

# State debt will rise despite budget cuts next month

[Economics & Deregulation](#) and [Deregulation Unit](#) | [Alan Moran](#)  
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Next month will see the release of state and federal budgets with both focusing on lower deficits.

The Commonwealth's spending cuts will include reducing excessive staffing levels. But its main action will involve tax increases masquerading as spending cuts on items like fuels used in mining.

For Victoria, nobody can accuse the Baillieu Government of acting with unseemly haste in restoring a balanced budget.

The Baillieu Government's first budget increased spending on police, child protection, schools, and elsewhere. Spending is planned to continue outpacing tax collections and gross state income. As a result, state debt will rise until 2015.

Indeed, the only area where the Victorian budget plans serious spending reductions is in government capital infrastructure which is forecast to fall by 40 per cent. Though much government capital spending is doubtlessly misplaced (think pink batts, school halls and regional rail links), there is likely to be more waste in other spending areas. In fact, increased infrastructure spending in some areas may be necessary to facilitate increased productivity.

Queensland's incoming Liberal National government shows electrifying contrast with that of Victoria.

Within days of his election Queensland Premier Campbell Newman announced the scrapping of "smart" energy and solar programs that had annual spends of over \$600 million. Anna Bligh's husband, the departmental official responsible for developing these costly policies, was tasked with unwinding his previous work.

And while Ted Baillieu has retained virtually all Brumby's appointments, Campbell Newman has already fired six of Bligh's departmental heads.

With regard to regulation, the other area of government imposts, the Baillieu administration in its first budget committed to a 25 per cent reduction in red tape. But the Brumby Government in 2007 made a similar undertaking, which it claimed to have achieved. However, this was based on a very narrow definition of regulation where costs amounted to only 1 per cent of state output!

Such costs could not have included economic distortion expenses like those arising from housing regulation. House building restraints add between \$50,000 and \$100,000 to the cost of a new home due to urban planning regulations and the 540 different approvals that the state's Growth Area Authority estimate are required to build a new house even on land within urban growth boundaries.

If the government could slash housing regulation costs, the benefits would dwarf the \$13,000-\$19,500 subsidy it currently provides to new buyers.

Unfortunately, the signs are that housing will see regulatory quagmires actually increase. Blind to the evidence that restrictions on land use and other barriers bring price escalations, a recent Council of Australian Governments (COAG) report has advocated more intensive planning to "reshape" our cities, and to ensure "social inclusion", better public transport and smaller housing blocks.

The COAG approach is supported by Victoria's government-funded Grattan Institute, which examined planning in several cities worldwide. Only one of these, Austin Texas, had low regulatory barriers. Austin also had the lowest housing costs and also good liveability, which the Grattan people considered to be an "unintentional" outcome.

Greater prosperity and freedom of choice requires lower taxation and reduced regulation, matters on which Victoria's current government has yet to make substantial progress.

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