‘A culture of dependency has taken root’

John Kehoe
Economics editor

The federal and state government spending splurge has hit the highest level since the end of World War II, due to a huge ramp-up in outlays on disability support, aged care and childcare.

The National Disability Insurance Scheme is the chief culprit, accounting for $52 billion in costs and making Australia among the biggest government spenders on disability in the world.

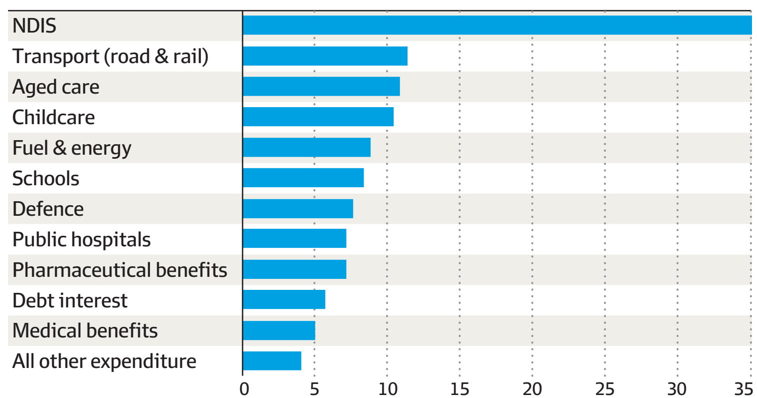
More than half of voters now rely on government for most of their income, through public-sector wages, welfare benefits or subsidies, according to a new report by the Centre for Independent Studies, a right-of-centre liberal think tank.

“This dependence poses a formidable opposition for any politician trying to curb the growth in public expenditure,” CIS senior fellow Robert Carling said. “A culture of dependency and entitlement has taken root in the population and political behaviour has become only too willing to accommodate and encourage it in a feedback loop.”

The federal Treasury warned in a post-election briefing to Treasurer Jim Chalmers that government spending must be cut and taxes increased to put the federal budget on a sustainable footing.

Budget blowout

Expenditure categories, average (% growth rates)



Note: 12 years to FY25 SOURCE: CIS

Chalmers will host a three-day economic reform roundtable in August to discuss ways to increase productivity and make the budget more sustainable, including potential changes to the tax system.

Budget deficits and rising public debt are tipped to increase interest payments by governments by almost 10 per cent a year for the next decade, as governments face higher borrowing costs than the ultra-low interest rates during the pandemic, according to the CIS’ report, *Leviathan on the Rampage.*

Total federal and state government spending has surged to a post-war high of 39 per cent of GDP, up from about 34-35 per cent before the 2008 global financial crisis.

Carling said the current spending splurge might have only been equalled more recently than WWII in the 1980s before the Hawke-Keating Labor government cut spending.

A dozen federal social spending, care economy and defence programs, along with public debt interest, have averaged growth of almost 10 per cent a year since 2012-13, lifting their share of the budget from around 35 per cent of expenditure to almost 50 per cent.

Carling, a former federal and NSW Treasury official, said the $52 billion NDIS was the chief culprit for spending blowouts. “The National Disability Insurance Scheme has repeatedly exceeded cost estimates by a wide margin and has done more than any other program to drive government spending growth,” he said.

Australia now outlays more than $90 billion a year (more than 3 per cent of GDP) for the NDIS, disability support pensions and carer payments.

Labor’s planned reforms to the NDIS are slipping behind, as Canberra struggles to get the states to agree to take on more responsibility for children with developmental delays in the health and education systems.

During the election campaign, Albanese offered more free doctor visits, free TAFE, and free lender’s mortgage insurance for first home buyers.

Moreover, Carling said so-called “off-budget investments” – from the Albanese government reducing student loans, to green energy funds – added $104 billion in hidden spending over five years.

“The growth of government spending remains a serious economic concern because of what it means for persistent budget deficits, rising public debt and taxation, weak productivity growth and the societal consequences of a deepening dependency on government,” he said.

Four in five jobs created in the past two years have been in the non-market sector, which are occupations in industries heavily influenced by government spending and regulation.

Minutes from the Reserve Bank of Australia’s monetary policy board’s meeting released on Tuesday noted a decline in public demand (government spending) in the March quarter was expected to be temporary.

The boom in government-funded jobs in care and bureaucracy is dragging down labour productivity, the Department of Employment has warned the Albanese government, in frank advice before Chalmers’ economic roundtable.

High cost of low productivity projected

The reform agenda

John Kehoe
Economics editor

Australians are in for a decade of anaemic growth as the mining boom dissipates, unless governments can find new ways to significantly boost productivity, Westpac has warned.

Rising export prices for commodities such as iron ore and coal have generated a national income windfall since the early 2000s by allowing people to consume more imports for a given amount of exports.

The mining boom also delivered hundreds of billions of dollars in extra tax revenue for federal and state governments to redistribute to voters.

The mining industry delivered more than 50 per cent of the increase in living standards over the past two decades, as measured by gross national income per person, according to a new report by Westpac.

But an expected continued decline in commodity prices and stalling investment in mines means the resources industry is unlikely to provide the same dividend for future living standards, Westpac senior economist Pat Bustamante said.

"Without change, Australians are in for a period of anaemic growth in living standards over the next decade," Bustamante said. "This will cost the average Australian $75,000 in income over the next decade. The good news is that it does not have to be this way. Faster productivity growth can be an offset."

Productivity has contributed more than 80 per cent of people's income growth for the three decades before the pandemic, the Productivity Commission estimates.

But it has been on a long-term decline and has been stuck around 2016 levels since the pandemic.

Treasurer Jim Chalmers will host a three-day Economic Reform Roundtable in August to discuss ways to increase productivity and make the budget more sustainable, including potential changes to the tax system.

Chalmers has charged the Productivity Commission with five inquiries: creating a more dynamic and resilient economy, building a skilled and adaptable workforce, harnessing data and digital technology, delivering quality care more efficiently and investing in cheaper, cleaner energy and the net zero transformation.

Interim reports will be delivered this month and in early August.

Former BHP chief economist Huw McKay agreed with the Westpac analysis that the national income windfall from mining would fade as China's demand for steel plateaued, causing commodity prices to ease and investment to decline from boom-time levels.

"It's negative for national income and there will not be as much money sloshing through the system for everyone else to redistribute," said McKay, now a visiting fellow at the Australian National University in Canberra.

"It's going to force governments into more difficult trade-offs.

"Government debt will be harder to manage and it will put more pressure on the fiscal situation of the resource-rich states in Queensland and Western Australia."

Treasury warned in a post-election briefing to Chalmers that government spending must be cut and taxes increased to put the federal budget on a sustainable footing.

Westpac forecasts the iron price to fall from about $US103 a tonne today to $US84 a tonne by early 2027.

Bustamante said without the "free kick" from mining exports, governments and business would need to boost productivity growth and living standards in other ways

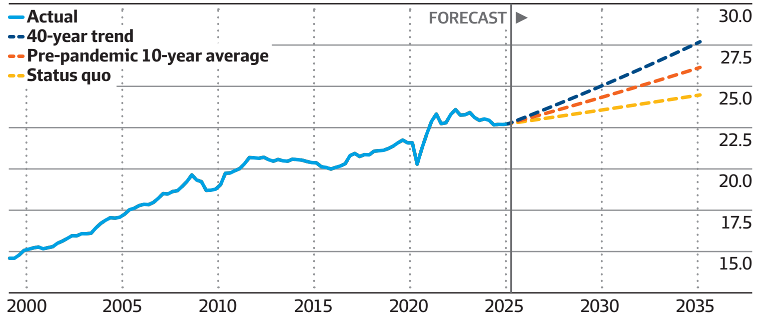
"But this requires changes in business practices, policy and culture, which will allow us to benefit from the technological advances already happening and in train."

Living standards, as measured by gross national income per person, are projected to take until 2030 to recover to 2022 levels.

Resources companies fear Chalmers' summit could propose higher taxes on mining and energy to pay for cutting other taxes, after the nation's biggest export industry was omitted from the 24-member invite list.

Building confidence

Gross national income per capita, growth under different scenarios ($'000)



SOURCE: WESTPAC