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# We wasted a \$400b windfall, and now we'll all have to pay

*An audit of federal finances finds Australia has never seen rivers of gold like this, but the hangover will be brutal.*

**Chris Richardson** [\[/by/chris-richardson-p4yvog\]](#) *Economist*

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**P**aul Keating famously declared that you change the country when you change the government. Yet, while that might have been true when he fought *Fightback!* a third of a century ago, these days elections are solely about style rather than substance: our politicians stopped challenging us decades ago.

Our oppositions complain loudly but only pretend to oppose, essentially adopting the policies of the government of the day and relying on its unpopularity to win power.

The proof? Follow the money. Although dollars aren't a perfect yardstick of policy differences, they are an arms' length one. Australia has budgeted \$6

trillion across the next four years: half as spending going out, and the other half as taxes coming in.

Yet, with big-ticket items such as nuclear power plants and extra fighter jets [<https://www.afr.com/politics/federal/dutton-pledges-3b-to-buy-new-fighter-jets-amid-chinese-warships-row-20250301-p5lg5k>] sitting mostly some years away, the difference between government and opposition policies in this election will be comfortably less than 1 per cent of the amounts we're set to tax and to spend in the next four years.

And yes, that's typical. For decades now our oppositions have promised their taxing and spending to be more than 99 per cent matching those of the government they're campaigning to replace.

In the election campaign both sides are therefore promising Australians that they'll remain mediocre.

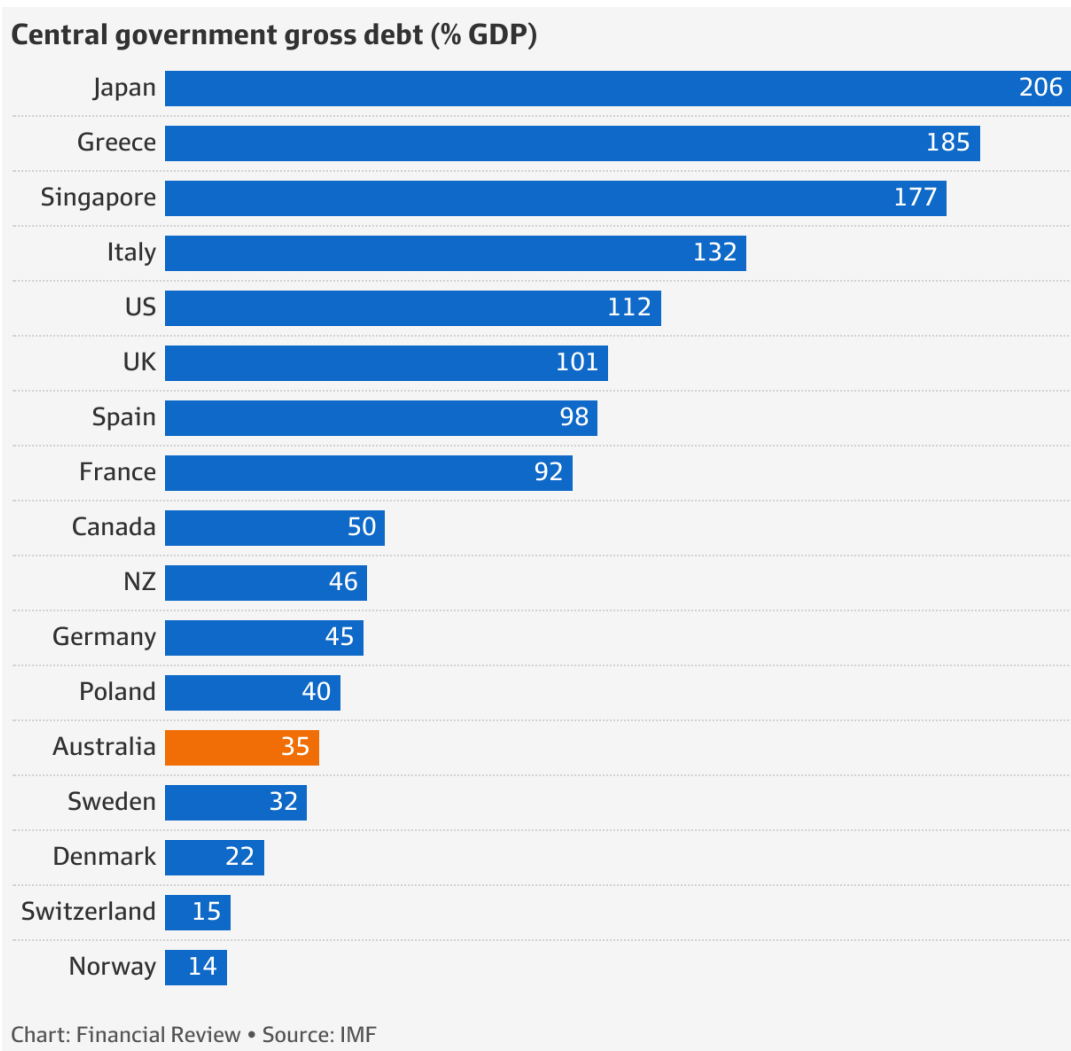
I believe them, and you should too. This article spells out why.

## Our national social compact

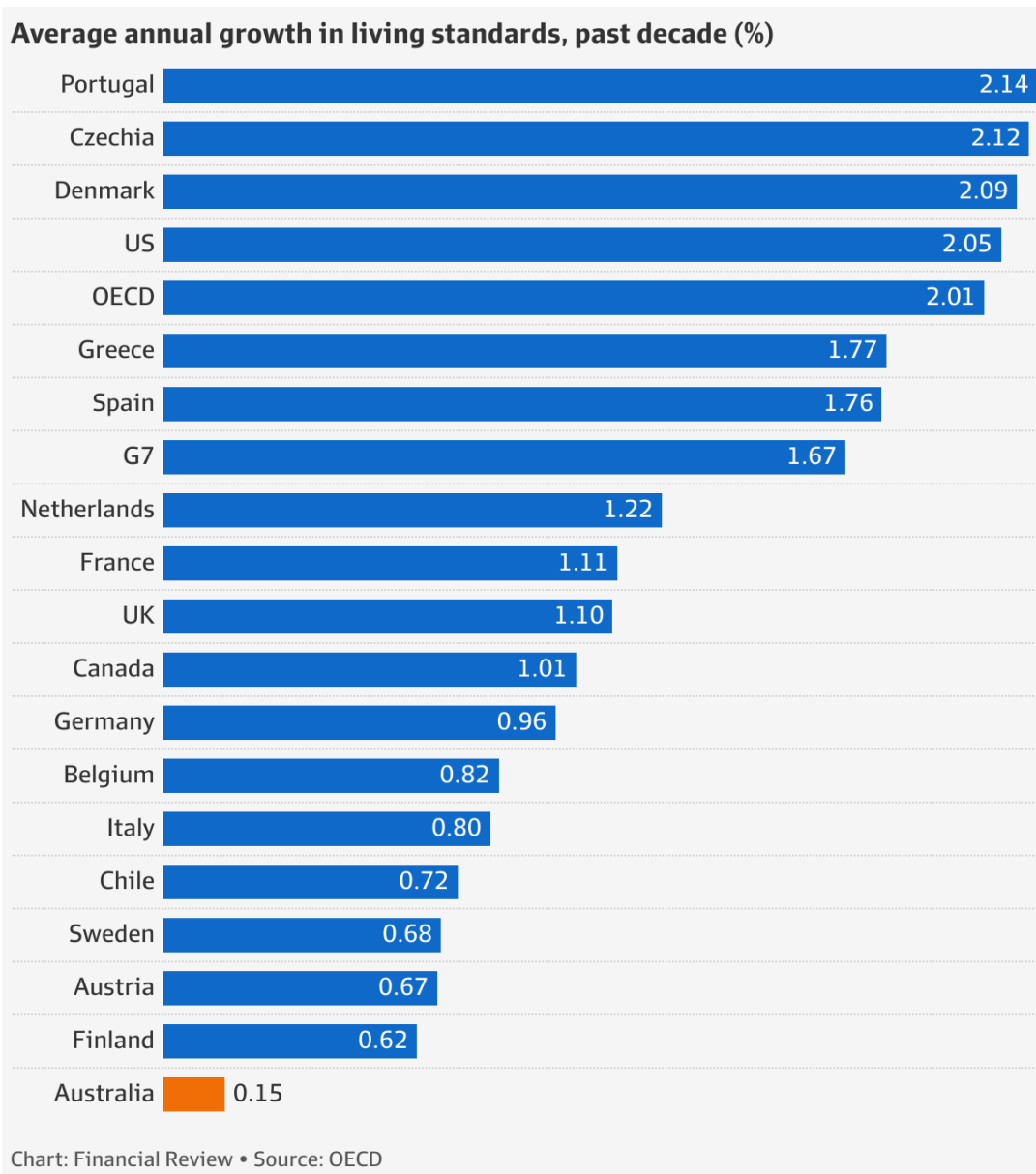
We tax workers and businesses so we can spend that money – more than a quarter of all national income – on the young, the old, the sick, the poor and a defence force.

That makes the federal budget our national social compact. It's marvellous when we get it right, disastrous when we get it wrong.

The good news is there's lots to like about our Australian federal finances: debts and deficits here are a fraction of those in many nations.



The bad news is we've done well thanks to luck rather than good management. And the worse news is that, despite the luck that's come our way, our social compact isn't delivering prosperity: Australian living standards stood still over the past decade.



## What's that about luck?

Budgets move because of two things – the decisions of politicians, and “everything else”. The latter category – luck – often plays a bigger role than policy.

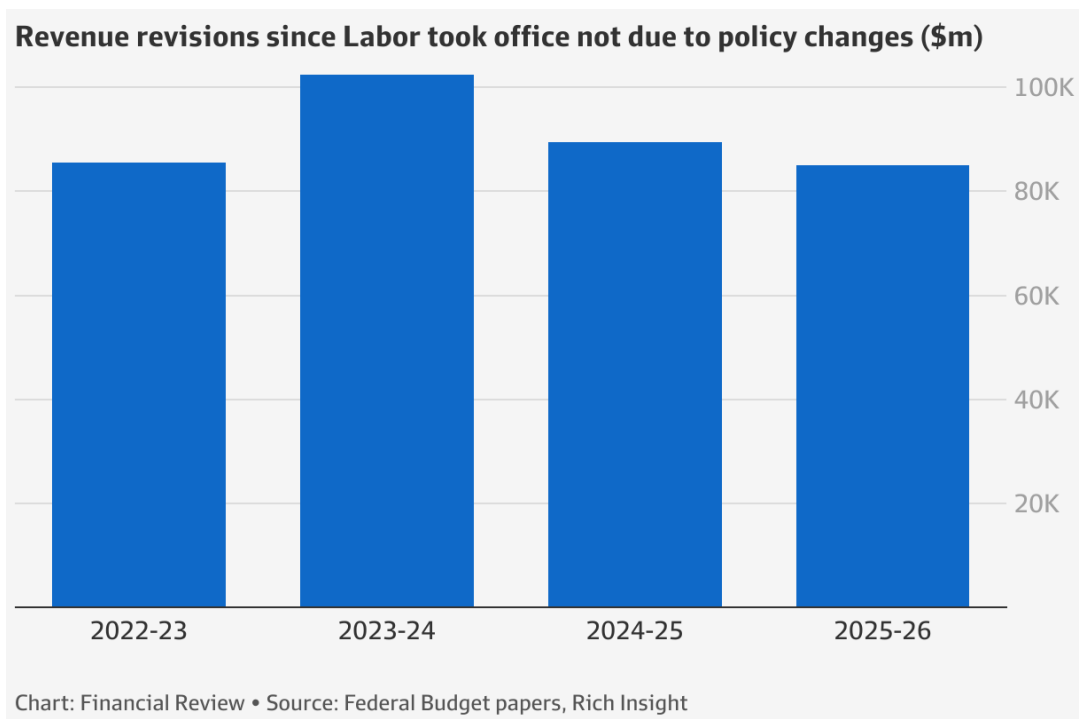
And recent times saw our biggest ever surge of budgetary luck. Wars pushed up the price of what Australia sells to the world, and we got tax windfalls from that. Many migrants meant more people to tax. And inflation took money from families and handed it to the taxman.

Politicians who live through a phase of budgetary luck tend to claim that their budgetary success was due to their superb management. Yes, Peter Costello, I'm looking at you.

Yet the windfalls of the current government dwarf those Costello benefited from. And as the noted budget economist Cyndi Lauper points out, *Money changes everything*.

The government's own figures estimate that, since its election, revenue revisions dropped an extra \$85 billion into the taxman's pocket in 2022-23, followed by another \$102 billion last year.

Adding my own estimates of yet more luck of late (including commodity price strength and a weaker Aussie dollar), that windfall eases to a still remarkable \$89 billion next year and \$85 billion the year after.



Remember, those revisions weren't due to any policy change by any politician. Rather, they came via the combined impact of war and migration adding to the size of the pie we tax, plus inflation giving the taxman a bigger slice of that pie.

That surge in luck is unprecedented. Last year's windfall more than paid for nine of the 20 largest federal programs – more than all of the cost of unemployment benefits, plus childcare subsidies, the capabilities of each of the army, navy and air force, federal subsidies to state schools, as well as our support for carers, fuel tax credits, plus spending on public sector superannuation.

Please read that last sentence again. And marvel. Australia has never seen rivers of gold like this. Never. Yet although luck's a fortune, it isn't a strategy. The glory years of luck are fading, and the challenges are rising.

The key challenge is that we took our luck to town. Spending was 24.4 per cent of national income in 2022-23, but it'll be 27.2 per cent next year. That's the fastest and largest increase in the size of the federal government since Whitlam's expansion half a century ago.

Luckily, that lurch coincided with our luck, so we still saw surpluses. Yet luck is temporary, whereas the promises we're making to ourselves are permanent.

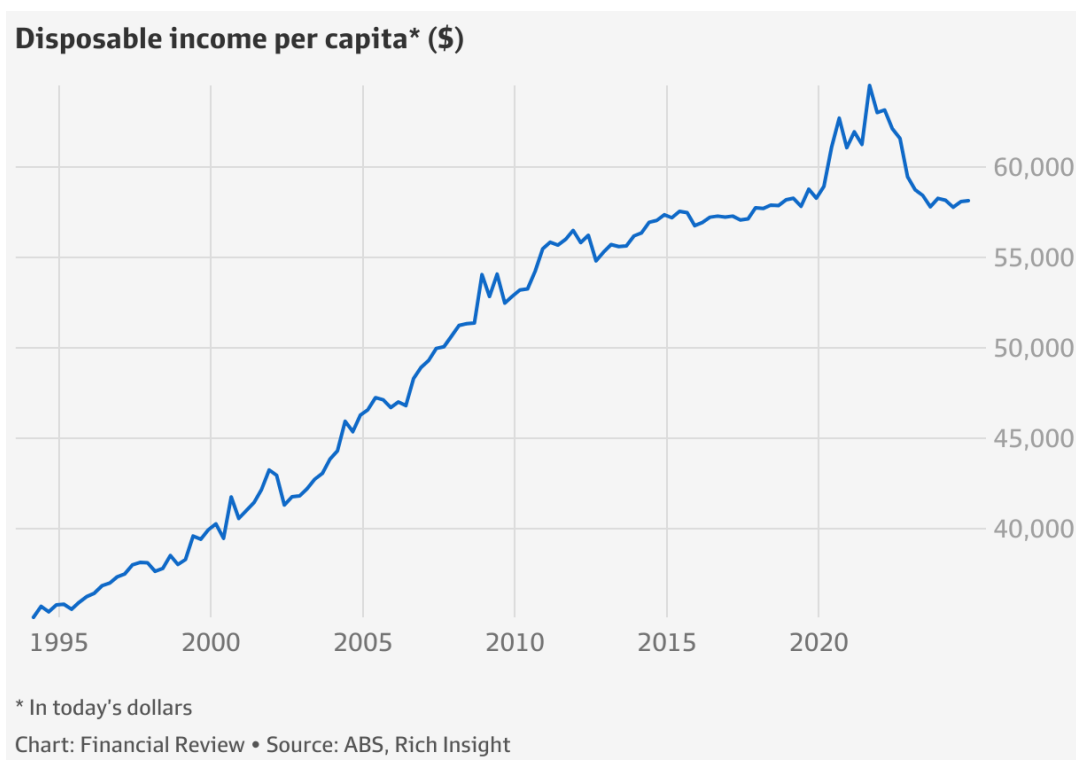
## **Why has spending gone up so much?**

The government didn't plan to drive a major expansion in the size of government. Yet that's what's happened.

The key driver wasn't pre-election promises. It was Australia's fight against inflation.

The Reserve Bank's famous "narrow path" saw them reduce inflation with a much smaller increase in the ranks of the unemployed than earlier such fights. But the winners in a slow fight against inflation – those who don't become unemployed – don't realise their good fortune. So they don't thank either the government or the RBA.

Yet a slow fight against inflation is one in which wage earners and borrowers and taxpayers all lose out for longer. And they sure as hell know they're hurting.



Although overall living standards in Australia have stood still for a decade, that hides the recent pump-and-dump. Living standards were making modest progress before hitting an artificial peak as the then government handed us money during COVID.

As of today, however, they're down 9.9 per cent from that peak. That's why polls have narrowed and the punters are cranky: with its small number of ungrateful winners and its many losers (wage earners, borrowers and taxpayers), the RBA's fight against inflation was an economic success but a political minefield.

No wonder, then, that state and federal governments have spent a fortune. And the federal surplus made it harder to ignore those insistent calls for more spending – after all, the punters could see that they didn't have money, so how come the government wouldn't hand over its surplus?

## **What next?**

But you needn't worry: the government is promising to go on a diet [<https://www.afr.com/policy/economy/chalmers-pledged-a-spending-diet-but-labor-is-on-a-binge-20250107-p512kg>] in the next three years, with its spending growing just 1.8 per cent faster than inflation. Even better, federal spending in a decade is promised to be a smaller share of national income than next year.

Phew ... Except there's no actual details of that diet. Worse still, those official forecasts of a diet pre-dated the phoney war election campaign now under way, where the pace of new promises has accelerated towards an extra half a billion dollars of spending every single day.

So we're promising to go on an unspecified diet while busily still stuffing our face with Doritos.

## **A promise to spend is a promise to tax**

Even those vague promises of a switch to a harsh spending diet aren't enough to generate official projections of an eventual narrowing in deficits. To get back close to a balanced budget in a decade, the official forecasts also have to assume the tax take reaches its highest recorded share of national income.

Yes, you read that right: the official figures say the tax take will leap, and they do so by assuming there won't be another personal tax cut in the next decade. That means bracket creep will get decidedly creepy, with average full-time wages busting into the 37 cent tax bracket halfway through the coming decade.

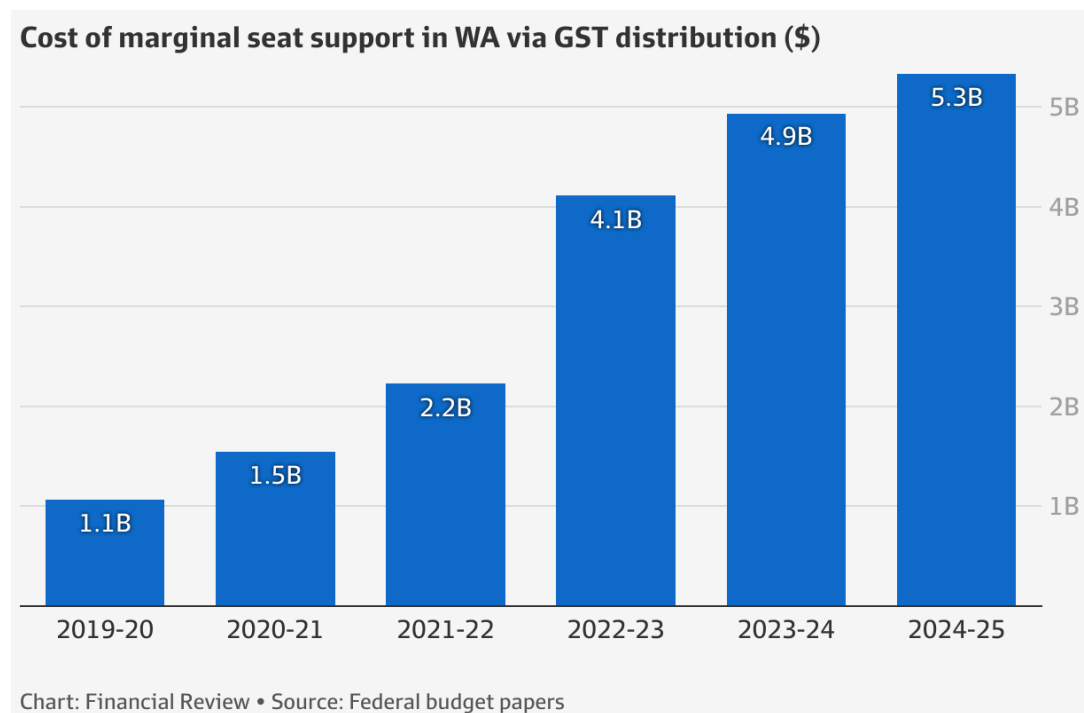


## Mistakes – we’ve made a few

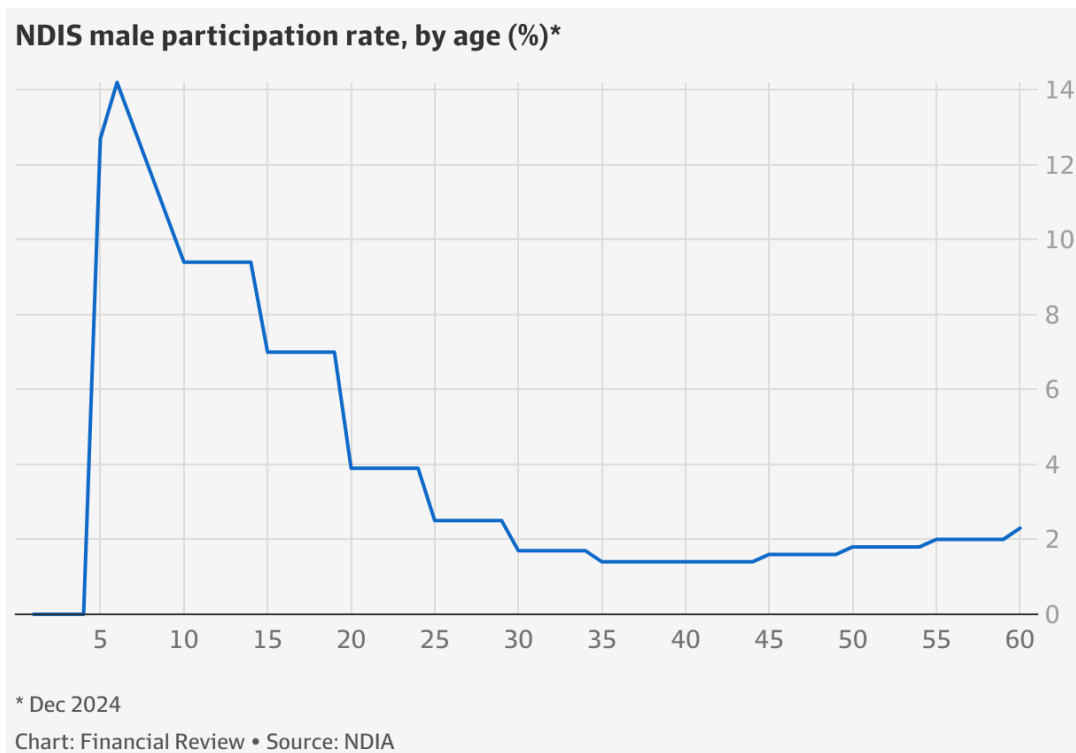
Can we do better? You bet. Much of our spending is stupid, much of our taxing is terrible.

Let’s start with the WA GST deal. The federal budget tries to deliver fairness across states, but the [WA GST deal](https://www.afr.com/politics/how-a-small-group-of-businessmen-helped-wa-win-a-54b-tax-deal-20250205-p5l9qh) works to neatly undo those, meaning we spend \$5 billion a year to worsen fairness.

And while there may be dumber things you could do with taxpayer money, they’d probably involve smoking \$100 notes.



Or what about the NDIS [<https://www.afr.com/policy/economy/vanishing-deficit-depends-on-heroic-politics-of-ndis-reform-20230509-p5d6vp>]? It should be a triumph of targeted support for those who need it, but it was littered with poor incentives from the get go. The upshot is that one in every seven (14.2 per cent) boys aged six in this nation are in the NDIS, and 69 per cent of those entering it are aged under 15.



To its credit, the current government – having blocked the modest reform efforts of the previous government – realised the need for change. But although Australia needed leadership, most of what we got was creative accounting: moves that pushed more NDIS costs on to the states and set up a new scheme specifically for kids.

Yet that came at the cost of further bribes to the states, reducing federal NDIS spending but at the cost of raising a bunch of other federal spending.

Or how about student debt? The government recently announced some good changes, but threw in a \$20 billion clanger – forgiving student debt.

Why is that bad? Because students end up earning more than the average, meaning that forgiving student debt means lower taxes on those who'll eventually be better off. That comes at the cost of everyone, including those who aren't well off.

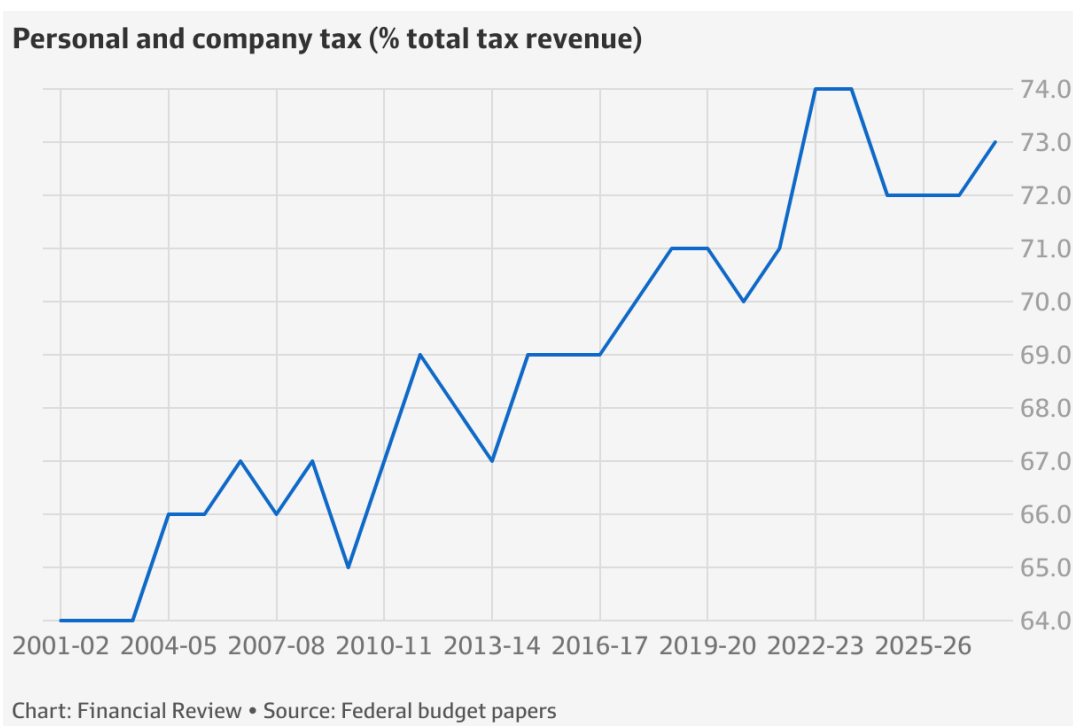
Worse still, our budget accounting standards are so broken that, because student debt is off budget, that debt forgiveness magically costs nothing in terms of bigger deficits.

I could go on. Whyalla ... why? Or fossil fuel subsidies masquerading as electricity cost-of-living relief. Also why? Or bulk billing incentives that put three dollars in the pockets of doctors for every dollar

[\[https://www.afr.com/politics/federal/this-three-point-plan-can-restore-respect-for-taxpayers-money-20250302-p5lg6n\]](https://www.afr.com/politics/federal/this-three-point-plan-can-restore-respect-for-taxpayers-money-20250302-p5lg6n) they put in the pocket of patients. (You'd have a bigger impact on our health – and definitely on fairness – if we followed the recommendations of the Economic Inclusion [\[https://theconversation.com/despite-recent-increases-jobseeker-still-leaves-people-below-the-poverty-line-heres-why-that-affects-us-all-251915\]](https://theconversation.com/despite-recent-increases-jobseeker-still-leaves-people-below-the-poverty-line-heres-why-that-affects-us-all-251915) Committee.)

## **And tax? I'm sad you asked**

Australia may be a first-world nation, but we increasingly have a third-rate tax system. It last got a spit and polish a quarter of a century ago, with the subsequent neglect leaving it ever more reliant [\[https://www.afr.com/policy/tax-and-super/the-land-of-the-fair-go-is-taxing-social-mobility-20240723-p5jvsl\]](https://www.afr.com/policy/tax-and-super/the-land-of-the-fair-go-is-taxing-social-mobility-20240723-p5jvsl) on a handful of increasingly damaging taxes.

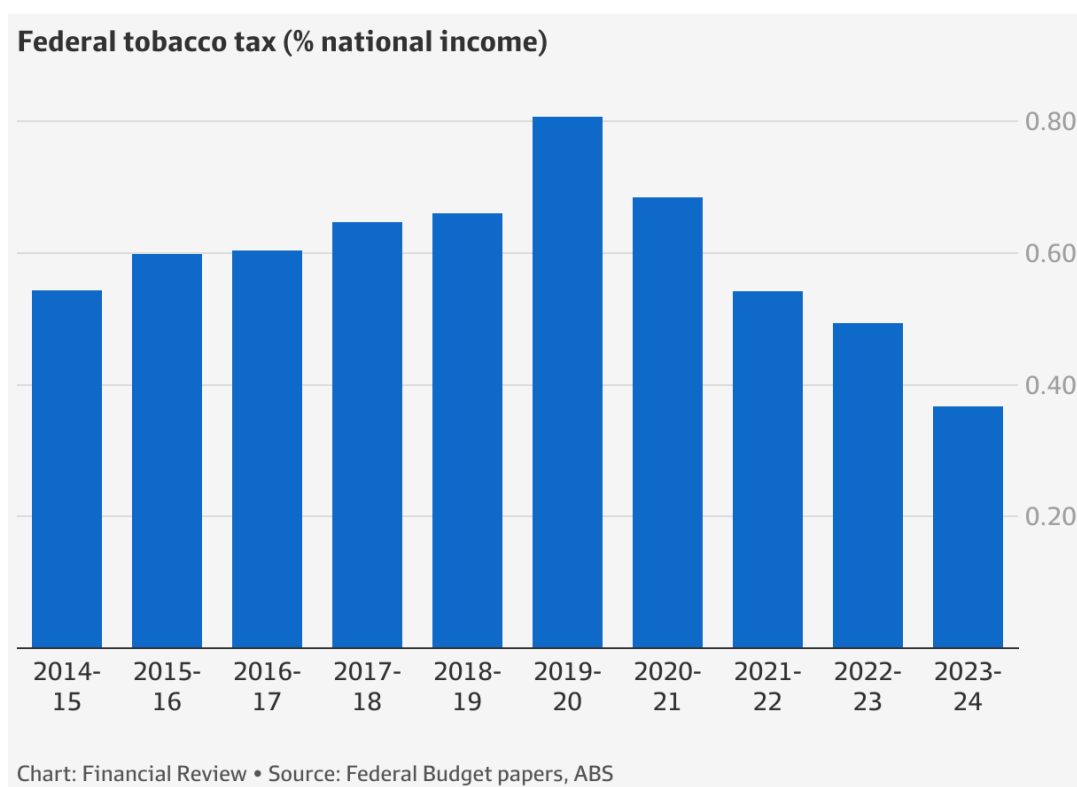


In the meantime, we've built a system with:

- ◆ Superannuation taxes that raise next to nothing [<https://www.afr.com/policy/tax-and-super/super-sized-hole-in-budget-as-treasury-revises-forecast-tax-take-20240523-p5jg2u>] (less than the sector takes in fees) while busily shovelling money from poorer Australians to richer Australians.
- ◆ Taxes on our gasfields [<https://www.afr.com/policy/economy/australia-needs-a-better-way-of-taxing-its-gas-riches-20220807-p5b7yi>] that also raise next to nothing – we built that tax with oilfields in mind, and it's been an epic disaster when applied to gasfields.

- ◆ A fringe benefits tax that began as a force for good but is now so riddled with loopholes [<https://www.afr.com/policy/economy/cost-of-loophole-ev-tax-break-blows-out-to-half-a-billion-dollars-20250310-p5lid1>] that it has become a force for evil.
- ◆ A levy on banks that massively undercharges [<https://www.afr.com/policy/foreign-affairs/raise-bank-levy-to-foot-aucus-bill-20230313-p5crkc>] them for their “too big to fail” insurance.
- ◆ Perhaps most spectacularly, we raised cigarette taxes through the roof, but didn’t match that with better enforcement. That blew a huge hole [<https://www.afr.com/wealth/tax/australia-s-10b-tobacco-mistake-that-s-helping-criminals-thrive-20250203-p5l94e>] in the tax take, while simultaneously making smoking cheaper for most Australians and underwriting the rise of the most lucrative (and least risky) market that organised crime in this nation has ever had.

This isn't the Deep State. It's the Dumb State.



Then there are the taxes we don't have but should, including everything from a carbon tax through to a wealth tax. Hate me.

And the poster child for tax reform in the current election campaign? If you wait two years, a pint in a pub will cost five cents less

[<https://www.afr.com/link/follow-20180101-p5lfji>] than otherwise. Here's cheers to that shattering reform ...

**A more dangerous world is a more expensive world**

As Lenin said, “*There are decades where nothing happens; and there are weeks where decades happen*”.

Recent weeks saw decades happen, as the Trump administration beat a retreat from the world stage rivalling that of Milli Vanilli.

Key nations are now run by old men with big agendas and poor impulse control. And, like it or not, that says Australia will need to spend more on defence [<https://www.afr.com/politics/federal/australia-needs-to-fund-higher-defence-spending-here-are-the-options-20250310-p5liah>]. Worse still, the reliability of the US as a defence supplier also took a hit in recent weeks, as Ukraine can attest.

That backdrop says a whole bunch of budget trends are not our friend:

- ◆ We’ve wasted a blinding burst of budgetary luck, making permanent promises to ourselves off the back of temporary gains, generating a worsening structural budget deficit;
- ◆ That’s left our budget absolutely covered in barnacles – terrible taxing meets stupid spending;
- ◆ Yet a bunch of expensive challenges are rising fast, not least on the geopolitical stage; while
- ◆ There’s a looming hung parliament, suggesting we will struggle as a nation to take the rapid and decisive action we need.

Poor fellow my country.

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