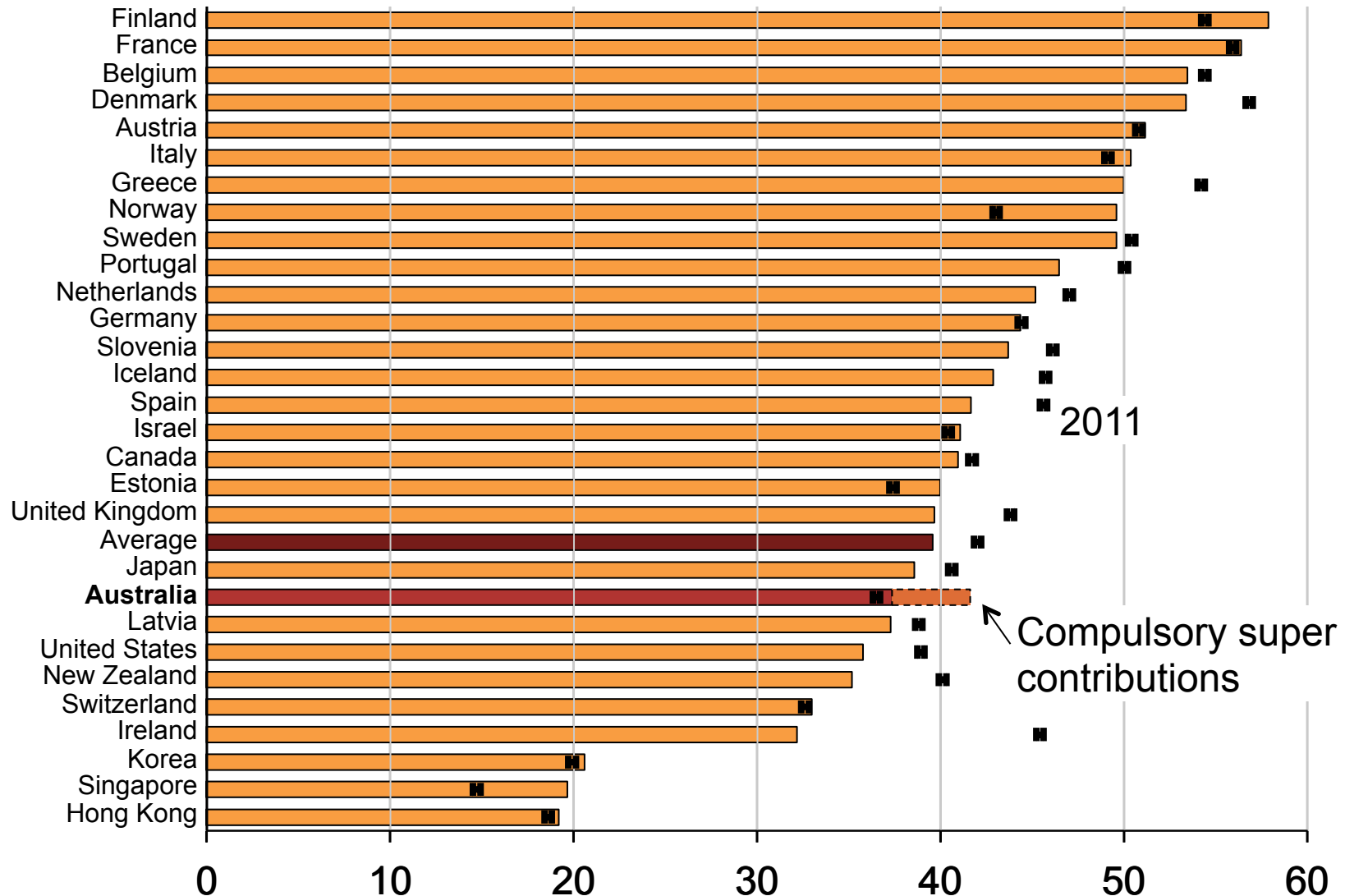
Government better at delivering many health services

↑ Taxes

↑ Expenditure

# Australian gvt expenditure is not large (even including super) but others are shrinking

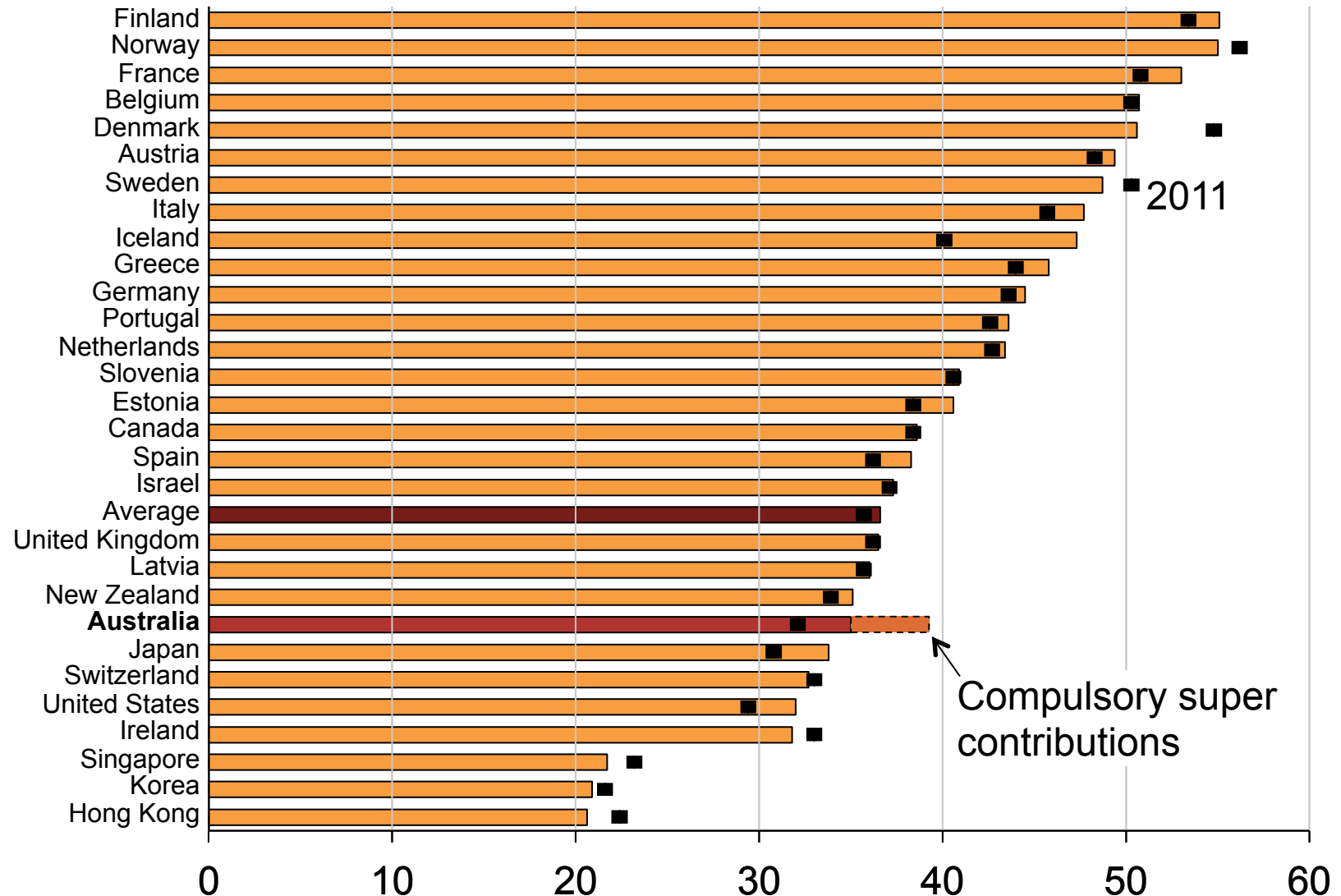
General government expenditure, advanced economies, % of GDP, 2016



Note: Data for Greece is for 2015  
Source: IMF Fiscal Monitor April 2016; Tax stats 2012-13; APRA superannuation bulletin

# Australian government revenue is not large, even including super

## General government income, advanced economies, % of GDP, 2016

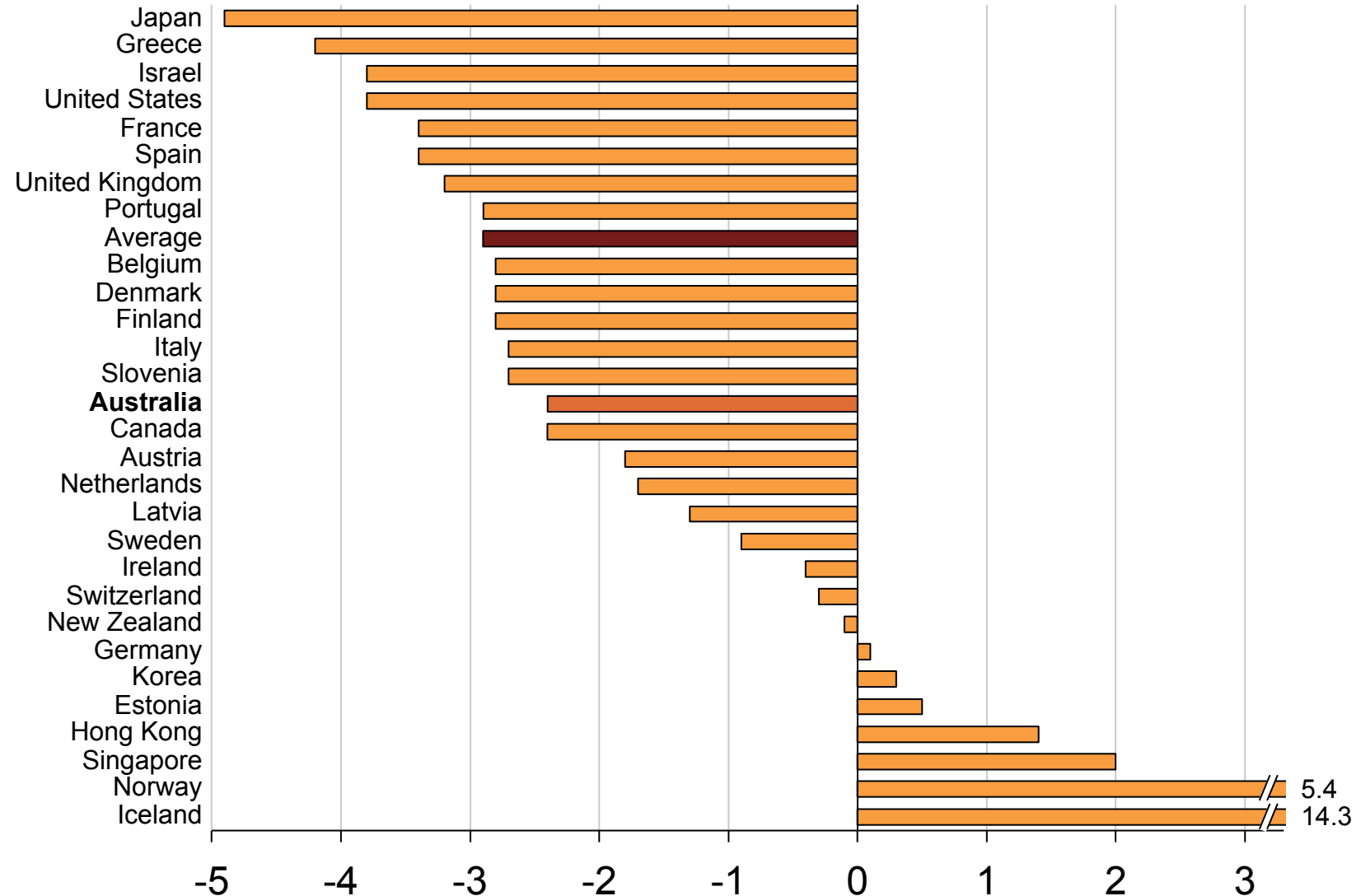


Note: Data for Greece is for 2015

Source: IMF Fiscal Monitor April 2016; Tax stats 2012-13; APRA superannuation bulletin

# Australia's deficits are relatively manageable

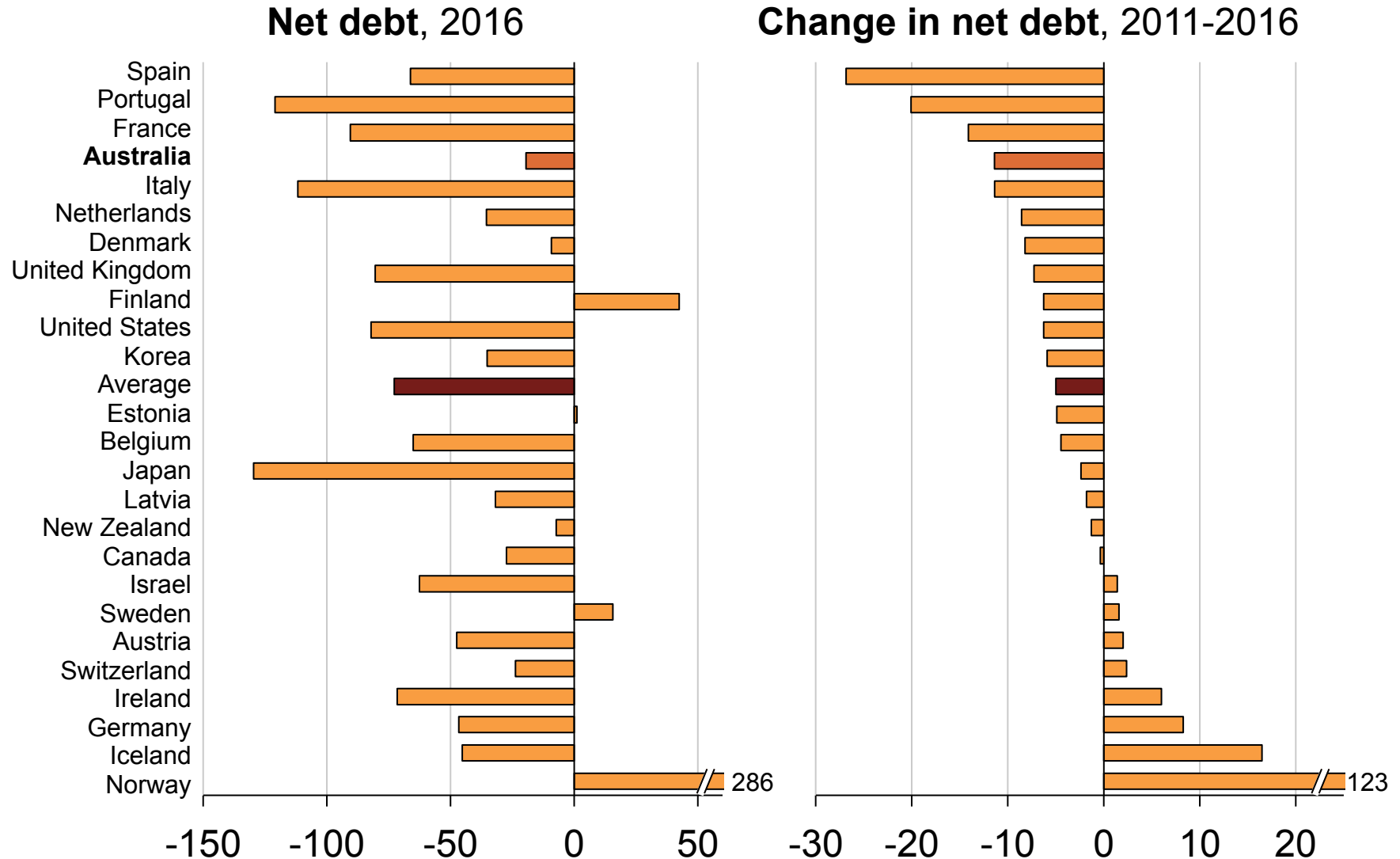
General government budget balance, advanced economies, % of GDP, 2016



Note: Data for Greece is for 2015  
Source: IMF Fiscal Monitor April 2016

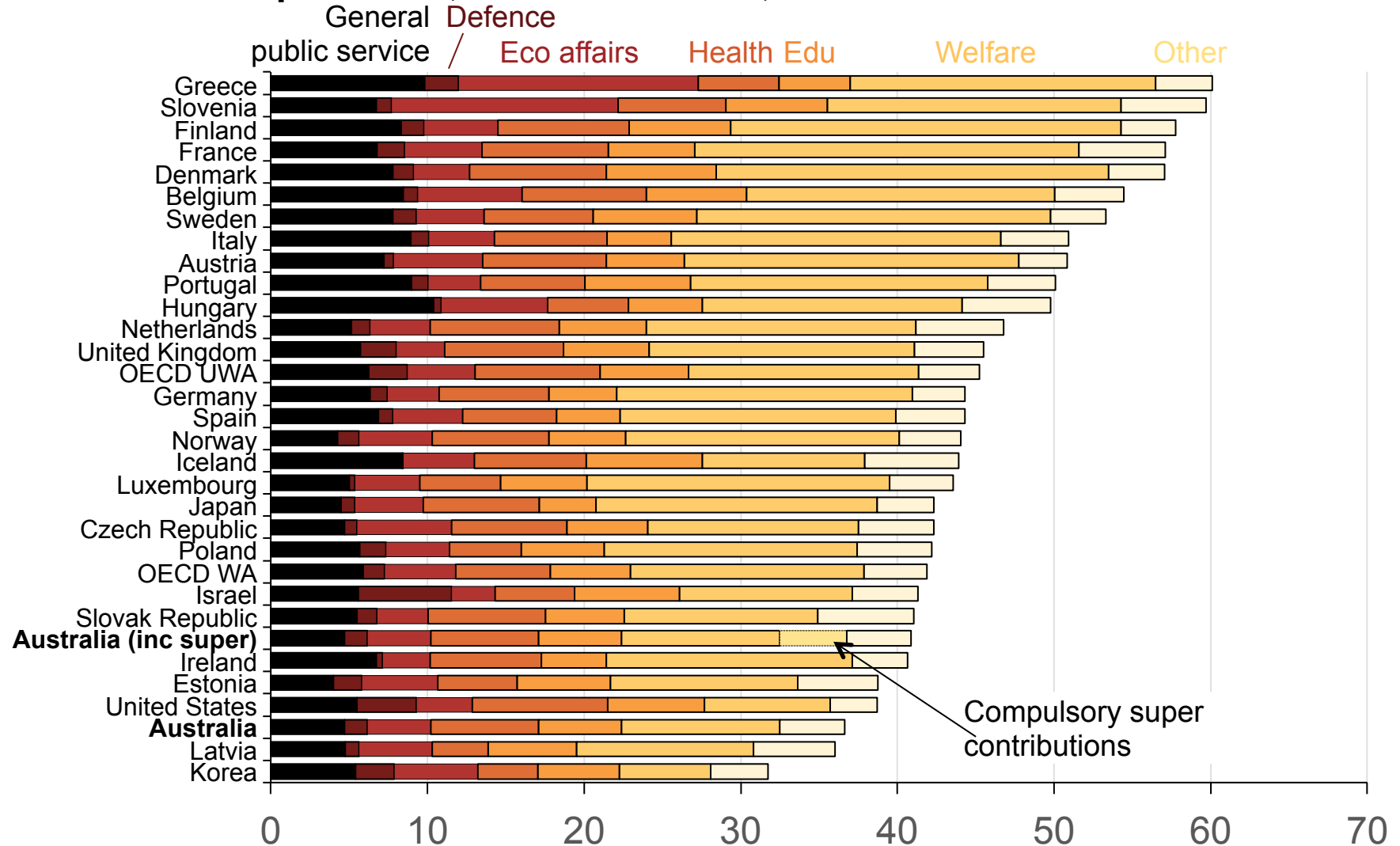
# Australian government debt is relatively small but deteriorating faster

General government, advanced economies, % of GDP



# Australian governments spend relatively less on welfare, general government and debt

## Government expenditure, OECD countries, % of GDP, 2013

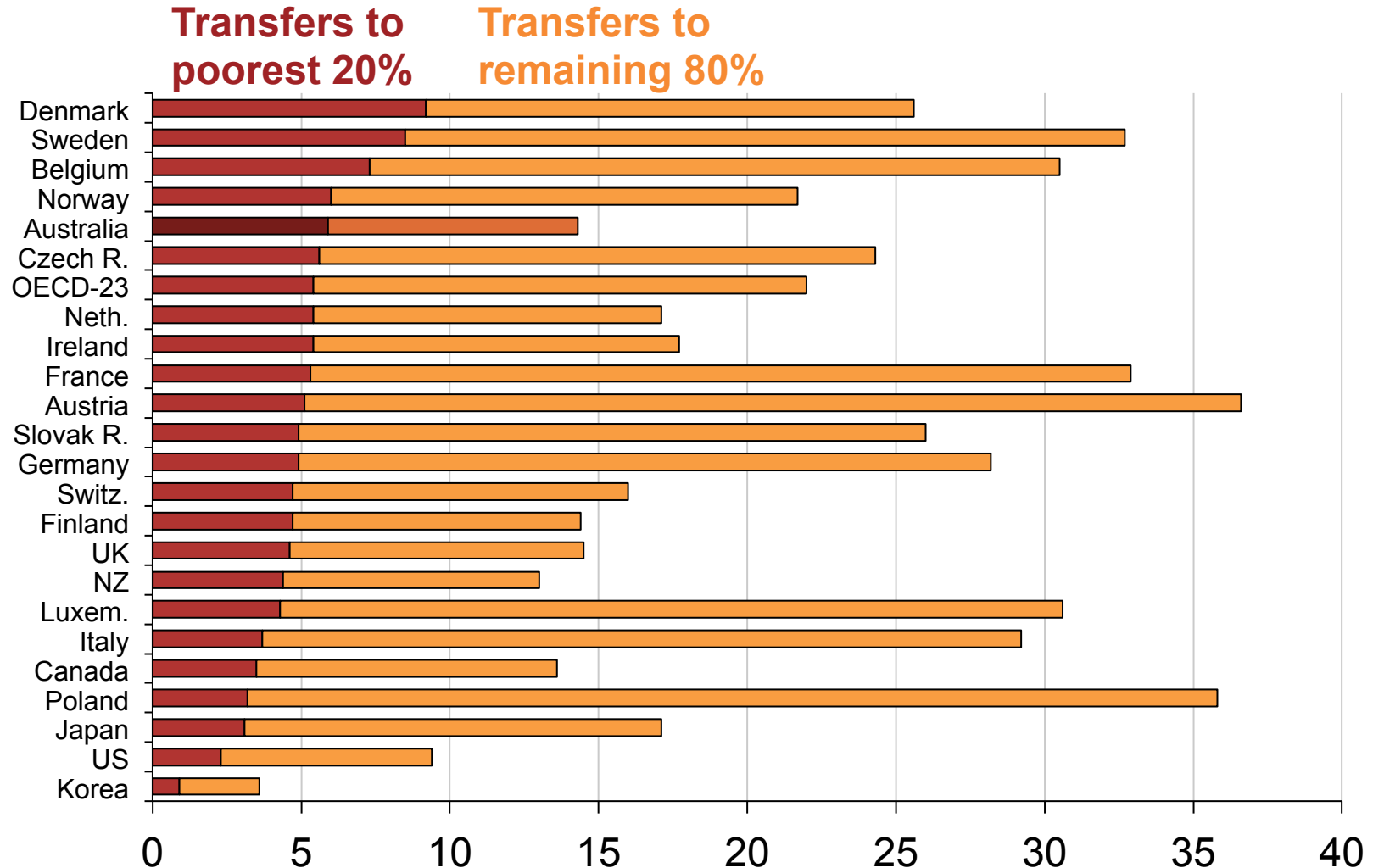


Notes: 'Other' category includes 'Public order and safety'; 'Environmental protection'; 'Housing and community amenities'; and 'Recreation, culture and religion'. 'Welfare' category is referred to in the source data as 'Social protection'.

Source: OECD <http://dx.doi.org/10.1787/888933248323>; Australian super contributions from APRA

# Australia has a particularly targeted welfare system

Public payments to households as a proportion of population disposable income, mid-2000s

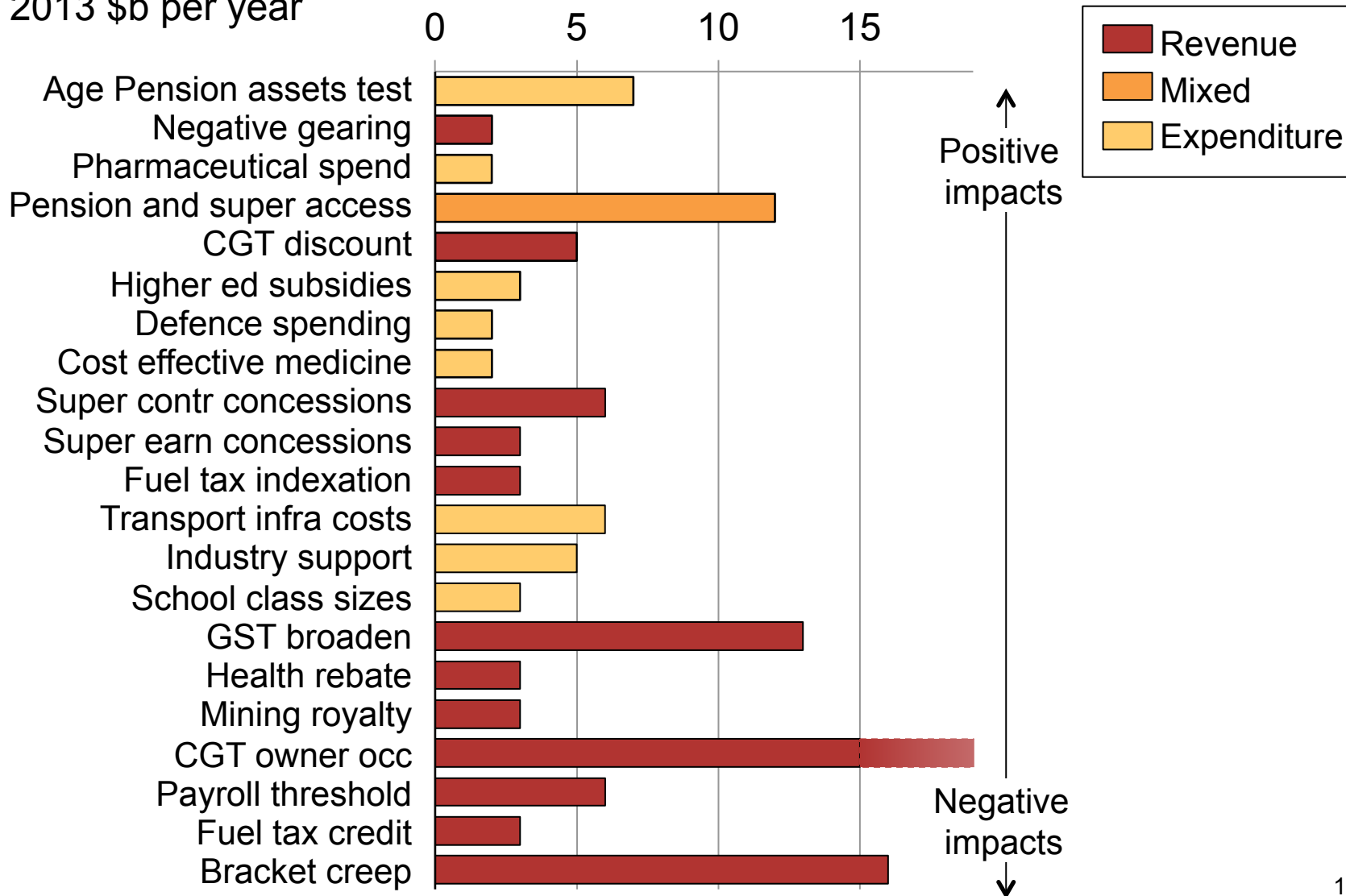


Note: incomes are equivalised

Source: Grattan analysis of Whiteford (2010)

# Filling a budget hole of \$40b without revenue increases is implausible

**Budgetary impact of budget choices worth at least \$2b/yr**  
2013 \$b per year



Source: Grattan Institute, *Balancing Budgets*