***[Debt and deficit: Labor’s budget naysayers ignore the cold hard facts](https://www.smh.com.au/business/the-economy/debt-and-deficit-labor-s-budget-naysayers-ignore-the-cold-hard-facts-20250330-p5lnm8.html)***

[**Ross Gittins**](https://www.smh.com.au/by/ross-gittins-hve16) **-** Economics Editor March 31, 2025

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The independent economist and former Treasury officer Chris Richardson, the leader of Treasury-in-Exile and thus chief apostle of fiscal rectitude, does the country a favour with his eternal campaigning to keep budget deficits and public debt levels low.

It works like Defence, where the retired generals do the talking for the serving generals, whose opinions must be expressed only to their political masters in private.

Treasurer Jim Chalmers and Prime Minister Anthony Albanese deserve some credit for our economic good fortunes.

But all those people who, only in recent times, have joined the protest march demanding an end to deficit and debt don’t want to do the country any favours. I’m no great admirer of the Albanese government, but that doesn’t make every criticism of its performance reasonable.

According to these partisans’ version of events, the budget was in surplus and doing fine until this terrible government started spending with abandon, plunging the budget into deficit, where it’s likely to stay for the next decade, leading to ever-rising public debt. So should some great global mishap come along, we’d be in deep doo-doo.

The first thing wrong with this narrative is its implication that the prospect of a decade of deficits is all Labor’s doing. There’s nothing new about budget deficits; the budget’s been in deficit for more than two in every three years in the past half-century.

*You have to say there’s been an element of good management as well as good luck, for which Chalmers and Albanese deserve some credit.*

What’s more, Treasury was projecting a decade of deficits in then-treasurer Josh Frydenberg’s budget before the last federal election in 2022. So why don’t I remember the people who profess to be so worried now, expressing much concern then? Surely not because debt and deficits only matter when you’ve got a Labor government?

Actually, and as Treasurer Jim Chalmers never tires of reminding us, the projected decade of deficits and rising debt we’re told about today isn’t nearly as bad as the one we were shown back then – the one that didn’t seem to worry anyone.

Why was the projection three years ago so much worse than this one? Because Treasury’s forecasts and projections soon became woefully wrong. The budget deficit of $78 billion it was expecting in 2022-23 turned out to be a surplus of $22 billion. For the following year, the expected deficit of $57 billion was a surplus of $16 billion.

[Labor’s deficits aren’t that bad. But don’t let tax cuts distract you](https://www.smh.com.au/business/the-economy/labor-s-deficits-aren-t-that-bad-but-don-t-let-tax-cuts-distract-you-20250327-p5ln47.html)

[**Millie Muroi**](https://www.smh.com.au/by/millie-muroi-p53650) **-** [**Federal budget**](https://www.smh.com.au/topic/federal-budget-5x3)

That’s an improvement of more than $170 billion right there. And because this hugely better outcome came so early in the decade, it also meant a huge reduction in the feds’ projected annual interest bill.

But while Chalmers is wrong to claim so much credit for this astonishing turnaround, his critics are wrong to give him none. They dismiss this vast improvement in the debt outlook as nothing more than good luck.

Huh? Rather than falling, as Treasury always assumes they will, iron ore and coal prices took off, so mining company profits and company tax payments boomed.

That’s only half the story, however. Treasury failed to foresee that the economy would return to near full employment – and pretty much stay there to this day, despite the big increase in interest rates intended to get the inflation rate down.

This meant a record proportion of the working-age population in jobs, earning wages and paying income tax. As well, the inflation surge meant a lot more bracket creep than expected.

So, remembering the Albanese government and Reserve Bank’s joint policy of seeking to get inflation down without inducing a recession, you have to say there’s been an element of good management as well as good luck, for which Chalmers and Albanese deserve some credit.

Chalmers gets credit for saving rather than spending most of the government’s higher-than-expected tax collections – something that *wouldn’t* have happened if Labor had been spending as uncontrollably as the partisan critics claim.

Much effort has been put into demonstrating that government spending is “out of control” and will continue that way for a decade unless something’s done. But analysis by Dr Peter Davidson of the Australian Council of Social Service gives the lie to such claims.

Davidson measures budget spending by the average annual increase after adjusting for inflation and population growth – real spending per person. Over the 27 years to 2018, the long-term average increase was 1.7 per cent a year.

But under the Abbott and Turnbull governments from 2014 to 2018, there was a period of budget austerity when the spending increase averaged just 0.1 per cent a year, as backlogs were allowed to build up and deficiencies were ignored.

Unexpected increases in iron ore prices helped boost the budget.

Then, during the Covid response period from 2018 to 2022, spending grew by an exceptional 2.6 per cent a year. Now, over the six years to 2028, spending growth is expected to average 1.3 per year.

So claims of Labor’s profligate spending are themselves on the profligate side. It’s here that the critics move from partisanship to self-interested ideology. Their obsession with government spending comes from their ideology that, while all tax cuts are good, all spending increases are bad.

Why are they bad? Because they increase the pressure for higher taxes and reduce the scope for tax cuts. A decade of deficits caused by excessive tax cuts would be OK, but one caused by trying to ensure the punters got decent education, healthcare and social security is utterly irresponsible.

The final respect in which decade-of-deficits bewailers are wrong is their claim that our government’s financial position has us sailing close to the wind. Rubbish.

As former top econocrat Dr Mike Keating advises, if you take the debt of all levels of government in 2024, our gross public debt is equivalent to just 58 per cent of our gross domestic product. This compares with the Euro area on 90 per cent, Britain on 103 per cent, Canada on 105 per cent and the US on 122 per cent.

Much of the credit for our relatively low level of debt and deficit should go to decades of preaching by Treasury and its alumni, including Chris Richardson. But though they sometimes imply we’re at risk of being dangerously overloaded with debt, what they’re really trying to do is maintain our longstanding record as only moderate drinkers.