

Profligate policies put us back in the firing line

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Herald Sun 27th June, 2009

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World share markets took another nosedive this week triggered by the World Bank's publication of downbeat growth forecasts.

For 2009, the World Bank sees US real income falling by 3 per cent, with Europe and Japan down by 4.5 per cent and 6.8 per cent respectively.

The World Bank is even gloomier about 2009 industrial production. Output is forecast down 18 per cent for the US, 12 per cent for Japan and an incredible 34 per cent for Germany.

Although India and China continue to grow, this is insufficient to offset losses elsewhere.

The World Bank projects a mild improvement for 2010 but this may be optimistic in view of the massive but unsustainable government spending world economies have seen.

By contrast, Australia appears to be an island of tranquillity. Unemployment stands at under 6 per cent, compared to levels approaching 10 per cent in Europe and the US, while retail and housing data remains buoyant.

Australian state and Commonwealth budgets foresee us continuing to weather the storm. They take comfort from an apparent return to positive national growth in the March quarter of 2009. But within the overall picture investment plummeted and the growth was boosted by Canberra's unrepeatable spending splurges.

The Commonwealth budget envisaged Australia's GDP being 1 per cent lower in 2009-10. This was based on world output falling 1 per cent but that's only half the decline the World Bank forecasts.

The Victorian Government is preening itself on a budget cash deficit that, in relative terms, is lower than in all states except Western Australia.

Spring Street also prides itself on a tax take lower than in New South Wales. That's setting a pretty low bar.

Moreover, Victoria's budget figures are fragile. The projected budget deficit depends on the economy, and therefore tax revenue, experiencing faster growth than in any developed world country.

This is all the more worrisome in view of the Brumby Government's breakneck 8.4 per cent growth in spending.

That spending increase includes an additional \$7 billion on "infrastructure". But this is mainly for schools, hospitals, social housing and public transport. Whatever the merits of such outlays, they do little to boost the state's productive capabilities.

And outside of these areas, the Government remains committed to wasteful capital expenditure in the proposed desalination plant, water from which will cost five times it would from a new dam.

All this comes on top of the carbon tax and renewable energy regulations by the Commonwealth and State governments. If they go ahead, these measures will undermine the productivity of Victoria's

magnificent electricity generation facilities imposing costs on industry and consumers alike.

A survey by the Australian Chamber of Commerce and Industry estimates the additional costs from proposed energy regulations will require businesses to reduce their wages bills by 4-8 per cent. At best, and providing Julia Gillard's new workplace laws don't gut the Howard Government's wage flexibility reforms, that means lower wages. At worst it means an additional boost to unemployment.

The world recession continues. Australian workers and businesses are yet to see the worst of it and are being badly served by government policies.

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