What is the budget constraint?

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Projected growth in government expenditure

Change over next 40 years

Commonwealth\(^{(a)}\)

- Health \(+5.0\) \%(GDP) \(+4.1\) \%(GSP)
- Aged care \(+1.1\)
- Social safety net \(+0.5\)
- Education \(-0.3\)

Victoria\(^{(b)}\)

- Health \(+2.9\) \%(GSP) \(+3.9\)
- Education \(-0.8\)

\(^{(a)}\) IGR includes specific purpose payments to the States.

Non-demographic health cost sensitivity

Commonwealth health expenditure

Victorian health expenditure

% of GDP

% of GSP

Base (2.6%)

3%

Base (1%) 0%

2%
Australian general government spending

Per cent of GDP

1901 1921 1941 1961 1981 2001 2021 2041

Projections (b)

(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)

(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

Average income unit wealth (2001 $'000s)

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