

The 2002-2003 NSW Budget Commentary

By Professor William Mitchell
Professor of Economics
Director, Centre of Full Employment and Equity
The University of Newcastle
E-mail: Bill.Mitchell@newcastle.edu.au

State budgets are different to Commonwealth budgets because unlike the Federal government which has a money printing monopoly, the state government is constrained by its finances.

This year, the NSW government got lucky, courtesy of a booming Sydney property market. Overall taxation revenue exceeded forecasts in 2001-02 by around \$1.3 billion driven mostly by a \$1.1 billion stamp duty bonanza. The State's expected budget position for last year of a \$368 million surplus was revised upwards to \$670 million. This provides the Government with "costless" opportunities to make popular outlays – a very handy thing in an election year.

In fact, while pointing towards the coming election, yesterday's State Budget was just the warm-up act. The real electorally-targetted spending promises will come later and be funded in next year's budget should the government be returned.

Leading up to yesterday's budget, Premier Carr said he was committed to delivering a "labor budget through and through". In this sense, we might have expected the budget to be expansionary (given the high unemployment throughout the state), and strong on capital works with a social justice orientation. For the Hunter, there should have been an emphasis on decreasing unemployment given our relatively parlous labour market position. The unemployment imperative should have been centre-stage given the failure of the Federal budget in May to provide any solutions to the disproportionate impact of unemployment on regional areas.

While NSW overall has lower than national average unemployment rates (6.6 per cent compared to 7.1 in March 2002), the Hunter labour market ranks third worst among all regions in Australia. The Hunter labour market overall accounts for about 8.1 percent of the NSW labour force but generates only 7.5 per cent of total NSW employment and suffers 11.9 per cent of total NSW unemployment.

So how does the budget stack up against its "Labor through and through" claim?

Overall, the projected surplus is \$168 million. Government spending is projected to rise by 2.1 per cent nominal but fall in real terms by 0.4 per cent (given projected inflation of 2.5 per cent). However, with State revenue expected to fall by 3.7 per cent nominal, the budget is projected to provide a modest stimulus to the NSW economy in 2002-03.

The budget forecasts of strong growth in NSW (3.5 per cent over 2002-03 with unemployment falling to 5.75 per cent) are attractive but reflect an overly optimistic view of external events. Most of the expansion is expected to come from business investment and household consumption. However, with the Reserve Bank now commencing a series

of (nonsensical) interest rates increases, household consumption (especially in the context of record levels of household debt and attendant debt servicing burdens) and business investment might head south. Then things look less favourable.

On capital works, Treasurer Egan announced the “biggest ever investment by any State Government in new schools, new hospitals, new roads and public transport and other public works and investments”. Capital works provide employment now and services later. Public sector capital formation in Australia has lagged badly over the last decade. This Budget provides for a record \$26 billion over four years (\$6.3 billion in 2002-03) almost \$800 million since last year.

The Hunter will get around \$540 million of this in 2002-03 up 4 per cent from last year. This will generate around 9,000 jobs but will not dent the unemployment rate much. That is disappointing.

Capital works spending increases will provide significant benefits to the region’s health service infrastructure, enhance State Rail services, upgrade local fire stations, provide funding for projects managed by the Hunter Water Corporation, and improve local educational facilities, in addition to building a new Children’s court and improving the road system.

But a reality check is warranted. The Budget follows the trend of the Federal budget in emphasising law and order. For the State as a whole, the projected spending on prisons (increase of \$83 million) should be seen in the context of the \$48.1 million increase in community services. Somewhere along the road to the “Light on the Hill”, “labour through and through” has been redefined.

As is common in many USA states, prison expenditure booms at the expense of social justice initiatives. In part, the “need” for this spending reflects the lagged costs of maintaining unemployment at unacceptably high levels.

It is myopic in the extreme to allow social spending on health, education, community services to lag behind law and order expenditure. The latter ultimately increases as a consequence.

But the boost to the program supporting young offenders to improve their employment prospects is a good move and will help our community. Those hoping for more police officers and police stations will be disappointed with only modest gains projected.

Public education has also been a major local issue. Proportionately more Commonwealth money now goes to private schools and perpetuates the inequities between students that undermine the basis for equality of opportunity and equity of outcomes. The State budget is disappointing in this regard and does not provide significant funding to arrest the decline in our public education system although the allocations to the Newcastle TAFE (over half a million), the regional sports academy and the 4.7 million to the Performing Arts High School will be very beneficial.

So is the budget “Labor through and through”? Well almost. There are strong capital works initiatives, good programs in health, but not enough being done for the unemployed and other disadvantaged citizens nor public education.