Briefing Paper:

Commonwealth Budget 2025-26:
A lack of ambition leaves much to be done after the election

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March 2025

Introduction

A budget in the run up to an election is always a difficult proposition – governments always want to thread the needle between not giving too much away that will largely be forgotten by election day, but also delivering enough to make it seem they are listening to concerns and have an eye on the future. This budget pulled off the unusual trick of surprising everyone. What had appeared to be a dull budget with everything already announced turned into a surprise with the inclusion of tax cuts.

These tax cuts which are targeted at low-income earners and will deliver a 1.2% tax cuts worth $536 to someone earning $45,000 will nicely address those who are most affected by bracket creep and those who have also been most greatly hurt by the rise in the cost-of-living over the past three years. Given the average price of essential items has risen since March 2021 by 19.7% compared to a rise of 15% for discretionary items[1] low-income earners have suffered much more given they devote more of their income to pay essential items such as food, energy bills and rent.

The extension of the energy rebate for another 6 months will also be welcomed by those on low-incomes, as will other times announced before the budget such as the new spending on the PBS and the $8.4 billion over 4 years spent to improve bulk billing for GP visits. These policies combined with the increase in the Medicare levy threshold are all policies that demonstrate strong concerns towards assisting those on low-middle incomes rather than

[1] Excluding tobacco.

merely trying to buy the votes of those on average and high income, which characterised the previous two pre-election budgets.

Despite the big cost of the tax cuts, as they only begin in 2026-27 – at a point when the inflation fight will have been well and truly won – there is little in the budget to feed the concerns of those worried that spending might be inflationary. Our research has shown that the cost-of-living crisis over the past few years was overwhelmingly caused by supply-side factors and companies taking advantage of the times to increase prices and their profit margins.[2] Nevertheless, the Reserve Bank might well have been tempted to hold off on further interest rate cuts were the spending in this budget seen to be excessive.

Thankfully, the Treasurer has avoided the trap of giving in to the concerns of conservative economists and has not attempted to cut spending and deliver austerity. The economic picture remains quite weak and a lower budget deficit – or worse, a budget surplus – would have greatly risked increasing unemployment and undoing all the good work done over the past three years to keep unemployment around 4%.

The budget forecasts unemployment as remaining at 4.25% for the next four years – suggesting that the government believes unemployment can remain this low without causing inflation to rise. This is a welcome position, one that counters the Reserve Bank's continuing insistence that 4.5% is the ideal unemployment rate. While still higher than the current level of 4.1%, 4.25% is much closer to the level of full employment aspired to in the Government's 2023 *Employment White Paper* and is a positive shift away from the RBA's notion of a "non-accelerating inflation rate of unemployment".

This briefing paper reviews some of the main features of the budget, focusing on those aspects targeting and impacting on workers, working lives and labour markets. As was the case last year, we are glad that the budget steers well clear of the austerity of past "horror" budgets. However, the 2025-2026 budget is characterised by the absence of any significant initiatives. Our analysis is shorter than in previous years, because there is very little in this budget that is new. Even some of the more notable measures, such as the outlawing of non-compete clauses for workers, while very much welcome, do not have a great budgetary impact.

The establishment of a $1 billion Green Iron Investment Fund to provide capital grants to green iron projects is a significant investment. With $500 million of this fund going to the troubled Whyalla steelworks this investment should ensure ongoing integrity in the management of this vital industrial asset. We believe the government should take a significant ongoing stake in the ownership of the Whyalla steelworks. Similarly, the $2 billion Green Aluminium Production Credit to incentivise Australian aluminium smelters to switch to renewable electricity before 2036 is a necessary and welcome policy to assist the transition to a low emissions economy. Unfortunately, the credit is not available until 2028-2029.

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[2] Stanford et al (2024) "Profit-Price Inflation: Theory, International Evidence, and Policy Implications" https://australiainstitute.org.au/report/profit-price-inflation-theory-international-evidence-and-policy-implications/

New and ongoing support for students in TAFE and in higher education are important cost-of-living measures while making education and training more inclusive and accessible.

While there are no surprises in any of the areas we have included in our analysis, there is some new funding for previously announced initiatives that support workers and wages growth. The budget includes some new support for wage increases in the female-dominated and low-paid aged care and early childhood education and care (ECEC) sectors; demonstrating the government's commitment to addressing long-standing undervaluation of feminised care occupations. Continuing government support will be needed as the current Fair Work Commission review of awards to address undervaluation progresses.

Other reforms in ECEC, along with previously announced changes to paid parental leave and carer payments, provide welcome, – but belated – support for working parents and carers. It is disappointing to see that the opportunity has been missed to raise Job Seeker and Youth Allowances from their grossly inadequate levels.

In summary, as expected with a Federal election looming, the budget is not a horror one of austerity. There are continuing investments in some key areas supporting wages growth where it is solely needed and rebuilding important areas of public good. However there remains much that needs to be done in the next parliament, whoever is in government.

Macroeconomic and fiscal outcomes

As is now common practice, the budget balance was revealed before the Treasurer's budget speech. Given the new tax cuts will cost $3 billion in 2026-27 and $6.7 billion in 2027-28 the budget deficits in those years are not a surprise. More surprising is that the deficits are largely unchanged from those predicted in December's mid-year economic and fiscal outlook (MYEFO). In reality, the shift in the forecast for the budget deficit in the next financial year from $46.9 billion in the MYEFO to $42.1 billion is trivial in macroeconomic terms. While the government might trumpet an improved bottom line, it will likely not be the amount that is recorded this time next year.

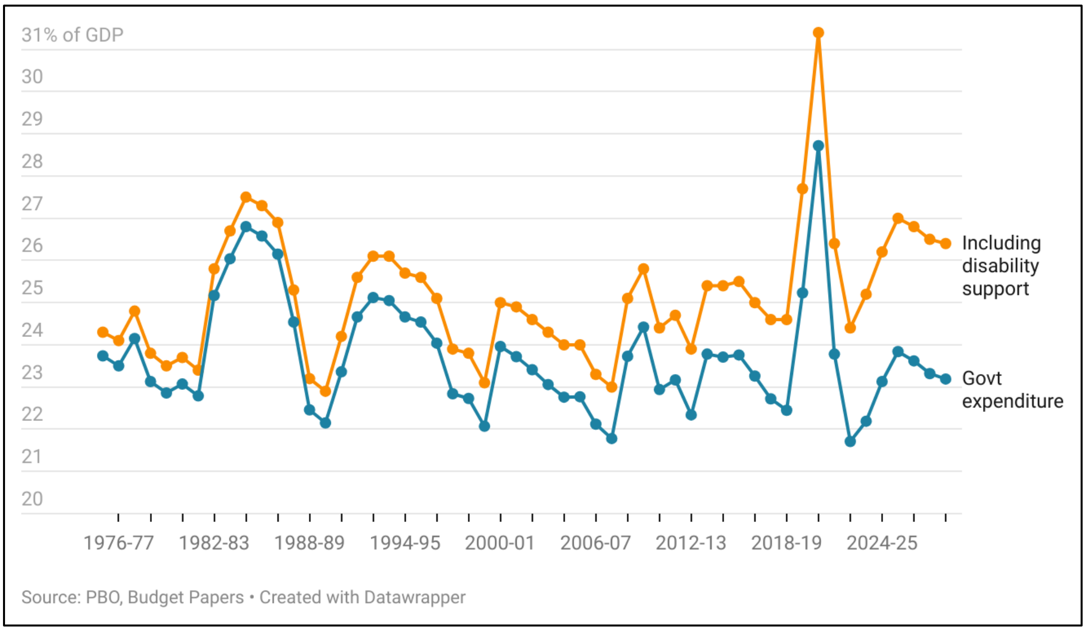
The budget forecasts deficits in future years, but these are also macroeconomically trivial. At just 3%, the level of public demand growth in 2025-26 is below the long-term average. And because the newly announced tax cuts only begin in 2026-27 there is nothing in this budget which should have the Reserve Bank reconsidering its monetary policy.

The level of taxation revenue will rise to 23.5% of GDP in 2025-26, while remaining lower than the 23.7% seen in 2023-24. And while the budget forecast is for taxation levels of 23.4% for the next four years, the budget remains very much a low-taxing one.

Even with this level of tax Australia continues to be one of the lowest taxing nations in the OECD. Were the government merely to raise as much tax as the OECD average it would raise around $135 billion more each year – or around 17% more revenue.

Some commentators are likely to suggest that, because the level of expenditure in 2025-26 will hit a non-pandemic record of 27% of GDP, the budget is "big-spending". Largely, this increased spending is due to the introduction and growth of the NDIS. If spending on disability support is taken out of the equation, the budget is actually quite frugal (Figure 1).

Figure 1: Government expenditure



The main reasons for the increased revenue are stronger than previously anticipated employment growth, wages growth and lower unemployment. This is very welcome news for workers and suggests we have entered a new era where unemployment around 4% is now the norm. Given the current 4.1% unemployment rate is before the recent interest rate cut works its way through the economy, the budget estimate for an unemployment rate of 4.25% for the next four years, appears to be a conservative estimate. It also challenges the Reserve Bank's view that 4.5% is the "non-accelerating inflation rate of unemployment" or NAIRU. While we continue to argue that the NAIRU is a false objective that uses classical economics to ensure higher-than-needed numbers of people out of work, it is welcome to see that the Commonwealth Treasury and government are aiming for a lower level than the Reserve Bank. The difference between 4.25% and 4.5% is around 40,000 fewer workers out of a job.

The main driver of the better than previously anticipated outlook for wage growth is the ongoing impact of the government's recent collective bargaining reforms which have strengthened the ability of workers to negotiate for fair returns for their labour, along with the banning of non-compete clauses. These clauses restrict the ability of workers to change jobs for better pay in the same industry. Removing these from workers' contracts will enable higher wage growth across the board – especially when combined with improved pay for workers in care sectors, much of which was implemented in previous budgets.

But while wage growth is set to increase – peaking at 3.75% in 2028-29, the recovery of lost real wages has a long path to tread (Table 2).

Table 2. Inflation and wage growth estimates

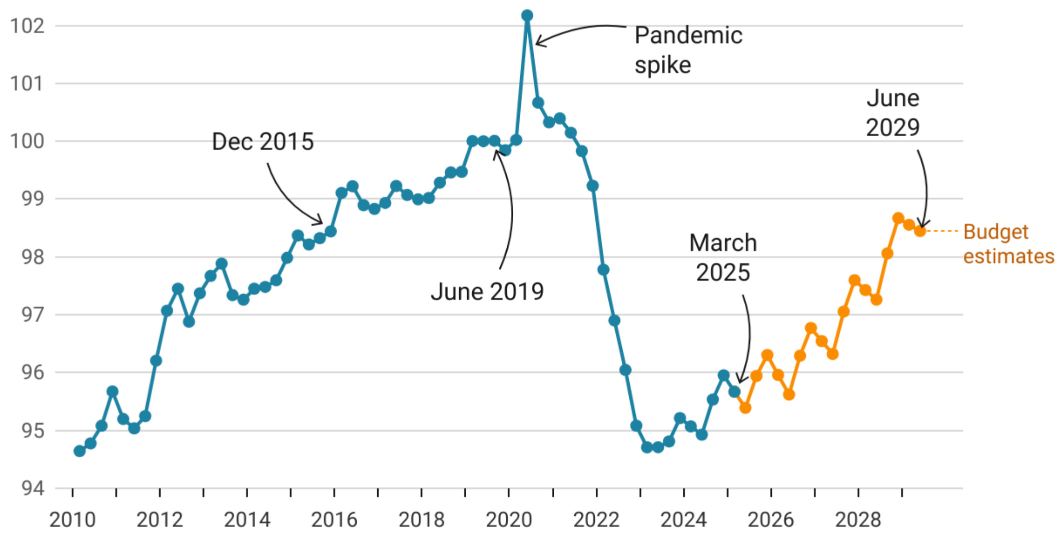
Year	Inflation	Wage growth	Real wage growth	Cumulative real wage growth since June 2020
2020-21	3.85%	1.79%	-1.98%	-1.98%
2021-22	6.14%	2.70%	-3.24%	-5.16%
2022-23	6.03%	3.63%	-2.26%	-7.30%
2023-24	3.81%	4.05%	0.23%	-7.09%
2024-25	2.50%	3.00%	0.49%	-4.61%
2025-26	3.00%	3.25%	0.24%	-4.38%
2026-27	2.50%	3.25%	0.73%	-3.68%
2027-28	2.50%	3.50%	0.98%	-2.74%
2028-29	2.50%	3.75%	1.22%	-1.55%

Source: Budget papers • Created with Datawrapper

Even with these positive wage growth estimates, on average workers will still have real wages that are 1.55% lower than before the pandemic – essentially a $1,125 loss in purchasing power for a worker on median earnings.

Highlighting the lengthy recovery for wages – even with these new wage growth estimates, by June 2029, the value of real wages will only be equivalent to their value in December 2015 – effectively 14 years with no growth in living standards.

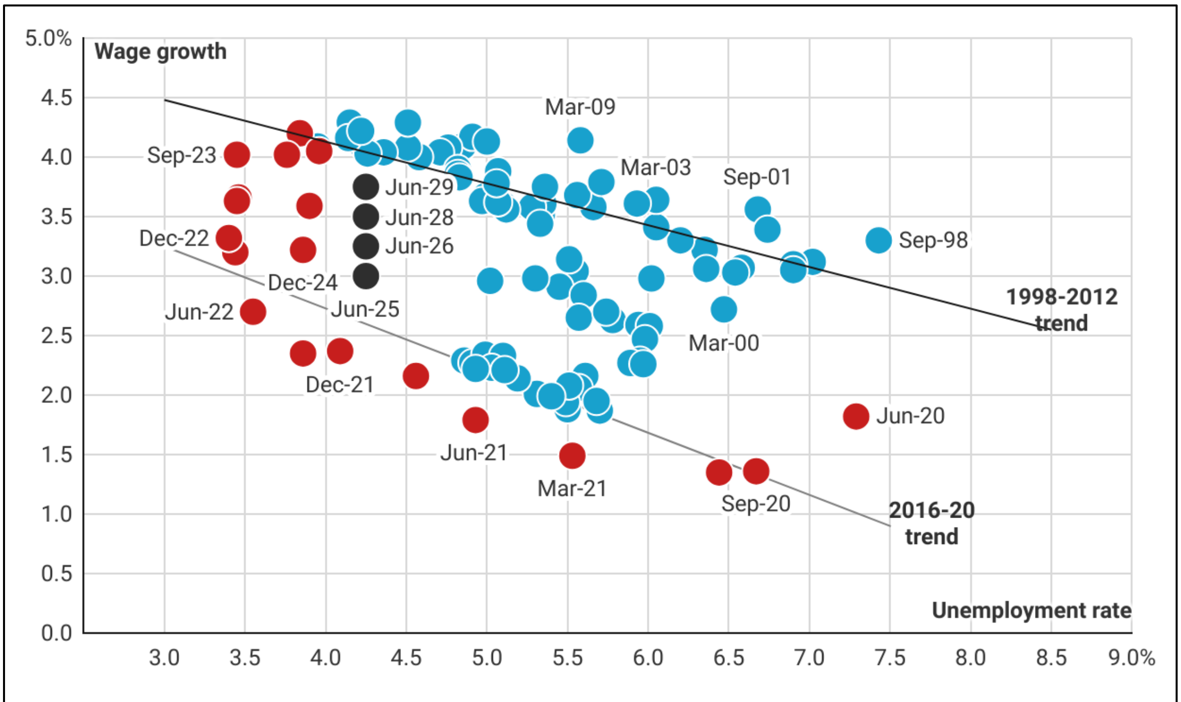
Figure 2. Index of real wages – March 2020 = 100



Source: Budget papers, ABS • Created with Datawrapper

The 2025-2026 Budget inflation and wage growth estimates provide another point of evidence to show that the so-called wage price spiral was never to be feared; nor will stronger wage growth lead to higher unemployment. The budget projections are for wage growth rises while unemployment remains steady at 4.25% (Figure 3).

Figure 3. Wage growth and unemployment: 1998-2029



Red = since pandemic, Black = 2025-26 budget estimates

Source: ABS 6202.0, 6345.0, Budget papers • Created with Datawrapper

This would be a very welcome development and should embolden future governments to aim to make unemployment *below* 4% the norm.

Industry policy

Under the *Future Made in Australia* (FMIA) framework, the Albanese government has advanced industrial policy initiatives towards securing domestic industrial capacity in strategic and essential industries and embracing the economic opportunities of the global renewable energy transition.[3] Until recently, Australia's policy ambitions complemented the USA's climate industrial policy initiatives made under the Biden administration, as well as those of European Union. However, Australian steel and aluminium exporters now face an uncertain future with 25% tariffs on imports of steel and aluminium to the USA. In the context of geopolitical, economic, and industrial uncertainty, perhaps the best action the government could take in relation to Australian metals industries is to provide certainty. Positively, this is what the Albanese government has endeavoured to do with this budget.

[3] Joyce, C and Stanford, J (2023), *Manufacturing the Energy Revolution*, Centre for Future Work, https://futurework.org.au/report/manufacturing-the-energy-revolution; Joyce, C (2024), *Strings Attached: How Industry Policy Could Strengthen Labour Standards Through Australia's Renewable Energy Transition*, Carmichael Centre, https://www.carmichaelcentre.org.au/strings_attached

The 2025-26 budget allocates $213.3 million over two years to support the administrators of the bankrupt Whyalla Steelworks perform essential repairs and continue operations. One of only two Australian steelworks, until recently, Whyalla had symbolised the hopes of the sector's clean tech future with the previous owner's promise to transform the plant's production towards 'green' steel.

The Budget establishes a $1 billion *Green Iron Investment Fund* to provide capital grants to green iron projects: either for newly established industrial facilities or to transition existing facilities to low emission production technologies. A substantial investment of up to $500 million of this fund has been earmarked to retrofit the Whyalla Steelworks with green steelmaking technology. To share in the profits as well as the costs, and to ensure ongoing integrity in the management of this vital industrial asset, the Commonwealth should take a significant ongoing stake in the ownership of the Whyalla steelworks.

The budget includes a previously announced $2 billion *Green Aluminium Production Credit*. Available from 2028-29, this is intended to incentivise Australian aluminium smelters to switch to renewable electricity before 2036.

The Budget includes a $2 billion recapitalisation of Government's principal clean energy investment fund, the Clean Energy Finance Corporation (CEFC), which invests in commercial-scale renewable energy technology. Notably, this is the only industry policy initiative in this budget not explicitly concerned with metal production, which might be expected with the budget's emphasis on 'green' metals production rounding out the FMIA program alongside existing initiatives supporting investment in renewable hydrogen, critical minerals processing, and other renewable technologies.

The Government's climate industry policy initiatives through the FMIA are positive. The costs of inaction on climate change are staggering, and Australia is presented with significant techno-industrial and employment opportunities through the global energy transition. Nevertheless, many of these initiatives are small in real and proportional terms when compared with similar international initiatives.[4] The new 'green' metal supports are no different. Australia will not be able to seize the full opportunities available in the global energy transition if our climate industry policy is not expanded in both scale and scope. Additionally, and importantly, the full effectiveness of these initiatives will not be realised if Australia does not also commit to the phasing out of fossil fuel production, use, and export – both at home and abroad.

Tertiary education and training

The government's support since 2022 for TAFE as the public vocational education and training (VET) provider has been critical to rebuilding an inclusive VET system that can meet current and future skills needs through high quality training. Around 43 per cent of new jobs

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[4] Joyce (2024) 'Understanding the Future Made in Australia', *Search News*, https://australiainstitute.org.au/post/understanding-the-future-made-in-australia/; Jericho, G et al, (2024), *Commonwealth Budget 2024-25: Important Progress, Missed Opportunities*, Centre for Future Work, https://futurework.org.au/report/budget-2024-25-resists-austerity-reduces-inflation-targets-wage-gains/.

expected to be created in the next 10 years will require a VET qualification. TAFE supports local communities and industries and provides a clear benefit to all Australians.

This budget provides for the continuation of fee-free TAFE, making this a permanent feature of the system from 2027 for 100,000 places a year. Since its introduction in 2023, fee-free TAFE enrolments have been high, with strong enrolments across the priority areas of care and construction training. The initiative has significantly reduced financial barriers for students, supporting entry into tertiary education for groups facing disadvantage, including Aboriginal and Torres Strait Islanders, those from low socio-economic status backgrounds, women and girls.

However, additional supports for students and for the VET workforce are needed to maximise the potential benefits from TAFE, to ensure all students can fully engage and complete their studies, and to meet industry skills demands. Poor working conditions and excessive workloads on TAFE staff must be addressed to ensure the sector can retain a skilled TAFE workforce.

The government continues to take steps to repair Australia's higher education system and improve support for students. In 2024-2025 the government implemented recommendations in the Australian Universities Accord, changing indexation of HECS/HELP debt to reduce the student loan debt of three million university and TAFE graduates, by fixing indexation on debts to the lower of the Wage Price Index or the Consumer Price Index.

In November 2024 the government announced two further steps to support higher education students. In this budget, to provide cost of living relief and make student loan repayments fairer, the minimum repayment threshold for HECS/HELP debt has been raised to $67,000 (up from $54,435 in 2024-2025) effective from 1 July 2025. In addition, marginal rates for repayment will be introduced so that the amount of repayment will be calculated on earnings over $67,000, not on total income. Whilst beneficial, these change fall short of our calls to end the indexation of HECS/HELP debts and provide, as a minimum, interest free loans for students.[5]

Perhaps the most beneficial measure for higher education students, announced in November 2024, is the one-off 20% reduction in HECS/HELP debt. The reduction will be applied on 1 June 2025. It will affect three million Australians with a student loan debt and 'forgive' an estimated $16 billion in student debt. The reduction of this debt is likely to benefit women in particular who are the majority of those (60%) with outstanding student debt.

Announced in last year's budget, the Commonwealth Prac Payment commences in mid-2025. The payment is for students undertaking unpaid practical placements that are a condition of study in teaching, midwifery, nursing and social work courses. The measure is designed to reduce 'placement poverty' however the payment is modest ($331.65 per week)

[5] Jericho (2024), 'HECS/HELP indexation is sending those earning less than $65,000 backwards', The Australia Institute, 23 April 2024, https://australiainstitute.org.au/post/hecs-help-indexation-is-sending-those-earning-lessthan-65000-backwards/.

and fails to provide a ‘living wage’ for students required to undertake placements. The initiative excludes students in several fields of study (e.g Allied Health) who could benefit from such support. Additional support for the primary health care workforce, via an expansion of the Primary Care Nursing and Midwifery Scholarship Program by 400 places at a cost of $10.5 million over two years from 2025–26.

Social, care and community services

This budget contains few new big spending initiatives in essential care and support services sectors relied on by millions of individuals, families and communities across the country. Notable new initiatives, announced late in 2024, strengthen and expand access to early childhood education and care (ECEC), as outlined below.

Another significant investment, announced a few weeks before the budget, is the allocation of $2.6 billion to fund three work value pay rises awarded by the Fair Work Commission to nurses in aged care. These workers have traditionally been paid much less than their peers working in the health sector, which has contributed to very high turnover of nurses in aged care services, undermining care quality.

Access to ECEC will be expanded from January 2026 when all families who require it will be eligible for three days subsidised ECEC a week and Aboriginal and Torres Strait Islander families will have access to four days’ ECEC. Importantly this reform removes the activity test that restricted access to subsidised ECEC on the basis of a parental activity test.

The reform is a very positive move and a step towards universal affordable ECEC, as recommended by early education experts and the government’s *Women’s Economic Equality Taskforce.* It will provide the most benefit to children and families most likely to benefit from ECEC. While the new arrangements will also provide targeted cost-of-living relief to families, the start date of January 2026 means families must wait another nine months before they will be able to access the benefits.

In 2025-2026, continuing investment will flow through from the $1 billion 2024-2025 budget initiative *Building Early Education Fund* to build and expand around 160 ECEC centres in areas of need, including the outer suburbs and regional Australia. This will establish new not-for-profit and local government-provided ECEC services in underserved areas, and develop a business case for future Commonwealth investment in ECEC centres. This much-needed targeted investment in ECEC should help to build an ECEC sector that ensures good quality education and care provided to all who need it. We hope this is a first step towards a future ECEC sector that is not beholden to, and controlled by, the dominant for-profit providers that have made significant profits for investors while, on average, offering poorer quality education and care and paying lower wages.

In place since December 2024, $3.6 billion for a two-year ECEC worker retention payment will support a much needed 15% wage increase. Experienced, qualified workers are key to the quality of care in ECEC yet low pay in this sector has contributed to skills shortages, high turnover and reliance on inexperienced staff, undermining quality and sustainability. This payment provides a mechanism for ECEC providers who have entered agreements with their workers to access pay rises of 15% above the award rate. A 4.4% cap on fee increases is designed to prevent providers siphoning off public funds, intended for workers, to profits.

The past two Commonwealth budgets have included significant new investments in aged care and NDIS reforms, along with funding for better wages in the highly feminised and low-paid aged care and ECEC workforces. These earlier initiatives provide foundations for increased oversight, greater workforce sustainability and better-quality care, following years of neglect and scandals in these publicly-funded 'care markets'.

Support for working parents and carers

Announced in the 2024-2025 budget, from July 2025 $1.1 billion will fund increases of 12% on Government-funded Paid Parental Leave to contribute to superannuation. This is a small but important step to support women's economic security and reduce the gender gap in retirement incomes.

Commencing on 20 March 2025, changes (announced in 2024) to the arrangements for Carer Payment provide more flexibility for carers, making it possible for people with significant caring responsibilities, most of whom are women, to enter and/or stay in part-time work or study without losing eligibility to some income support. This is a welcome development, but much more is needed to support the 1.2 million (4.5% of all) Australians who are primary carers, including the one in four primary carers who is of workforce age.

Strengthening of core publicly-funded care and support services is essential, not only for people requiring care, but to support women's increased economic security and reduce cost-of living pressures on individuals and families. Women's labour force participation has grown significantly in the past few years. Increasing participation among parents and carers is only possible if they are able to combine work and care.

Women's economic security and equality at work

Many of the measures outlined above, along with others, including addressing gender-based violence in the work context, are priorities in the government's *National Gender Equality Strategy – Working for Women*.

The government continues to roll out support for the implementation of recommendations from the 2020 AHRC Respect@Work Report addressing sexual harassment at work. This budget includes some funding ($1.4 million) for capacity building within the public sector on gender equality reporting requirements.

The government's stated commitment to resolving gender segregation in the workforce is positive and their preparedness to work with industry, employers and unions to drive systemic structural and cultural change is commendable. To that end the budget includes a $16.4 million (over two years) tripartite pilot grants program focusing on piloting 'innovative solutions to advance gender equality in gender segregated industries, occupations, and workplaces … especially in relation to safe and dignified amenities, flexible work and inclusive workplace cultures'.