

## FactCheck: was Christian Porter right about welfare spending and income tax?

Written by The Conversation

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Social Services Minister Christian Porter in Question Time. AAP/Mick Tsikas

Under Labor after the GFC, the welfare system was costing over 100% of all income tax raised. That's clearly an unsustainable position that simply puts the burden of welfare payments on future generations through higher debt. Under the Coalition that has reduced to around 80%. –

**Social Services Minister Christian Porter,**  
[quoted in The Australian](#)  
**, May 22, 2017.**

In a [news report](#) outlining welfare payments made versus income tax paid in 35 Australian suburbs, Social Services Minister Christian Porter was quoted as saying that “under Labor after the [global financial crisis], the welfare system was costing over 100% of all income tax raised”, and that “under the Coalition that has reduced to around 80%”.

Porter made the same claim in a [recent speech](#) to the Committee for Economic Development of Australia, in which he discussed the sustainability of Australia's welfare system and said:

Under Labor in 2008-09, the yearly welfare bill climbed to be more than 100% of the personal income tax take. That figure is now 80%.

Is that right?

### Checking the source

Asked for sources to support his statement, a spokesperson for Christian Porter sent The Conversation two tables based on federal budget papers, which show welfare spending as a percentage of income tax receipts to be 101.8% in 2008-09 and 80.5% in 2016-17.

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The spokesperson added:

The minister's reference simply highlighted the fact that under Labor, after the global financial crisis, more money was being paid to individuals through the welfare system than was being collected via income tax.

The data reinforced a key point in the minister's September 2016 [speech to the National Press Club](#) (and subsequently in other speeches/media release/media response) that such a position was unsustainable from a budget perspective.

Such a situation, the minister argued, placed an undue burden on future generations through increased borrowings in order to meet the current cost of the Australian welfare system.

You can read the spokesperson's full response [here](#) .

## What are the facts on welfare spending and income tax?

So, what do we mean when we talk about Australia's "welfare bill"?

The social security and welfare bill includes spending on aged care, family benefits and child care, payments to the unemployed and sick, as well as other welfare programs. In 2016-17 welfare [made up 35.2%](#) of all government spending.

Let's look at what was in the social security and welfare bill in the financial years Porter and his spokesperson referred to: 2008-09 and 2016-17. Because the 2016-17 financial year doesn't end until June 30 this year, the figures are still estimates (taken from this year's federal budget).

In 2008-09 the social security and welfare bill [totalled A\\$124.6 billion](#) ; in 2016-17 it is [estimate](#)

[d to be](#)

\$158.6 billion.

The “personal income tax take” is the [total amount of money](#) the federal government receives from taxing individuals’ incomes. In 2008-09 this was \$122.4 billion; in 2016-17 it’s estimated to be about \$197 billion.

It’s worth noting there’s not a special link between the funding of welfare programs and how much income tax is collected – that is, welfare spending isn’t necessarily funded by income tax receipts. But, for the purposes of this FactCheck, we can compare the two.

### **How does the size of the welfare bill compare to the income tax take?**

We can track welfare spending and personal income tax receipts by looking at budget papers over time. Let’s look at the data since 2004-05.

As you can see in the two graphs above, welfare spending spiked in 2008-09 compared against income tax receipts. In that financial year, welfare spending was 101.8% of the personal income tax take, as noted by Porter’s spokesperson.

But does that mean that after the global financial crisis, Labor left the federal budget in an “unsustainable position”? The numbers tell a different story.

Under Labor governments from 2009-10 to 2013-14, welfare spending was, on average, 87% of income tax receipts, and was at 85.9% by the time of Labor’s final budget. Under Coalition governments from 2014-15 to 2016-17, it has averaged 82%, and is currently at an estimated 80.5%.

So, overall, with the exception of one year since 2008-09, welfare spending as a proportion of income tax has been falling back toward pre-global financial crisis levels under both Labor and Coalition governments.

## **Why was there a spike in welfare spending in 2008-09?**

The financial year 2008-09 was [marked by a global financial crisis](#) that sent developed economies around the world into recession.

With fears Australia could also fall into recession, the then-Rudd government introduced a fiscal stimulus policy based largely on cash handouts to low and middle-income families, and pensioners.

These payments amounted to [\\$8.8 billion](#) in October 2008 and a further [\\$12.2 billion](#) in February 2009, at a total of \$21 billion for the 2008-09 financial year.

The federal government's total welfare and social security budget increased by \$28.6 billion between 2007-08 and 2008-09. So that \$21 billion increase in cash payments made up a large proportion of why welfare payments overtook income tax in that year.

## **Other factors that contributed to the 2008-09 spike and helped the budget recover since**

But there are other factors that affect the difference between welfare spending and income tax receipts, including employment rates, wages growth and [tax bracket creep](#) .

For example, the unemployment rate jumped from 4.2% in July 2008 to 5.9% in July 2009, and was 5.2% at the end of the 2009-10 financial year. A higher unemployment rate means fewer income tax receipts and potentially higher welfare payments.

The ratio of welfare spending to personal income tax received is also affected by bracket creep – when people move into higher tax brackets and pay more income tax due to higher wages.

Since 2012-13, the federal government's bottom line has benefited from bracket creep. Between November 2012 and November 2016, people's total earnings [increased, on average,](#)

[by around 7%](#)

meaning we now have a larger share of income in higher tax brackets.

As tax receipts grow, the difference between the size of the welfare bill and the size of the income tax take gets smaller.

### Verdict

Christian Porter got his figures right when he said that “under Labor after the GFC, the welfare system was costing over 100% of all income tax raised”, and that the figure “has reduced to around 80%” now.

But Porter quoted those figures in the context of the sustainability of Australia’s welfare spending. In that context, his statement was misleading.

There was only one year in which welfare spending overtook income tax, largely due to a one-off response to the global financial crisis. With the exception of one year since 2008-09, welfare spending as a proportion of income tax has since been falling back towards pre-GFC levels. – **Ben Phillips**

### Review

This is a sound FactCheck. The data is correctly interpreted, and the minister’s remarks are put into context.

While personal income tax is the single largest source of income for the Commonwealth, and welfare and social security is the single largest expense title in the federal budget, personal income tax is not specifically collected to pay the welfare bill.

Most taxes are not collected in order to cover a specific expense – an exception is perhaps the Medicare levy. Suggesting such relationships can be detrimental and misleading.

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Also, even if welfare spending were more than 100% of the personal income tax intake, this situation would not necessarily be “an unsustainable position that simply puts the burden of welfare payments on future generations through higher debt”, as Porter stated.

In the financial year 2008-09, total revenue from direct and indirect taxes was [\\$272.6 billion](#) ; in 2016-17 it was

[\\$377.2 billion](#)

. In both years, about half of Commonwealth tax revenue came from sources other than personal income tax.

So, dubbing the situation “unsustainable” and suggesting that welfare spending must be financed “through higher debt” is misleading. – **Rodrigo Praino and Gerry Redmond**

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