Hayward, David. (05 May 2009). We How debt can save the state. The Age.

Copyright © 2009 David Hayward.
This is the author's version of the work. It is posted here for your personal use. No further
distribution is permitted.
How debt can save the state

David Hayward

The global recession demands a budget that would otherwise be unpalatable, which could be good for Labor

TODAY'S state budget will bring grim news for Victorians. Budget projections will show rising unemployment and an economy skirting the edges of a recession. They will show that the Government will fail to meet the economic and financial targets set in last year's budget, and by quite a margin.

A projected operating surplus of $830 million will have shrunk by 90 per cent, the state's superannuation funds will have lost one-third of their value, and state debt will have climbed by $500 million more than was anticipated 12 short months ago.

Despite all this bad news, Treasurer John Lenders will be a happy man today and for very good reason. He will be able to point to the global financial crisis rather than bad financial policies as the cause of the problem. The world's economy is shrinking for the first time in 60 years, half a dozen countries are on the verge of depression, and Europe is still grappling with the daunting prospect of deflation.

Lenders will say that what is amazing is not that things are bad, but that they could have been so much worse had Labor not been so very good at economic management.

Along the way he'll contrast Victoria's performance with those of the other states. Queensland's already lost its AAA credit rating, and NSW will most probably lose its next month. This year there's every prospect that Victoria will be the only state that manages to keep its operating accounts in the black in these most gloomy of times.

All this will allow the state to borrow more next financial year to fund huge infrastructure spending and not put at risk its financial reputation. Net debt will certainly climb to close to 5 per cent of the state's economy, but this is very low by international standards and not much more than when Labor swept Jeff Kennett from power. Expect some big announcements that this extra debt will pay for, including a $700 million comprehensive cancer centre that will take shape in Grattan Street, just when it is desperately needed. There will also be big spending on transport and new schools, not to mention capital for better fire protection. All this will shore up a brittle job market and will be entirely consistent with the urgings of the International Monetary Fund and the World Bank, which are backing government to save the day when the private sector needs to be supported.

Beyond these, there will be few new substantial recurrent spending announcements, government departments will be required to be more efficient, and tax cuts will be deferred until closer to the next election. The major news will be the Government's
already announced skills program, which entitles all Victorians to a training place, but which will come with a hefty price tag.

The Government will be betting on an economic recovery in the first half of next year that will be sufficient to keep the operating accounts in the black next financial year. It will also count on the recovery gaining momentum just in time to generate the cash needed to fund generous spending and tax relief in the lead-up to the next election, while simultaneously enabling it to begin reducing debt.

There are risks here for Labor, not the least of which is the prospect of a longer and deeper than expected recession. While state Treasury remains optimistic, there are others who are betting that rising unemployment will lead to mounting bad debts and another quarter or three of contraction. There are fears that many first-home buyers who have been paid a handsome sum by governments to buy up big in recent months will end up without the job that is necessary to make repayments. And while Treasury will tell us today that the operating budget will stay in the black this year, some have pointed out that there are still six weeks before the financial year ends.

Should things turn out much worse than is currently planned, Labor might have wished that it used these times of financial turmoil, climate change and ethical uncertainty not to celebrate conservative financial principles, but to link them into a broader agenda reflecting a better balance between sound money policy and a sustainable society.

Intergenerational accounts, a balance sheet incorporating environmental values, and a commitment to new ethical rules for public contractors would be great innovations for a government capable of contributing to the development of a new world order just as the old one goes into decline. Also of great value would be a commitment to link future budgets to Victoria's impressive Human Rights Charter, which sits proudly in Parliament, but doesn't have the funding streams needed to connect it to the people.

For Opposition Leader Ted Ballieu, today will not be much fun.

It will be hard to paint Labor as being irresponsible for borrowing when all the money will generate new business as well as jobs at a time when both will be hard to come by. It will be just as hard to run the line that Labor squandered the good times, for Labor's years look mighty generous when compared with the last time the conservatives were in power. In an interesting twist, former federal Liberal minister and Queensland Liberal Party president Mal Brough has just arrived in town from up north, and he's yet to convince everyone that he has really changed careers and not merely addresses.

Today might not be a good one for Victorians, nor the struggling Opposition. But it promises to be a happy one for Victorian Labor, with Treasurer Lenders using the day to show his party can be trusted to mind the till in difficult times while delivering on all its promises. Whether the same can be said in a year's time may well be a different story.

Professor David Hayward is dean of the faculty of business at Swinburne University.