Labor always unravels prosperity

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Parlous developments in the NSW government's finances are a timely reminder of the familiar Australian cycle of change. In its mini-budget delivered last week, NSW became the first Australian jurisdiction to be forced to recognise the crisis in state government taxing and spending. This is not unexpected since NSW has seen fast growth in taxation revenue through increased house prices, has been more willing than other states to accept regulatory costs and has seen less expenditure restraint.

NSW is projecting a temporary deficit this year despite raising taxes and charges. For 2009-10, aside from sales of surplus land and shifts of expenditures, NSW seeks to save about $1 billion in spending and to increase taxes and charges by some $900 million. The big-ticket expenditure savings are capital investment deferrals in road, rail and electricity (some $700 million).

Though some attempts at scaling back bloated government are made in the mini-budget, these are minor - even tackling the rail overmanning demonstrated by the Independent Pricing and Regulatory Tribunal is not expected to produce many results and none for the next two years.

The fact is that the increased revenues serendipitously showered on state governments from the buoyant economy yielding high goods and services tax returns, booming minerals industry (and mineral royalties) and rampant house prices have been dissipated. No state has used the boom to reduce the size of government, though Victoria has done better than most. Queensland has lifted the government share of GDP faster than other states, though the rise was capital expenditure, which rose only modestly in NSW and Victoria.

Other Labor states are discreetly scathing in their criticisms of NSW's history of mismanagement. But none of them has used the booming economy of the past five years to slim down their share of the GDP. As a result, they are all vulnerable to having to make expenditure cuts or increase taxes.

And this returns us to the cycle of change. Every decade, Labor governments demonstrate failings that an electorate, which prefers to vote for their more compassionate message, cannot ignore. A Labor government, which had been originally voted into office as a caring version of the conservative government it replaced, gradually starts to unravel the economy's prosperity. This stems from several sources. Among them is increasing government expenditure. Also important is the increased influence of unions, which are the party's major funders and foot soldiers, but the increased influence they obtain adversely affects productivity. As the administration becomes more established, it also starts increasing the regulatory controls over markets.

Gradually these activities undermine the prosperity that was the legacy the government inherited. So Greiner replaced Wran and Unsworth; Kennett replaced Cain and Kirner; and at a federal level, Howard replaced Keating.

Labor's problems are exemplified by the final years of the Keating government and the current Rees administration in NSW. In both cases the governments demonstrated they were temperamentally and ideologically unsuited to taking the tough expenditure reduction decisions that a gradual ramping up of wasteful government expenditure and regulations begin to require.

Often external events exacerbate the shortcomings created by governments' own activities. And this is likely to be the unraveling situation around Australia. The electorate reaches for the doctor of

conservatism. Some measure of fiscal conservatism is restored. After some time, Labor in opposition convinces the electorate that it has learned from its failures and is ready to govern again.

But standing out like a sore thumb from this scenario is the Rudd government. Having been elected as a fiscal and social conservative, Rudd is showing himself to be a spendthrift on a Whitlamesque scale. Rudd's predisposition to intervene in the decisions of private enterprise, coupled with advice from Treasury and the Reserve Bank of Australia to stimulate the economy, is a heady brew.

At a time when savings have to be repaired, the government is dissipating them in hand-outs to pensioners and to the car industry. With these policy approaches, pretty soon the talk will no longer be of avoiding a recession but of how deep the depression will be.

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