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NSW State Budget 2005-06 – Back down and Sydney-centric

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Back down and Sydney-centric – these words come to mind when you read yesterday's State Budget.

The political back down is exemplified by land tax relief provided to nearly half a million (mostly Sydney) residents. This is bad economics but good politics. It encourages further speculation in an already inflated real estate market and diverts resources away from more productive (employment creation) activities.

Realising their political stocks have followed the way of our declining public schools, hospitals and transport systems, the Budget's other highlight is a refocusing on public capital formation.

The Government is starting to realise that a responsible fiscal position for a state government is that they should borrow to build public infrastructure. These assets spread benefits into the future and borrowing allows future generations to pay a share of the costs in some proportion to the benefits they receive.

The Government's previous exhortations that debt was irresponsible have been abandoned and they will now borrow to provide \$3.5 billion for increased spending on roads, rail, hospitals and education.

Hopefully they have learned that it is always a myopic strategy to try to postpone essential public infrastructure maintenance and improvements. The higher future costs always rebound in both economic and political terms.

But the extra billion per year allocated to improve infrastructure is not sufficient to significantly reverse the deterioration in public infrastructure brought about by previous Government neglect.

Further the capital expenditure will largely be on new construction projects funded by Public-Private partnerships, which shift public money into the coffers of wealthy private corporations and generate less employment than would be created under public provision. This is very disappointing.

The Budget fails public education badly. The 2004 Auditors General's report identified a huge maintenance backlog in public school assets. While there is a 4.5 per cent spending increase in this Budget, once you factor in 2004 revisions, the announced outlays represent a real cut. The deterioration in public education in NSW will continue.

The Government also claims that recent pay increases awarded to teachers and nurses have 'weakened' the Budget by some \$500 million extra per year. In fact, these increases improve the quality of these vital services. How does the Government think you retain skilled labour?

The Government's phobia of electorally-damaging blackouts in NSW has clearly prompted the decisions to expand power generation capacity. However more emphasis on demand management and energy efficiency strategies would have been better given the State's dreadful greenhouse gas record reported in Saturday's Herald.

So how did the Hunter fare? It is clear that the Government views the Hunter as a population watershed with significant development likely in the future. For this development strategy to work huge capital works spending is needed immediately.

On my reckoning, there is just a smattering of Hunter-specific outlays. Some minor school upgrades; some \$67 million for hospital infrastructure and a few more intensive care beds; a new police station (Muswellbrook); a few more prison beds at Cessnock; some extra aged care places at Kurri; some minor road funding; some new buses; an additional bulk berth at Newcastle Port; some pensioner concessions for water and sewerage; on-going support for Honeysuckle; and some train rolling stock upgrades.

Not much when it comes down to it - certainly nothing to match the rhetoric of the planners and the region's needs.