

Budget repair starts with confronting middle-class welfare

A properly designed, economy-wide carbon tax could serve as a crucial productivity measure to bolster the budget bottom line.

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The repeated abdication of fiscal responsibility is making it harder to tame the inflation dragon

Somewhere between unchecked middle-class welfare and unsustainable spending on the National Disability Insurance Scheme, the government is losing its grip on the national credit card.

The [\\$57 billion deterioration](#) in the budget since the May election, reported by The Australian Financial Review on Wednesday, symbolises Labor's overarching failure to practise the financial discipline required to repair the budget.

Australia's fiscal health is being cannibalised by a sprawl of outlays. A swelling public service, rampant social spending programs led by the NDIS, higher state hospital disbursements and a suite of non-means-tested policies – such as ever more generous childcare payments – are among the litany of increasingly expensive line items.

The repeated abdication of fiscal responsibility is making it harder to tame the [inflation dragon](#). That task is further complicated by a higher-than-expected jump to 3.8 per cent in

December quarter headline inflation, which is expected to prompt the Reserve Bank's U-turn decision to lift interest rates next week.

Disingenuously, Chalmers on Thursday again downplayed the government's partial culpability for higher inflation. That's despite federal Labor entrenching the highest level of public expenditure on record since the 1980s, excluding the pandemic. Government spending is projected to hit 27% of GDP this financial year.

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One of the glaringly obvious paths to returning the budget to health is to take a sledgehammer to the very subsidies that bought Labor the last election. Of course, that would be politically agonising, especially for yet another government that has helped condition the electorate to expect handouts. But with just over three months until the budget, Labor must confront some tough decisions if it hopes to balance the books.

Some Labor MPs are pondering the Labor Environment Action Network's proposal to overhaul fuel tax credits on mining companies in a bid to bolster the budget bottom line – and decarbonise faster.

That includes backing a push by Andrew Forrest's Fortescue and renewables think tank Climate Energy Finance for an annual \$50m cap on the amount of fuel credits miners can claim. The FTC allows businesses to claim back the excise already included in the price of diesel used in off-road activities such as powering massive haul trucks, excavators and on-site generators.

Curbing the rebate would allow government to extract more revenue from the resources sector and reduce the structural budget deficit. Yet, the flipside is that changes could amplify production costs and threaten Australia's export competitiveness.

The challenge is designing a fiscal strategy that doesn't act as a deadweight on productive enterprise and risk-taking.

The Superpower Institute – a climate policy think tank headed by former Hawke Government advisor Ross Garnaut and former ACCC chairman Rod Sims – proposed a tax on the extraction and import of fossil fuels alongside a new 40% tax on the cash flows of gas industry giants.

A properly designed, economy-wide carbon tax could encourage the private sector to invest in the cheapest ways to reach our climate targets and serve as a crucial productivity measure to bolster the budget bottom line.

Other potential revenue replacement could be the offshore gas tax. The petroleum resource rent tax (PRRT) has declined from about 20% of LNG production in 2008-09 to about 2% today. Economist Chris Richardson argues the PRRT could raise an extra \$2-3 billion a year, on top of the \$1.4 billion today.

Such measures should sit within a broader productivity-enhancing, pro-growth agenda anchored in substantive tax reform. Yet, so far, this has been largely absent from Labor's economic program.

Chalmers is considering the Productivity Commission's half-pregnant 5% [cash flow tax proposal](#) – an idea also raised at last August's economic reform roundtable. Yet, the proposal

is complex and underwhelming and lacks the genuine incentive-sharpening qualities required to address Australia's economic malaise. [Treasury](#) rightly warns it would do little to stimulate new investment, acting as less of a disincentive to the existing 30% corporate rate.

Higher inflation, the likelihood of an uptick in interest rates and continued weak productivity growth should close the chapter on the illusion that governments can indefinitely substitute spending for private sector-led growth.

Labor may use the May budget to propose revenue-raising tweaks. But it really needs to start the conversation about structural taxation reform to help grow a bigger pie and a more prosperous economy.

<https://www.afr.com/policy/economy/budget-repair-starts-with-confronting-middle-class-welfare-20260128-p5nxii>