Centre of Full Employment and Equity

CofFEE

Opinion and Commentary

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NSW State Budget 2007-08 – some hope but for how long!

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For years, the State Government has pushed the neo-liberal dogma that state borrowing is evil. Public Private Partnerships (PPPs) were considered essential to fund large capital projects despite evidence that they waste public funds.

Last year's election budget saw a change of tack. The forecasted deficit was part of their plan to revitalise public infrastructure and state borrowing was recognised, once again, as being consistent with responsible economic management.

The Government won this year's election on the promise that they would continue to redress their previous neglect of infrastructure and services.

Yesterday's state budget was their first examination. My assessment is mixed but leaning towards the positive.

Over the next four years, public capital expenditure will grow significantly and be funded by increasing state debt. This is part of the Treasurer's plan to 'retool the state's infrastructure' and exceeds expectations. The days of public infrastructure neglect may be over.

Neo-liberals obsessed with budget surpluses and zero public debt ridicule this approach as old style Keynesian economic policy. But it actually has a very modern ring to it – more jobs, better services, and improved infrastructure to enhance private investment.

The spending will especially help regional areas where labour underutilisation remains high. The Hunter will benefit in many ways (Tourle Street bridge replacement; improved rail services; better hospital and educational infrastructure; improvements to the Pacific Highway; and enhanced water infrastructure).

The two big budget items health (28% of total outlays) and education (23% total) received significant real spending boosts.

Significantly, less emphasis is being placed on the once-fashionable but wasteful PPPs. The Cross City Tunnel meltdown has taught the Government a lesson. This is welcome.

Unfortunately, the Government has failed to address climate change significantly. First, a large slice of the capital budget will go to upgrading electricity generation capacity. Why not try to reduce demand? Demand management approaches have proven highly successful in California and have reduced the need for more power stations.

Second, more dollars will go into roads than into public transport. True, the majority of the roads' spending will benefit regional Australia such as the Hunter. But reducing the reliance on cars and improving mass transit systems would have been more appropriate.

The Government is forecasting a small surplus ($346 million) in 2007-08. Last year's forecasted deficit ($696 million) turned into a $444 million surplus due to unexpected revenue growth. The forecasted position assumes the State economy will grow more robustly in the coming year with inflation remaining low.

The high risk area for the Government lies in their assumption that interest rates will remain unchanged over 2007-08. The financial markets have already factored in rises amounting to about ½ of 1 per cent. If they are right and the Government wrong then the budget position will deteriorate as economic growth and revenue falls.

Will the Government then maintain this ambitious capital spending program? That will tell us whether they have truly abandoned their neo-liberal past?

I wouldn't put money on it. The fact that they underspent last year's capital spending commitments doesn't augur well.