



What is the budget constraint?

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Projected growth in government expenditure



Change over next 40 years

Commonwealth^(a)

- Health
- Aged care
- Social safety net
- Education

(% GDP)

+ 5.0

+ 4.1

+ 1.1

+ 0.5

- 0.3

Victoria^(b)

- Health
- Education

(% GSP)

+2.9

+ 3.9

- 0.8

(a) IGR includes specific purpose payments to the States.

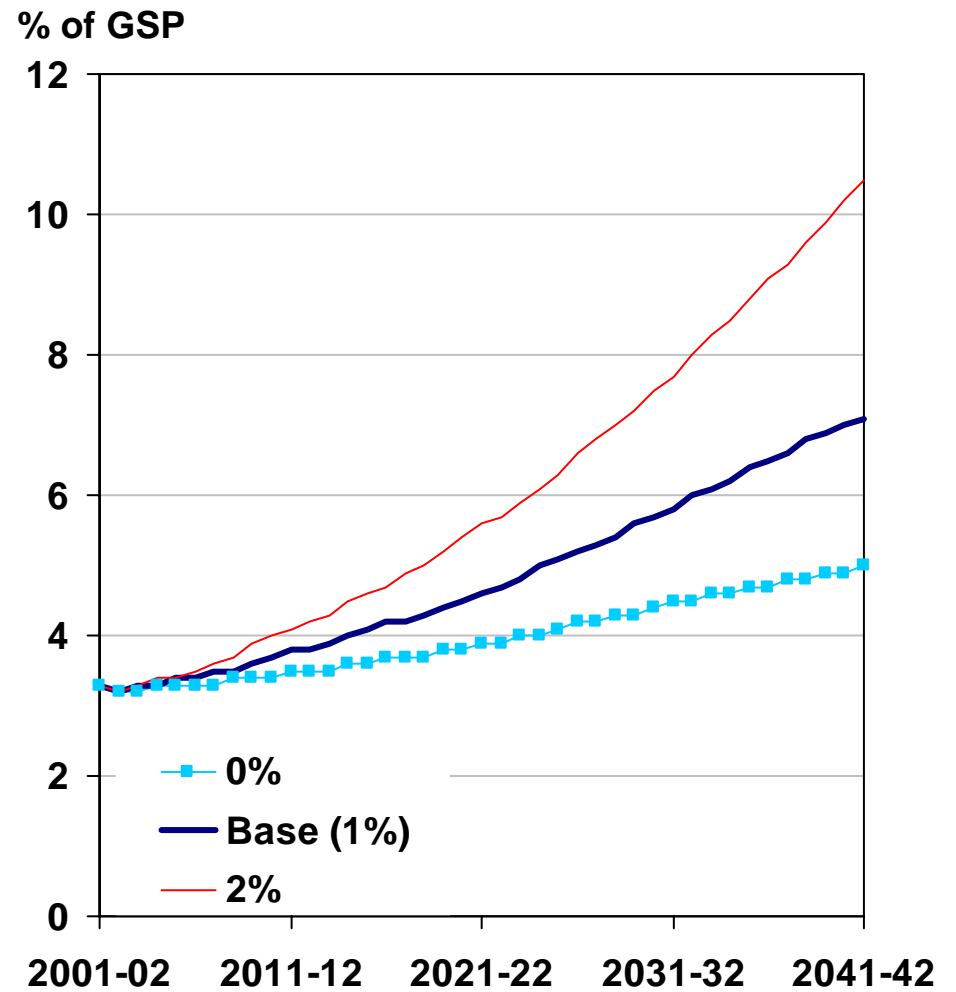
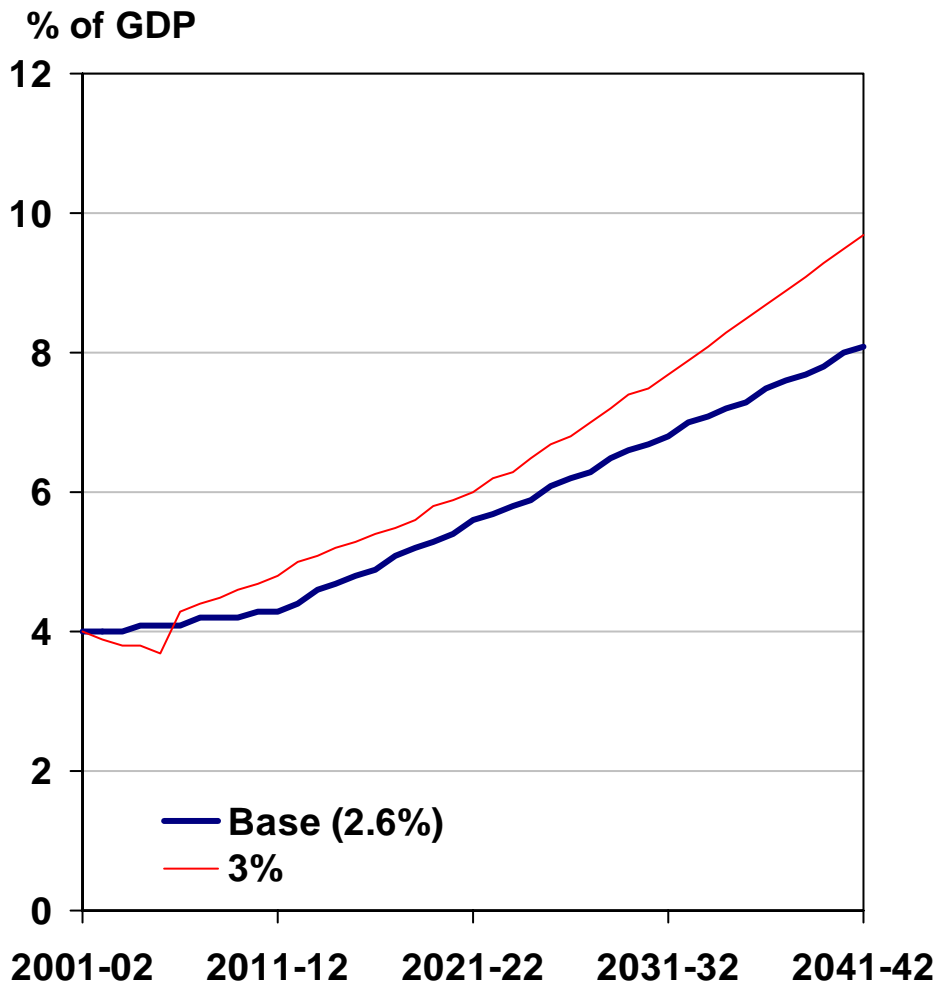
(b) Shaping a Prosperous Future, see DTF website, www.dtf.vic.gov.au.

Non-demographic health cost sensitivity

Commonwealth health expenditure



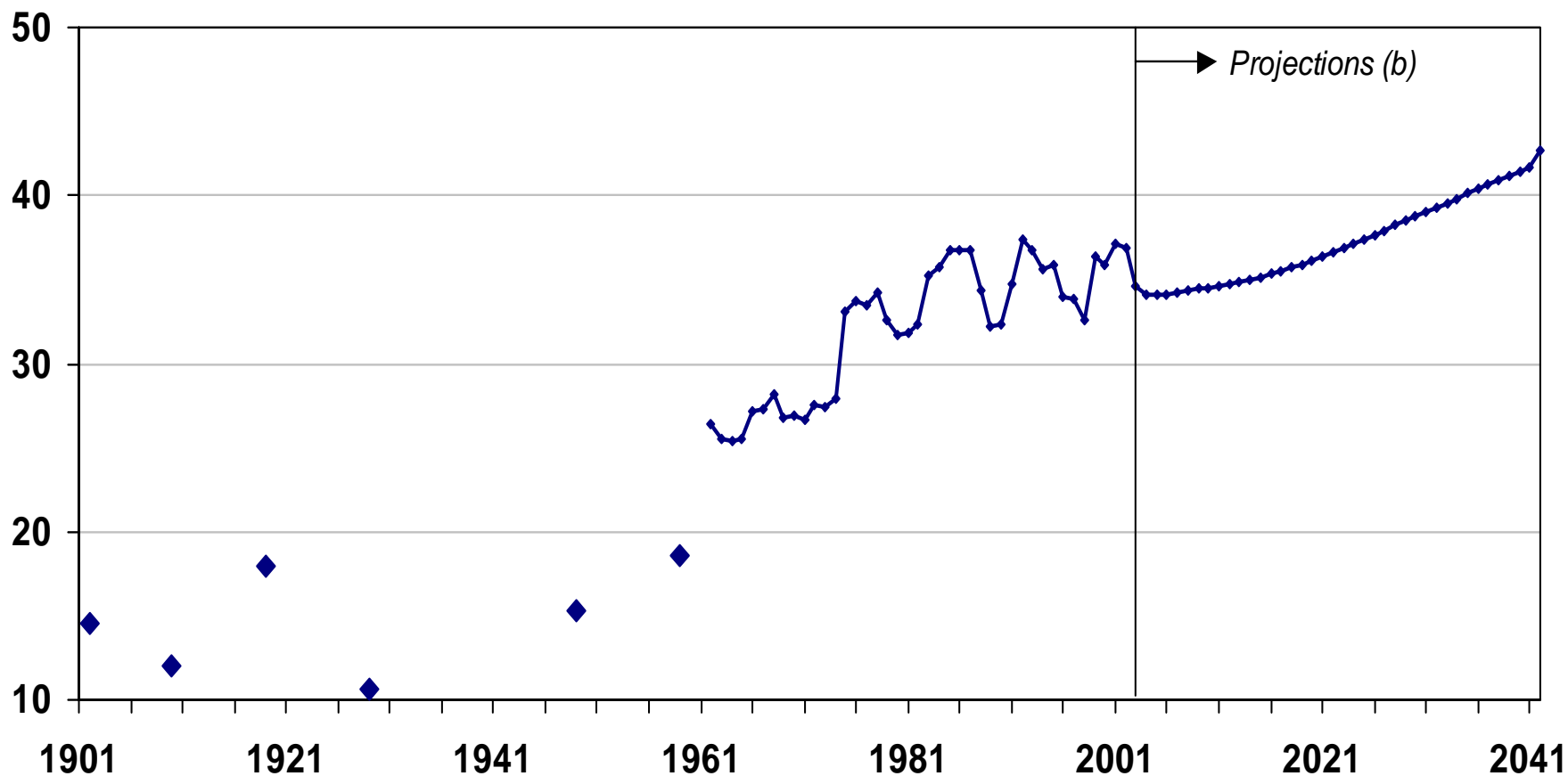
Victorian health expenditure



Australian general government spending^(a)



Per cent of GDP



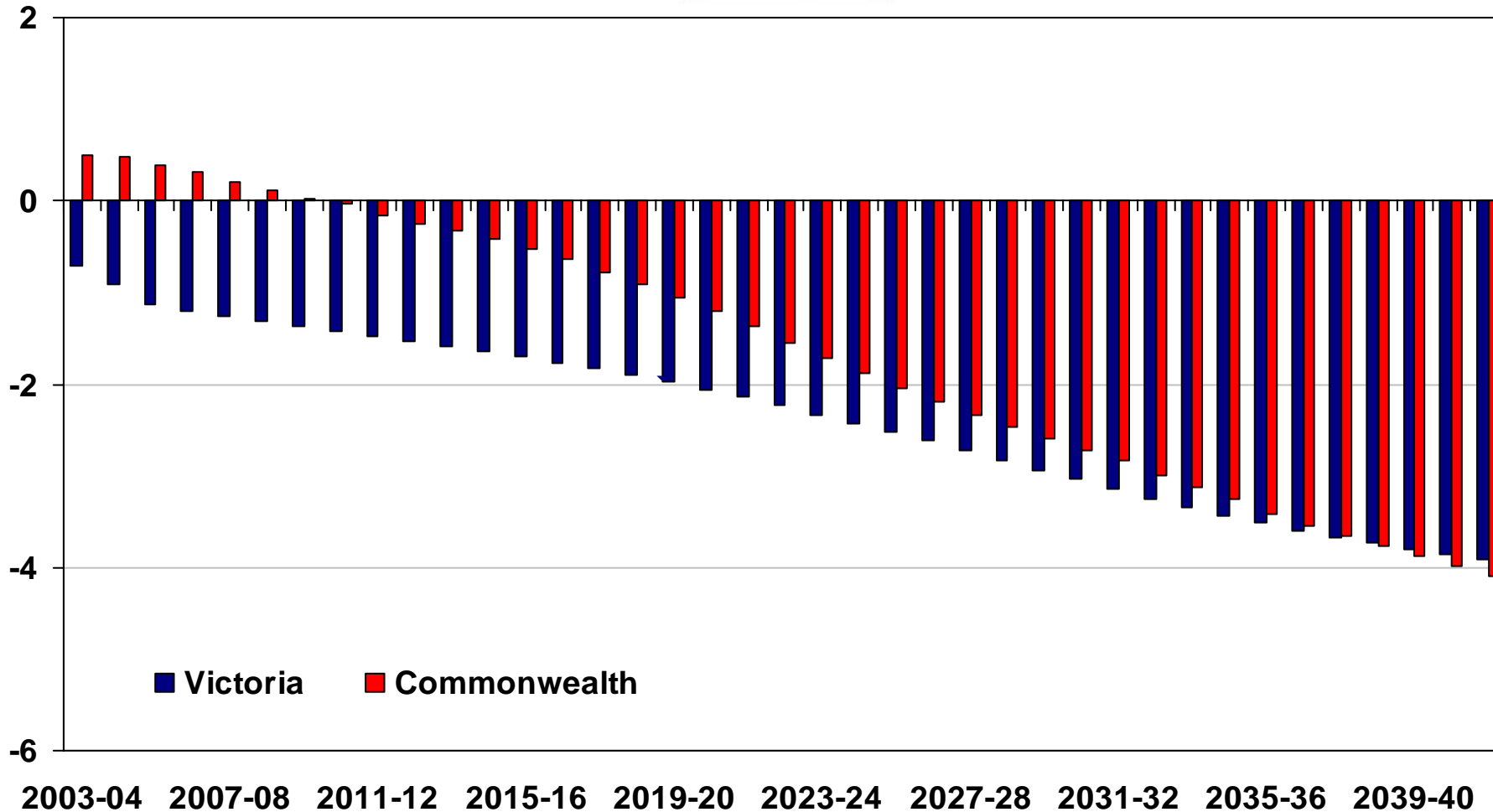
(a) Historical data abstracts from transfers between levels of government. Projections include Commonwealth SPPs to the States.

(b) Based on the 'Intergenerational Report' and 'Shaping a Prosperous Future'.

Source: Department of Treasury and Finance, based on ABS and RBA data, and 'Federal Finance' by R.L. Mathews and W.R.C. Jay.

Projected fiscal gap^(a)

Per cent of GSP / GDP



(a) Fiscal deficit (as defined in the ABS Government Finance Statistics) before net interest costs.

Public policy choices



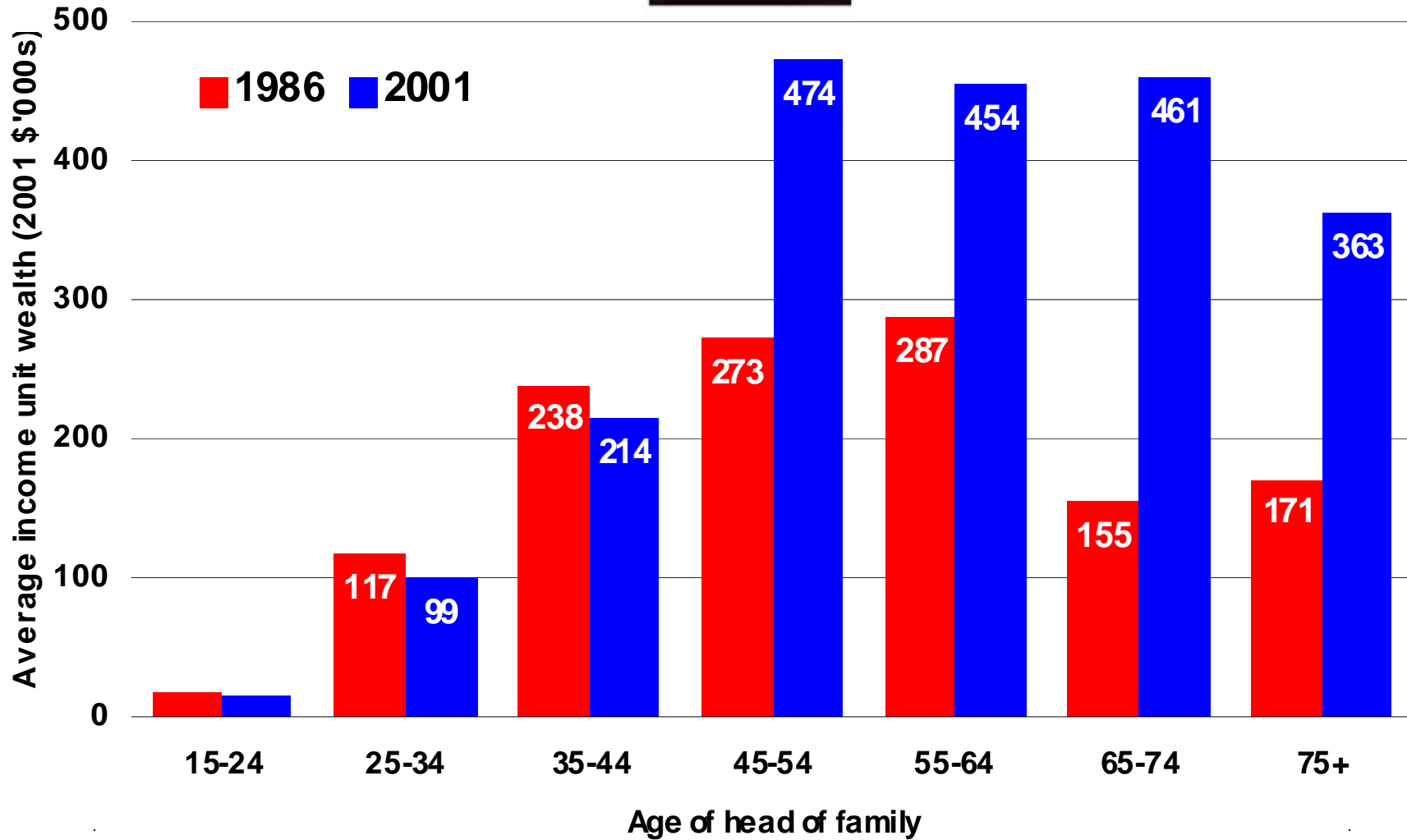
- Do nothing
 - Not sustainable (debt spiral)
- Economic options
 - Productivity, participation, population
- Fiscal options
 - Raise revenue
 - Limit or reduce public spending

Electorate / taxpayer confusion



- Commonwealth taxpayers fund nearly half of State expenditures
- Over 100 special purpose agreements put caveats and conditions around \$30bn
- Commonwealth Grants Commission redistributing another \$30bn

Shift in wealth



Source: NATSEM, 2003

Summary



- The big rise in government spending over the last 40 years may be repeated over the next 40 years
- Best way of financing is higher productivity and participation, but if taxes need increase there will be different pressures on different tax bases
- Taxpayers are not in a good position to judge value for their taxes paid