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Budget was the grand final, not the season opener. Here's the score

The windfall from the resources boom has been both a blessing for Australia and a curse for decades, enabling a high standard of living while giving the government a free kick on fiscal discipline.

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Budget night for economists is Wayne Bennett's grand final – like Christmas, it only comes once a (non-election) year. And we love nothing more than to examine the play, rehash every decision taken on the field, curse the penalties and speculate on what the outcome means for the game.

This budget was billed as a season opener but had a decidedly grand final tone. And there are some important changes to the playbook that punters should consider for the season ahead.



Katy Gallagher and Jim Chalmers read through their budget. **Alex Ellinghausen**

First is the undeniable strength of the Australian economy.

We're used to hearing about windfall revenue from our resources boom. It's been our budget blessing and our curse for decades, enabling a high standard of living while giving the government of the day a free kick on fiscal discipline. But the certainty of that play's success is on the decline, and in its place is a windfall from a new source – very strong employment, maintained at a level that economists used to be certain would stoke inflation.

Our labour market is so strong that upgrades to economic parameters since publication of the mid-year economic and fiscal outlook – just three months ago in December – have added \$36 billion to our bottom line over the forward estimates, even as inflation expectations continue to soften. In budget terms, upgraded employment forecasts paid for the additional \$34 billion in spending decisions in this budget, including \$14 billion in income tax cuts.

This is partly a positive cyclical story of an economic soft landing, but we have also scored a structural win. The prescient words of Productivity Commission chairwoman Danielle Wood at the Jobs and Skills Summit of September 2022 come to mind: “If untapped female workforce participation was a massive iron ore

deposit, governments would be falling all over themselves to give subsidies to get it out of the ground.”

Australia’s female labour participation rate has risen to an astonishing 77 per cent (males sit at 84 per cent). There are 7 million women in the workforce, up one million in just six years, and 75 per cent in full-time jobs, pushing up Australia’s total labour supply by 12 per cent over 10 years. It’s a skip pass: higher income tax revenue, higher superannuation tax revenue, lower payments of welfare benefits and lower interest payments.

“Legislative reform is low cost but high impact. Some reforms are done, others await.”

Despite a strong bench, the re-emergence of deficits raises concerns

[<https://www.afr.com/politics/federal/labor-limps-away-from-global-threats-20250320-p5ll6d>]

that we are in the defensive half. Off-budget expenditure

[<https://www.afr.com/policy/economy/chalmers-hidden-spending-boom-to-top-87b-20241126-p5ktl5>] is replayed in slow motion – what does this mean?

Expenditure at 27 per cent of GDP and an underlying cash balance of minus 1.5 per cent of GDP for the 2025-26 year is a notable deterioration from the 2023-24 result. Mature spectators think back to their day and fear a 1980s-style scrum collapse at best – an Eddie Jones blowout at worst.

But this was the government’s play from the start. The October 2022-23 budget set out a fiscal strategy to limit spending growth until gross debt was declining from a projected 37 per cent of GDP. On last night’s numbers, this is running to plan. Each one of the government’s previous three budgets projected deterioration into 2025-26. A 1.5 per cent of GDP deficit is \$42 billion – a lot of money outright, but also only just over 5 per cent of total spend.

Beyond the headline figure, the strategic question is whether the budget spend is helping the side win, injury-free, and go the distance to the flag. From a financial perspective, winning is often perceived as a surplus that doesn’t stoke inflation and saves for a rainy day. Despite the projected deficits, with net debt below 22 per cent of GDP, Australia is still in relatively good shape.

From an economic perspective, winning is more complicated.

Danielle Wood once said: "If untapped female workforce participation was a massive iron ore deposit, governments would be falling all over themselves to give subsidies to get it out of the ground." **AFR**

We have high labour force participation, but the budget forecasts assume 1.2 per cent productivity growth while recent readings slipped into negative territory. A hastened attack is imperative for budget income sustainability; bring on AI!

The competition reforms announced in MYEFO are good, but we need to do more and do it faster. We need to ensure that social spending is targeted and efficient. Investment to make our supply chain more agile or fast-track innovation may help productivity – but, so far, very little of the \$100 billion in off-budget investment has gone out the door.

Legislative reform is low cost but high impact. Some reforms are done, others await.

And then, there is the trouble off-field. With no notice of an AGM, our code has switched from league to union, or maybe *Grand Theft Auto 6*. Now we've got national security and economic strategy inextricably linked, and both impact our budget.

Tuesday night's budget raised defence spending to reach 1.8 per cent of GDP, with the treasurer promising 2.3 per cent by the early 2030s. Europeans face calls to hit 5 per cent of GDP. Where will we land? The maths says 3 per cent of GDP in 2028-29 would be \$100 billion, which is nearly equivalent to the NDIS and Medicare combined.

It's time to plot out the play.

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